



EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

FOR IMMEDIATE RELEASE

February 12, 1982

OMB 82-5

Public Affairs

395-3080

The Office of Management and Budget and its component agency, the Office of Federal Procurement Policy, have jointly issued a new circular to all government agencies carrying out the provisions of Public Law 96-517, which deals with the rights of small businesses, universities and other non-profit organizations to inventions made under research sponsored by the Government.

The new OMB Circular 124 replaces an interim directive that was issued last July to implement the 1980 legislation.

The Circular is designed to encourage innovation and the utilization of inventions arising from Government supported research and development by small businesses, universities and non-profits. It covers the disposition of the invention results from approximately \$1.2 billion of grant and contract awards to small business and \$5 billion to universities and non-profits each year. The Administration anticipates that this large investment coupled for the first time with a Government-wide policy of allowing the private sector the incentive of patent ownership will lead to a significant increase in the commercialization of resulting inventions.

The Circular is designed to simplify the current regulatory framework by replacing numerous separate and diverse agency regulations and procedures covering small business, universities and nonprofits with a single, Government-wide policy. As mandated by Public Law 96-517 the new Circular establishes a standard Patent Rights clause to be included in all Government grants and contracts with such organizations, which gives these inventing organizations the right to retain ownership of inventions. The Circular also requires agencies to modify existing regulations to bring them into conformity with the Circular.

To further encourage a uniform and effective application of the law, the Circular establishes the Department of Commerce as the lead agency to monitor its implementation, evaluate its effect on innovation, and serve as the clearinghouse for information regarding Government patent policy. Since the Act applies to a wide range of Government procurement and assistance activities, it is expected that the assignment of coordination functions to the Department of Commerce will help to prevent inconsistent implementation and the proliferation of new regulations.

Small businesses should benefit because:

- More highly qualified small businesses will seek Government funded research projects since fear of losing the rights to valuable innovative concepts will no longer be a problem when dealing with the Government.
- Federally-sponsored research which results in invention and does not threaten proprietary positions will aid in restoring the vitality of small business. Without such rights many small firms could not justify the risk of further commercial development or attract private risk capital for such development.

Non-profits and universities are also benefited because:

- Patent rights are critical to university and non-profit technology transfer or patent licensing programs.
- Substantial private investment is required to further develop university invention. Patent ownership provides the incentive for the university to seek private firms to undertake the risk of development.
- In addition to improving the climate for university licensing, the Circular also stimulates increased university-industry cooperative programs by virtually eliminating industry concerns about Government claims under related research.
- Because a substantial portion of all medical research is done at universities and because of the importance of patent rights in the pharmaceutical and related industries, the Circular is critical to the development of new drugs and medical devices and procedures.

FOR ADDITIONAL INFORMATION CONTACT: Fred Dietrich, 202-395-6810

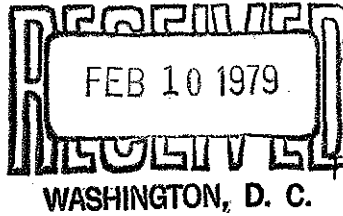


General Services Administration Washington, DC 20405

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STANFORD UNIVERSITY
JAN 29 1979
TECHNOLOGY LICENSING
WASHINGTON, D. C.

JAN 23 1979

Mr. Niels J. Reimers
Manager, Technology Licensing
Stanford University
Stanford, California 94305

Dear Mr. Reimers:

Thank you for your letter of December 15, 1978, to Mr. Paul E. Goulding, Deputy Administrator of General Services, regarding Institutional Patent Agreements (IPA).

Your views are helpful regarding the extent to which agencies have implemented the IPA procedures which have been prescribed in the Federal Procurement Regulations (FPR) and were effective on July 18, 1978.

If agencies have not yet implemented the IPA procedures, this fact probably can be attributed to several circumstances. First, there is always a considerable time lag between the issuance of a procedure and implementation of the issuance by agencies in a practical sense. Second, there were congressional hearings on the matter which may have caused agencies to delay momentarily the use of the IPA.

