DRAFT

A BILL

To establish a uniform Federal patent policy for small businesses and nonprofit contracting with the Government, and for other related purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Small Business and Nonprofit Organization Patent Policy Act of 1978."

Section 2. Policy and Objectives. It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions made under Government contracts with nonprofit organizations and small business firms; to encourage maximum participation of small business firms in the research and development efforts of the Government; to promote collaboration between commercial concerns and the nonprofit sector; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise; to promote the commercialization of inventions made in the United States by United States industry and labor; to ensure that Government agencies obtain sufficient rights in Federally supported inventions to meet the needs of the Government and protect the public against non-use or unreasonable use of inventions; and to minimize the costs of administering policies in this area.

Section 3. Definitions. As used in this Act --

(a) The term "Federal agency" means an "executive agency" as defined in 5 USC 105 and the military departments as defined by 5 USC 102.

(b) The term "contract" means any contract, grant, or cooperative agreement entered into between any Federal agency and any person for the performance of experimental, developmental, or research work funded in whole or in part by the Federal Government. Such term includes any assignment, substitution or parties, or subcontract of any type entered into for the performance of experimental, developmental, or research work under a contract.

(c) The term "contractor" means any person (as defined in section 1 of title 1, United States Code) that is a party to the contract.

(d) The term "invention" means any invention or discovery and includes any art, method, process, machine, manufacture, design, or composition of matter, or any new and useful improvement thereof, or any variety of plant, which is or may be patentable or otherwise protectable under the laws of the United States.

(e) The term "subject invention" means any invention of the contractor conceived or first actually reduced to practice in the course of or under a contract.

(f) The term "practical application" means to manufacture in the case of a composition or product, to practice in the case of a process, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being worked,

and that its benefits are available to the public either on reasonable terms or through reasonable licensing arrangements.

(g) The term "person" means any individual, partnership, corporation, association, institution, or other entity.

(h) The term "made" when used in relation to any invention means the conception or first actual reduction to practice of such invention.

(i) The term "small business firm" means a small business concern as defined at section 2 of Public Law 85-536 (15 USC 632) and implementing regulations of the Administrator of the Small Business Administration.

(j) The term "nonprofit organization" means universities and other institutions of higher education and organizations of the type described in section 501(a) of the Internal Revenue Code (26 USC 501(a)) as exempt from taxation.

Section 4. Disposition of Rights.

(a) Each contract with a nonprofit organization or small business firm shall include a provision allowing that organization or firm, within a reasonable time, to elect to retain title to any subject invention; provided, however, that other provisions may be used by the Federal agency (i) when the contract is for the operation of a Government-owned research or production facility; (ii) when the agency deems this necessary because of the classified nature of the work being performed; or (iii) in exceptional circumstances when it is determined by the agency that this will better promote the policy and objectives of this Act. The rights of the nonprofit organization or small business firm shall be subject to the provisions of paragraph (b) of this section and the other provisions of this Act.

(b) Each contract with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following:

(1) The right of the Federal Government, upon request, to receive title to any invention not reported to the Federal agency within such times as are prescribed in the contract provision.

(2) The right of the Federal Government, upon request, to receive title to any inventions in the United States or other countries in which the contractor has not filed patent applications on a subject invention within such times as are prescribed in the contract provision.

(3) The right of the Federal Government, upon request, to receive title to any invention in which the contractor does not elect to retain rights or fails to elect rights within such times as are prescribed in the contract provision.

(4) With respect to any invention in which the contractor elects rights, the Federal agency shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for the Federal agency any subject invention throughout the world by or on behalf of the Federal Government (including any Federal agency), and may, if provided in the contract, have additional rights to sublicense any foreign government pursuant to foreign policy considerations or any existing or future treaty or agreement.

(5) The right of the Federal agency to require periodic reporting on the utilization or efforts at obtaining utilization that are being made by the contractor or his licensees or assignees; provided that

any such information may be treated by the Federal agency as commercial and financial information obtained from a person as privileged or confidential.

(6) An obligation on the part of the contractor, in the event a United States patent application is filed by or on its behalf or by any assignee of the contractor, to include within the specification of such application and any patent issuing thereon, a statement specifying that the invention was made with Government support, and that the Government has certain rights in the invention.

