Dear Senator Nelson:

I had an extremely useful conversation with Gary Sturgis last week concerning a draft "University and Small Business Research Utilization Act" (copy enclosed) for which many of us are seeking congressional support. Needless to say, if you were to sponsor the bill, it would give it major impetus and would win you many friends within the university community.

I would not be candid if I did not state that many within the university community looked upon your request to stay the FPR/IPA amendment and your announcement of hearings as a hostile act. On the otherhand, most persons I have talked to since the hearings were pleased with the even handed manner in which they were conducted. Most left with the impression that you were seeking the facts.

We are hopeful that the testimony at the hearings convinced you of the need for an IPA-type approach to university patent policy. On the otherhand, the hearings focused only on the FPR/IPA regulation. What was really not brought out at the hearings was that this regulation, alone, is not sufficient to overcome more basic problems in Government patent policy as it applies to universities and, I think, small businesses. The FPR regulation, of course, is not mandatory. And, in fact, it cannot override various pieces of legislation which agencies such as DOE, NASA, DA, and Interior have interpreted as restricting their authority to grant rights. Indeed, most of us are doubtful that the issuance of these regulations, as important as they are symbolically, will actually lead to a significant increase in the use of IPAs.

Because of this and other factors which are explained in the background paper which I have also enclosed, we are seeking a legislative solution to the problem. The bill we drafted follows closely the IPA approach in terms

of the rights left to universities. It does, however, recognize, as do the IPAs, that in appropriate cases agencies can apply other provisions to a grant. One feature of the bill which is new and was influenced by some of the concerns you raised during the hearings is a requirement that the university share royalties with the Government in order that the Government receive back its investment in cases where an invention proves to be a major commercial success. We consider such a provision reasonable if incorporated in a comprehensive, legislative reform of Government patent policy as it pertains to universities, and provided it is limited to those cases when substantial royalties are involved.

Mr. Sturgis had a few specific questions about certain provisions of the bill which I believe need clarification. For example, he expressed concern that the bill would repeal numerous statutes that also affect the rights of large, commercial contractors. This is not, in fact, the case. Section 11 of the bill merely provides that the bill's provisions concerning universities and small business will take precedence over conflicting policies in other acts and lists those acts. These other acts are not repealed and would continue to apply to the Government's dealings with contractors other than universities and small businesses. This Act represents an attempt to deal only with universities and small businesses. We are convinced that most of our troubles stem from a failure to differentiate the ~~differing~~ needs of small businesses and universities on the one hand and large, dominant firms on the other. For too long debate over Government patent policy has centered ~~over~~ on the latter to the detriment of the former.

Mr. Sturgis also raised some questions concerning portions of the draft bill that deal with certain problems caused by the Freedom of Information Act and the tendancy for overly restrictive and limited interpretations of

exemption 4. With all due respect for Mr. Sturgis' concerns and recognizing has long interest in this area, it seems to me that as a staff member of the Senate Select Committee on Small Business he should try to view the ~~impacts of~~ FOIA in the context of its potentially adverse impacts on legitimate business interests. In any case, the provisions in the bill do not mandate nondisclosure by the agencies. They merely clarify that agencies may treat certain types of information generated during the patenting and licensing processes as confidential.

Finally, Mr. Sturgis expressed some concern over section 7 of the draft bill which is intended to make clear that the bill does not deal with the background rights issue or hamper the agencies' flexibility in that area. Probably, section 7 ~~merely~~ states what would be the case even if it were not included. Mr. Sturgis expressed concern that this provision might be detrimental to small businesses. It is certainly true that if the Government regularly sought background rights from its small business contractors in many cases this would be detrimental to them. However, the bill is neutral on this point. If we had been drafting this bill from a purely selfish standpoint, we might have put in language barring agencies from taking background rights. However, we tried to draft a balanced bill. Undoubtedly there will be rare circumstances in which the Government is funding full development of a potentially valuable commercial product where the taking of background rights might be justified. Indeed, these rare cases might also be the one's in which agencies would invoke the exceptions of sections 3(b)(3) and 4(b) of the draft bill.

It must be stressed that most Government research awards are not aimed at the development of specific commercial products. Thus if an idea or invention which has commercial possibilities is identified by a contractor or grantee during the course of an award, it will only be developed further

if private investment can be induced. In such cases, the taking of patent rights by the Government retards rather than enhances utilization. On the otherhand, occassionally the Government may decide to support engineering development of specific products that are needed by the public and for which private funding is not likely. As an example, the Government might fund a demonstration plant for a new sewage treatment process. While such awards are rarely made to universities or small businesses, it is not totally out of the realm of possibility. In such unusual cases, we think that the Government might have a legitimate need to consider whether it should retain control over the disposition of rights in new inventions or whether it should seek to obtain rights in any backgound invention of the contractor which might dominate the final end product.

In summary, we believe the draft bill to be a reasonable compromise between the need to provide incentives to commercialization in the normal R&D situation, and the ability of agencies to fashion special provisions in unusual cases. We also believe it leaves sufficient power within the Government to remedy any abuses that may develope where a contractor is left rights but fails to achieve commercialization in a reasonable manner. Thus, we urge your support of what we believe is a balanced and practical approach to Government patent policy as applied to universities and small busnesses.

Signed

Enclosures (2)