In view of your interest, we will ask the agencies concerned for current information regarding their use of the IPA. A further response will be forwarded to you as soon as the agency responses are received.

We appreciate your taking the time to pursue the matter.

Sincerely,

PHILIP G. READ
Acting Director
Federal Procurement Regulations Directorate
Office of Acquisition Policy

FER - Questionnaire problem APT/PT...
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JAN 23 1979

Mr. Donald A. Gardiner
Assistant Solicitor for Patents
Division of General Law
Department of the Interior
Washington, DC 20240

Dear Mr. Gardiner:

We recently received a letter from Mr. Niels J. Reimers, Manager, Technology Licensing, Stanford University, regarding the extent to which agencies are complying with the FPR Amendment 187, January 20, 1978, which prescribed Institutional Patent Agreement (IPA) policies and procedures.

The letter noted that there are well over 20 patent policies of various Government agencies and "to the best of the writer's knowledge" that there has yet to be an implementation of Federal Procurement Regulations (FPR) IPA by any agency.

The writer has been informed that a survey of the situation would be made and a further reply forwarded. To assist me in this matter, I would appreciate information regarding the following:

1. Have you entered into any IPAs since July 18, 1978, the effective date of the FPR Amendment concerning IPA's?
2. Regarding IPAs entered into since July 18, 1978, have you followed the FPR procedures?
3. If the FPR procedures were not followed since July 18, 1978, please indicate the reasons.

Your assistance in connection with FPR patent matters has been and continues to be very much appreciated.

Sincerely,

PHILIP G. READ
Acting Director
Federal Procurement Regulations Directorate
Office of Acquisition Policy

The "Innovation Recession"

TIME OCTOBER 2, 1978

A new worry about the U.S. economy: the decline in R. and D.

While the devaluation of the dollar may be the most dramatic measure of the U.S.'s reduced clout in world commerce, another event may ultimately have a greater impact on the nation's economic health. It is the shocking decline of good old Yankee ingenuity, otherwise known as research and development.

The U.S. has always prided itself on being the world's undisputed leader in technological innovation. Since World War II foreign demand for aircraft, computers, automated tools and other products of American labs and workshops could be relied on to provide a fat surplus in the nation's balance of trade. No more. Though the U.S. still retains an overall lead in total amounts spent on R. and D. and in numbers of new inventions, its chief economic rivals are expanding their research efforts at much faster rates. One consequence is becoming dramatically clear this year: because the U.S. no longer commands such a high share of the world's high-technology market, it no longer can offset its large imports of low-technology items such as shoes and clothing. As a result, in 1978 the country will import substantially more manufactured goods than it will export. The deficit for the first half of 1978 was \$14.9 billion, which will do more damage to the trade balance this year than anything but the \$40 billion in oil that the U.S. will import. By contrast, West Germany and Japan are expected to run surpluses in manufactured goods of \$49 billion and \$63 billion respectively.

According to the National Science Foundation, in the years 1953 through 1955 the U.S. introduced 63 "major" technological innovations. West Germany, Japan, Britain and France had together only 20. But now foreign competitors are bringing out as many new products and processes as the U.S.—or more. In the category of new patents, a key measure of R. and D. vitality, American inventors were granted 45,633 patents by major trading partners in 1966, while the U.S. gave only 9,567 to non-Americans that year. By 1976, however, the so-called patent balance had shifted radically. The number of U.S. inventors granted patents abroad dropped by more than 25%, to 33,181, while the number of foreigners gaining U.S. patents had almost doubled, to 18,744. Says Frank Press, the chief White House science adviser: "It is the trends that are important, and the percentage increases in some countries are growing faster than here."