(7) In the case of a nonprofit organization, a prohibition upon the assignment of rights to the invention in the United States without the approval of the Federal agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in the manufacture or sale of products or processes that might utilize the invention or be in competition with embodiments of the invention, and provided that such assignment is made subject to the terms of the contract provision governing rights in inventions.

(8) In the case of a nonprofit organization, a prohibition against the granting of exclusive licenses to United States rights in an invention for a period in excess of the earlier of five years from first commercial sale or use of the invention, or eight years from the date of the exclusive license, excepting that time before regulatory agencies necessary to obtain premarket clearance unless, on a

case-by-case basis, the Federal agency approves a longer exclusive license. Commercial sale or use in one field of use shall not be deemed to end the exclusive period as to other fields of use.

(9) In the case of a nonprofit organization, a requirement that the balance of any royalties or income earned by the contractor with respect to subject inventions, after payment of expenses (including any payments to inventors) incidental to the administration of subject inventions, be utilized for the support of education or scientific research.

(c) If a contractor or subcontractor does not elect to retain title to a subject invention in cases subject to this Act, Federal agencies may consider and grant requests for retention of rights by any inventor in accordance with the terms of the contract or agency regulations.

(d) In any case when a Federal employee is a co-inventor of any subject invention under this Act, the Federal agency employing such co-inventor is authorized to transfer or assign whatever rights it may acquire in the invention from its employee to the contractor subject to the same conditions as set forth in this Act.

Section 5. Subcontract Provisions.

Each contract with a small business firm or nonprofit organization shall also provide that whenever the contractor subcontracts for experimental, developmental, or research work, a provision shall be included in the subcontract and any such lower tier subcontracts which will prevent the vesting of title to subcontractor subject inventions in

parties other than the Federal Government, the nonprofit organization or small business firm contractor, or a subcontractor that is a nonprofit organization or small business firm, except when specifically approved by the Federal agency after a subcontractor subject invention is identified. Federal agencies may, however, approve the use of different subcontract provisions on a case-by-case basis.

Section 6. March-in Rights.

With respect to any subject invention in which a small business firm or nonprofit organization has acquired title under this Act, the Federal agency under whose contract the invention was made shall have the right, in accordance with such procedures as are provided in the applicable contract provisions or agency regulations, to require the contractor or an assignee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances or, if the contractor or assignee refuses, to grant such a license itself if the agency determines either -

(1) that such action is necessary because the contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use; or

(2) that such action is necessary to alleviate health or safety needs which are not reasonably satisfied by the contractor, assignee, or their licensees; or

(3) that such action is necessary to meet requirements for public use specified by Federal regulation which are not reasonably satisfied by the contractor, assignee, or their licensees.

Section 7. Return of Government Investment.

(a) If a nonprofit organization or small business firm receives $250,000 in net income from the licensing of any subject invention, the Government shall be entitled to a share, to be negotiated, of up to 50 percent of all net income from licensing received by the contractor above $250,000 provided, however, that in no event shall the Government be entitled to an amount greater than that portion of the Government funding under the contract under which the subject invention was made which was expended on activities related to the making of the invention.

(b) In addition, if a nonprofit organization or small business firm receives net income in excess of $2,000,000 on sales of products embodying a subject invention, the Government shall be entitled to a share, to be negotiated, of all additional income accruing from such sales up to the amount of the portion of the Government funding under the contract under which the invention was made which was expended on activities related to the making of the invention, less any amounts received by the Government in accordance with paragraph (a) of this Section 7.

(c) The Director of the Office Of Federal Procurement Policy is authorized and directed to revise the figures of $250,000 and $2,000,000

in paragraphs (a) and (b) of this section at least every three years in light of changes to the consumer price index or other indices which he considers reasonable to use.

Section 8. Preference for United States Industry.

(a) Notwithstanding any other provision of this Act, no small business firm or nonprofit organization which receives title to any subject invention, and no person who receives an assignment of the subject invention, shall assign the right to practice such invention in the United States or grant an exclusive license to practice the invention in the United States to any foreign corporation or any other organization substantially owned or controlled by foreign interests. However, in individual cases, this restriction may be waived by the Federal agency under whose contract the invention was made.

