RAY E. SNYDER
PATENT LICENSING CONSULTANT
SUITE 1160
209 SOUTH LA SALLE STREET
CHICAGO, ILLINOIS 60604

TELEPHONE
312-263-1841

July 9, 1980

Mr. Howard W. Bremer
Patent Counsel
Wisconsin Alumni Research Fdn.
614 N. Walnut Street
Madison, WI 53705

Dear Howard:

Enclosed is a copy of two pages from the government R & D Report which describes the Byah-Dole Bill. You probably have all of this information from other sources, but I believe you should have a complete file.

Very truly yours,

Ray E. Snyder

Ray E. Snyder

RES/at
Enclosure

cc: Clark McCartney
Mary Spores

EXCLUSIVE RIGHTS TO FEDERAL PATENTS

After lengthy consideration, the Senate has passed legislation which would allow universities (and other non-profit institutions) and small businesses to retain patent rights to inventions which orginiated from work financed through federal grants and contracts. S. 414, The University and Small Business Patent Procedures Act, was passed in late April by the Senate by a vote of 94-4. The bill must still be considered by the House, but it is not expected that there will be any concerted opposition to the legislation in the lower House. And, President Carter has indicated he supports the bill.

UTILIZING FEDERALLY OWNED PATENTS

At present, the federal government owns over 28,000 patents -- the results from R&D projects financed by federal agencies. Only a few of these patents have been commercialized by the non-governmental sector. The primary argument from the business community has been that they are not willing to spend monies to commercialize the patents if they are not assured that they will receive exclusive rights to the federally-owned patents.

The Defense Department, the National Aeronautics and Space Administration and the National Science Foundation have been moderately successful in developing procedures through which exclusive rights to federally held patents could be granted to private firms. However, even at these agencies, it is a time-consuming and expensive process for private sector organizations to gain rights to patents which are owned by the federal government.

NEW FEDERAL PATENT POLICY

Under terms of the University and Small Business Patent Procedures Act, universities and other non-profit organizations, small businesses and individuals may acquire title to inventions that they develop under projects supported by the federal government. The only requirement is that the non-governmental "contractor" make the decision to acquire title to the patent within a "reasonable time." However, the federal government will possess "march-in" rights -- allowing federal agencies to require title-holding contractors to grant a license for an invention to other organizations if the contractor has not taken proper steps to achieve the "practical application" of the invention.

INCOME LIMITATIONS

As passed by the Senate, organizations will be limited insofar as receiving financial benefits from patents developed with federal funds. Contractors which have obtained patent rights to such inventions will be allowed to keep the first $70,000 which is received in gross income annually from licensing fees for any one federally-financed patent. Above this level, the organizations will be required to pay 15 percent of additional licensing fees received to the federal government.

The Senate bill also stipulates that the federal government will receive five percent of all income in excess of $1 million received by a contractor for sales of products making use of one or more of the inventions which have been assigned to the non-profit or small business organization. However, the federal government will be entitled to receive only a sum of monies equal to the amount initially spent by a federal agency to support the R&D leading to the invention.

ARGUMENTS AGAINST FEDERAL PATENT REFORM

With the estimated 28,000 federally-owned patents which are not being utilized, the Washington establishment is willing to try anything to bring some of these inventions to the commercialization stage. Yet, while the opposition to such legislation is small, there are a number of points that have been made by those opposed to allowing non-governmental organizations to have exclusive rights to inventions which were initially developed with federal funds.

The major argument, and the one that has stymied the passage of patent reform legislation for years, is that no organization should be allowed to have exclusive rights to patents developed with federal funds. Senate opponents of the legislation view it as a giveaway program: "This legislation is one of the most radical, far-reaching giveaways that I have seen in my many years (in the Senate)...Allowing contractors to retain patents on research financed by and performed for the government is no more reasonable or economically sound than to bestow on contractors who build a road financed by public funds, the right to collect tolls from cars that will eventually use it."

A provision of the legislation would allow contractors confidentiality during that period of time required to have a patent granted. Often, years are required to complete the patent procedure. Critics of the pending legislation claim that this confidentiality will actually stifle the commercialization of new products which could have resulted if inventions developed with federal monies were given early and widespread publicity.

LARGE BUSINESS PARTICIPATION

To many, a major flaw in the legislation is that there are not sufficient provisions to safeguard the intrusion of large businesses. Small businesses and non-profit organizations, under some conditions, would be allowed to grant exclusive rights to other large for-profit organizations. And, there is the problem that small businesses benefiting from federally-financed inventions could be taken over by large corporations. However, at present, the Congress and the Administration appear willing to take this perceived risk, if a mechanism can be found to utilize more of the patents and inventions developed with federal funding. (Currently, it is politically unwise to support legislation which would benefit large corporations. Yet, if the aim of the new federal patent policy is to move federally-financed inventions into the marketplace, it makes no difference whether or not a large or a small business benefits from the program.)

CONFUSION OVER DEFINING SMALL BUSINESS

At present, the Small Business Administration is rewriting the guidelines defining just what a "small business" is. Under the new guidelines, the "size" of corporations will be determined by whether or not the organization in question is in an area of activity with a few or with many competitors. An oil company, doing a few hundred million dollars worth of business a year, and having less than 2,500 employees, could be designated a "small business" in that the oil industry is dominated by a few very large firms. On the other hand, a firm with more than 15 employees would be designated a "large business" if the organization were dominant in its field. The new SBA guidelines are certain to raise a number of problems unless measures are taken by Congress to clearly define which "small businesses" will be eligible to retain patents to inventions developed with federal funds.