Why did the trends begin to shift? Arthur M. Bueche, senior vice president for R. and D. at General Electric, which remains the most research-oriented of big U.S. companies (862 patents won last year), is concerned about a change in the American character. Says he: "We've gone from an expansive, gung-ho attitude to a defensive, 'What's in it for me?' attitude." Faced with a challenge, Americans are now more likely to say, "Let's not risk it." Among factors behind the U.S.'s "innovation recession":

THE MONEY DROUGHT. Since the post-Sputnik days of 1964, when public and private spending on R. and D. reached a peak of 3% of the gross national product, such spending has slipped to just 2.3% of G.N.P. That is appreciably lower than West Germany's 3.1%, and uncomfortably close to Japan's 1.8% and even France's 1.5%. Furthermore, while foreign countries spend very little on military research, the U.S. dedicates almost 50% of its R. and D. expenditures to defense-related projects. At the same time,

lion in 1967 to \$2.6 billion in 1977. Yet industry's R. and D. investment has risen from \$8.1 billion in 1967 to \$19.4 billion ten years later, although inflation has eroded the impact of that increase.

BURGEONING BUREAUCRACY. Government sponsorship of R. and D. has become increasingly stultifying and counterproductive. Research scientists complain that they spend more time dealing with the red tape that goes with Government support than in the lab. The Department of Energy, to cite just one example, requires seven approvals prior to the start of a research contract. Another fear expressed by many scientists: a growing share of Government-sponsored R. and D. is not true research at all but only the quest for instant remedies to satisfy the rising numbers of regulations on safety, health and environmental protection flowing from Washington.

THE QUICK-RETURN SYNDROME. Partly because more and more stock in companies is held by pension funds and other large institutions that are both conservative and concerned with ever improving bottom-line performance, managers in private industry have become more interested in merely improving existing products than going to the trouble and expense of devising new ones. Vague research projects, whose benefits may be far off, are even less likely to get boardroom backing. But in such situations, asks Lowell W. Steele, GE's manager of R. and D. planning, "how do we compete against a country like Japan, which considers ten or 15 years a perfectly acceptable lead time for development?"

RISK-CAPITAL SHORTAGE. Although many of the most successful companies in computer technology and semiconductors were founded as modest operations only a decade or so ago, the scientist with a brilliant idea is hard put to find financial backing these days in the equity markets. As recently as 1972, 104 small R. and D.-oriented firms were able to raise seed money on the stock exchanges. At last tabulation, only four had done so. One reason for the drying up of venture capital: the maximum tax on capital gains was raised from 25% in 1969 to the present 49% rate. For investors, this had the effect of cutting, say, a 25% gain on a high-risk investment to an effective return of about 12%. Congress will roll the capital-gains rate back to about 35% this year, but the damage may take long to repair. Says Ray Stata, founder of Analog Devices Inc., a successful Massachusetts semiconductor firm: "The single most important factor retarding innovation is Government policy on investment. You can't avoid it."

In addition to throwing the U.S. balance of payments into even deeper deficits, the decline in research and development is bound to have a dampening effect on the domestic economy, especially since small companies based on new ideas tend to grow faster and create more jobs than older firms. A five-year study by the Commerce Department of six "mature" corporations (such as General Motors and Bethlehem Steel), five "innovative" companies (including Polaroid and IBM) and five "young high-technology" firms (among them, Marion Labs and Digital Equipment) turned up some telling figures. The mature firms, which had combined annual sales of \$36 billion, added only 25,000 workers during the five years; the innovative companies, with a \$21 billion sales total, had a net gain of 106,000 employees; the high technology outfits, with \$857 million in sales, created 35,000 new jobs.

The dividends the U.S. gets from these high-technology firms extend far beyond jobs. As economic engines of astonishing vitality, they are also churning out the export sales and tax revenues that the nation urgently needs. A recent survey of high-technology companies founded in the early 1970s showed that for every \$100 originally invested in them, each firm on the average now returns each year \$70 in