(b) Notwithstanding any other provision of this Act, no small business firm or nonprofit organization which receives title to a subject invention, and no person who receives an assignment of the subject invention from them, shall assign the right to practice the invention outside the United States or grant an exclusive license to practice the invention outside the United States to any foreign corporation or any other organization substantially owned or controlled by foreign interests, unless it shall have first undertaken reasonable efforts to interest domestic, United States organizations or corporations in such foreign rights.

Section 9. Confidentiality. Any report of a subject invention under this Act may be treated by the Federal agency as a record exempt from disclosure pursuant to 5 USC 552(b)(4) unless (i) a United States patent applications describing the invention has been filed (provided that copies of the actual patent application may be treated by the Federal agency as records exempt from disclosure pursuant to 5 USC 552(b)(4)); (ii) a description of the invention has been published elsewhere by the inventor; (iii) the contractor or a subcontractor has not elected to retain title, and/or a contractor, subcontractor, or inventor has not requested the retention of title or other commercial rights; or (iv) the contractor or subcontractor has not elected to retain title, and/or the Federal agency has denied the request of the contractor, a subcontractor, or an inventor to retain title or other commercial rights.

Section 10. Background Rights.

Nothing in this Act shall be deemed to preclude a Federal agency from obtaining rights in any background invention of a contractor.

Section 11. Relationship to Anti-trust Laws.

Nothing in this Act shall be deemed to convey to any person immunity from civil or criminal liability, or to create any defenses to actions, under any antitrust law.

Section 12. Uniform Clauses. The Office of Federal Procurement Policy is authorized to issue regulations which may be applicable to all Federal agencies establishing standard contract provisions required under this Act.

Section 13. Precedence of Act.

This Act shall take precedence over any other act which would require a disposition of rights in subject inventions in a manner that is inconsistent with this Act, including but not necessarily limited to the following:

(1) Section 10(a) of the Act of June 29, 1935, as added by Title 1 of the Act of August 14, 1946 (7 USC 427i(a); 60 Stat. 1085);

(2) Section 205(a) of the Act of August 14, 1946 (7 USC 1624(a); 60 Stat. 1090);

(3) Section 501(c) of the Federal Coal Mine Health and Safety Act of 1969 (30 USC 951(c); 83 Stat. 742);

(4) Section 106(c) of the National Traffic and Motor Vehicle Safety Act of 1966 (15 USC 1395(c); 80 Stat. 721);

(5) Section 12 of the National Science Foundation Act of 1950 (42 USC 1871(a); 82 Stat. 360);

(6) Section 152 of the Atomic Energy Act of 1954 (42 USC 2182; 68 Stat. 943);

(7) Section 305 of the National Aeronautics and Space Act of 1958 (42 USC 2457);

(8) Section 6 of the Coal Research Development Act of 1960 (30 USC 666; 74 Stat. 337);

(9) Section 4 of the Helium Act Amendments of 1960 (50 USC 167b; 74 Stat. 920);

10) Section 32 of the Arms Control and Disarmament Act of 1961 (22 USC 2572; 75 Stat. 634);

(11) Subsection (e) of section 302 of the Appalachian Regional Development Act of 1965 (40 USC App. 302(e); 79 Stat. 5);

(12) Subsection (a)(2) of section 216 of title 38, United States Code;

(13) Section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 USC 5901; 88 Stat. 1878);

(14) Section 3 of the Act of June 22, 1976 (42 USC 1959d, note; 90 Stat. 694);

(15) Subsection (d) of section 6 of The Saline Water Conversion Act of 1971 (42 USC 1959(d); 85 Stat. 161);

(16) Section 303 of the Water Resources Research Act of 1964 (42 USC 1961c-3; 78 Stat. 332);

(17) Section 5(d) of the Consumer Product Safety Act (15 USC 2054(d); 88 Stat. 1211);

(18) Section 3 of the Act of April 5, 1944 (30 USC 323; 58 Stat. 191); and

(19) Section 8001 of the Solid Waste Disposal Act (42 USC 6981; 90 Stat. 2829).

(b) This Act shall also be construed to take precedence over any future Act, unless that Act specifically cites this Act and provides that it shall take precedence over this Act.

Section 14. Effective Date.

This Act shall take effect 180 days after the date of enactment of this Act, except that the regulations referred to in section 12, or other implementing regulations, may be issued prior to that time.