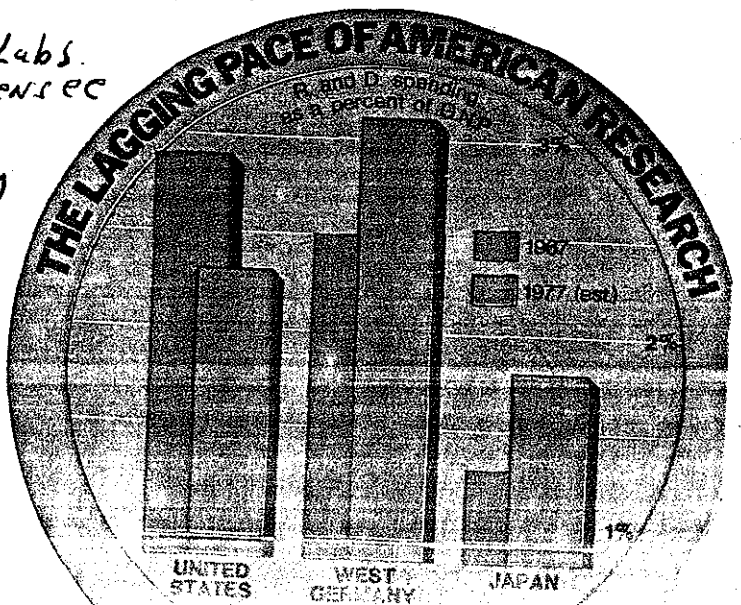
sales abroad, \$15 in federal corporate tax, \$15 in personal income tax and \$5 in state and local revenues.

Concerned about the R. and D. retreat, President Carter has ordered a Cabinet-level task force headed by Commerce Secretary Juanita Kreps to give him some recommendations for turning it around by next June. One of the task force's main goals: to find ways to reduce the discouraging effects of Government regulation on R. and D.

One idea that has already surfaced is to copy the Japanese by establishing research institutes within the various branches of American industry that could supply information on basic research to participating companies. Thinking along that line, the Canadians, who have also been suffering from an R. and D. lag, plan to set up five innovation centers at universities, which will supply help to industry. In the U.S., such research-sharing schemes generally have been discouraged by antitrust law. But the Commerce Department is now consulting with Justice officials about devising programs that would further the cause of American R. and D. without violating the precepts of antitrust legislation.

+ Marion Labs.
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Glenn Feldman 4944
Quentin Crommelin 5784

Sam Stern

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February 13, 1979

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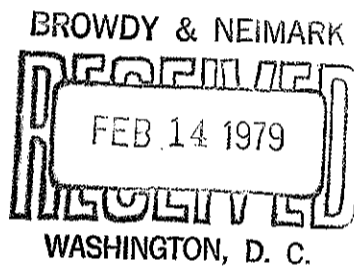
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Mr. Norman Latker
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Washington, D.C. 20004



Dear Norm:

With the weather and other things, I am a little tardy in getting to you the enclosed report that Mike Blommer prepared on the 95th Congress, as well as the report on the Dole/Bayh Bill as prepared by Jim Davis of APLA, but here it is.

Best regards.

Sincerely,

Eugene L. Bernard

ELB:vlc

Enclosures



AMERICAN PATENT LAW ASSOCIATION

November 29, 1978

Subject: Dole/Bayh Draft Patent Policy
Government Patent Policy Committee Report

To: APLA Board of Managers

On October 18, I polled the Government Patent Policy Committee for its reaction to a tentative draft markup of the Dole/Bayh Bill (S. 3496). The purpose of this letter is to convey to you the results of this work by our Committee.

Tom Arnold asked me to send this material to you directly with the expectation that you will be able to include this subject on the agenda of your meeting next week on December 6. I would have preferred to have presented this subject to you personally at that meeting, as requested, however an irreconcilable conflict makes that impossible. I believe that the enclosed copy of the Bill (containing a number of largely editorial corrections), plus the following identification of major substantive issues will suffice, however, particularly since many of you are already thoroughly familiar with this legislation which was introduced during the 95th Congress.

Based upon the comments received, there are at least five features which seem clearly deserving of your attention. You will understand, I feel sure, that the number of responses was not high enough so that my reference to the Committee in this discussion can be taken as a full consensus. However, while the percentage of those responding was not great, the quality of what was received was high, in my opinion.

I. Effect On Patent Procedures Applicable To Major Government Contractors

As pointed out in my letter to the Committee, by not including major contractors in the proposed legislation, it might be argued that such contractors could no longer retain title to patents resulting from Government-funded work. This would be consistent with the allegations of the Plaintiffs in Public Citizen et al v. Arthur F. Sampson, DCDC Civ. Action #74-1849. This possibility is recognized by the Legislative Staff working on the proposed revised Dole/Bayh legislation, and there has been an expressed willingness to cure this infirmity. In general, the Committee members appear to favor passage of the legislation with a legislative history indicating that the Bill

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would not be intended to affect current policy and practices in respect to major contractors. Some of us feel that a clarifying amendment is the better cure, and if that should be your conclusion, a suggested change would be to delete the phrase "required by this chapter" at the end of Section 209-Uniform Clauses, and add the following new sentence:

---Except as expressly provided otherwise in this chapter or in other Acts of Congress, such regulations shall follow and be guided by the Statement of Government Patent Policy issued by the President on August 23, 1971 (36 Fed. Reg. 16887, August 26, 1971; revising prior Statement of Policy at 28 Fed. Reg. 10943, October 12, 1963).

II. Return Of Government Investment

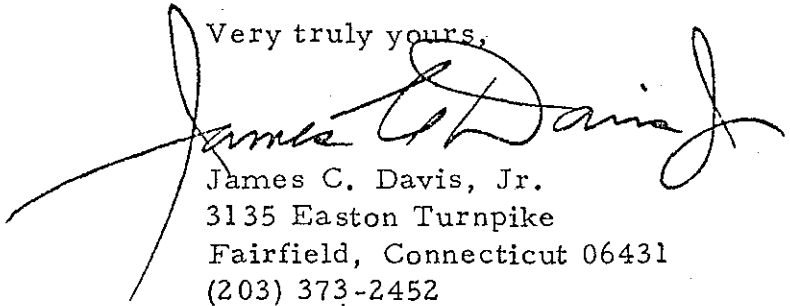
Section 204 provides that after the commercial success involving utilization of any invention based on Government-funded work reaches a designated threshold, the patent owner should begin to return to the government the money which the government originally invested. While Section 204 may have appeal for those who would otherwise charge that the government is improperly subsidizing business and universities, it likely represents no more than an illusory expectation insofar as any significant return to the government might be involved. Also, while patents are occasionally licensed alone, the more significant license programs tend to involve many patents, related technology and technical assistance in the form of person-to-person contact. In that setting there is no value which is broken out as being attributable to rights under inventions in general, and certainly no allocation would usually be made in respect to any given invention. It seems that the cost of attempting to administer a broad scope repayment program would almost surely exceed any returns that might be expected. Taxing success in this way, seems undesirable. Perhaps a similar result could be achieved through an investment tax without so directly inhibiting licensing or commercial utilization of Government-funded inventions.

III. Preference For U. S. Citizens

Section 205(b) inhibits the granting of foreign patent rights to foreign owned or controlled interests. Recognizing that such interests are the principal parties involved in foreign commerce, this requirement seems unrealistic

too. Also, a large business may be constituted of a number of semi-autonomous small businesses, each in different product fields.

Very truly yours,

A handwritten signature in cursive script, appearing to read "James C. Davis, Jr.", written in black ink. The signature is fluid and somewhat stylized, with a long horizontal stroke extending to the left.

James C. Davis, Jr.
3135 Easton Turnpike
Fairfield, Connecticut 06431
(203) 373-2452

JCD/dke

cc: Government Patent Policy Committee Members
M. Blommer

References:

1. Lincoln, Abraham. 1859.. Second Lecture on Inventions and Discoveries. Speech delivered before the Phi Alpha Society of Illinois College at Jacksonville, Ill., Feb. 11. In: Basler, Roy P. 1953. The Collected Works of Abraham Lincoln. III: 356-363. Rutgers University Press, New Brunswick, New Jersey.
2. Testimony of Norman J. Latker, Betsy Anchor-Johnson, and others in "Government Patent Policy" hearings before the Subcommittee on Domestic and International Scientific Planning and Analysis of the Committee on Science and Technology, U.S. House of Representatives, 94th Congress, Sept. 27-October. 1, 1976.