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AMERICAN COUNCIL ON EDUCATION

Division of Governmental Relations

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'85 JUN -5 P12:46

June 3, 1985

Mr. Norman Latker, Director
Federal Technology Division
Office of Productivity, Technology,
and Innovation
Department of Commerce
14th Street and Constitution Avenue, NW
Room HCHB 4837
Washington, DC 20230

Dear Mr. Latker:

On behalf of the American Council on Education, an association representing over 1,500 colleges, universities, and other organizations in higher education, we would like to take this opportunity to respond to the Department of Commerce's request for comments on the proposed regulations implementing 35 U.S.C. §§ 202-204, which were issued on April 4, 1985. These proposed regulations incorporate the amendments to federal patent law enacted during the last Congress as Public Law 98-620.

The amendments embodied in P.L. 98-620 will significantly strengthen industry support for research and development at America's colleges and universities. Not the least among the reforms achieved by this legislation is the repeal of the so-called "five-year cap" on exclusive licensing agreements with major corporations. As the Senate Committee on the Judiciary stated in its report accompanying S. 2171, repeal of the five-year cap "remove[s] a substantial barrier to industry participation in research projects at universities and other non-profit institutions." Sen. Rep. 98-662, p. 8. While removing the cap on newly-licensed inventions is extremely helpful, it is also important to recognize that many inventions have already been licensed under the more restrictive provisions of prior law. Therefore, we applaud your decision to give retroactive effect to the repeal by directing agencies to grant requests by nonprofit institutions to extend the length of existing agreements, unless there is a significant reason not to do so. § 401.13(c), as proposed, 50 Fed. Reg. 13532 (Apr. 4, 1985).

However, we also believe that the repeal of the five-year cap should not be limited only to agreements made under the provisions of Office of Management and Budget Circular A-124 or its predecessor Bulletin 81-22. We therefore suggest that § 401.13(c) be modified in the final regulations so that it applies to a request by a nonprofit organization for waiver of any limitation on the duration of an exclusive license for a subject invention imposed under a funding agreement, to the extent that such limitation does not conform to the standard patent rights clause of § 401.14(a). Similarly, the second sentence of § 401.13(c) should be broadened in the final regulations to apply when a request for approval has been necessitated under the terms of a funding agreement rather than under OMB Circular A-124 or Bulletin 81-22.

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In addition, the decision to seek extension of a licensing agreement is not made lightly. It is clearly not in the self-interest of a patent-holder to seek extension of an exclusive license if the company holding the license has not aggressively pursued commercialization of the invention. For this reason, colleges, universities, and other research institutions will not grant ill-considered requests for license extensions. For this reason and others, among them the need to remove unnecessary barriers to industry investment in research and development, Congress repealed the existing constraints on the length of licensing agreements. For similar reasons, there should be a presumption in favor of requests for extensions of existing licenses; the proposed regulation, appropriately, would create such a presumption.

This change in the law is extremely important. It provides assurance that research institutions can anticipate continuity in the marketing program for their inventions. Moreover, it frees institutions from the burdens of case-by-case license extension proceedings that could drain scarce resources from other productive endeavors. Finally, as Senator Robert Dole (R-KS) said in his colloquy with Senator Dennis DeConcini (D-AZ) on the day following passage of H.R. 6163, the bill that became P.L. 98-620, perpetuation of the five-year cap for existing agreements "will place older inventions at a competitive disadvantage with newer ones . . . and may well result in the failure of these older inventions to be fully developed for the benefit of the public." 130 Cong. Rec. S14142 (daily ed. Oct. 10, 1984). We urge the Department to retain this proposed change when the final regulations are issued.

Second, while the research community respects the decision of the Congress to give small businesses a preference in licensing agreements, where appropriate, we believe that it is essential that each research institution be free to depart from that policy where, in the opinion of the institution, an agreement with a larger concern will better ensure the successful marketing of the invention. For example, institutions frequently enter into long-term relationships with major corporations whereby, in return for research funding commitments, the institution agrees to provide the company with a preference in licensing decisions. Such agreements are extremely valuable, because they assure long-term funding for research efforts that demand long-term commitments. It is very important that they be allowed to continue.

For this reason, we strongly support the provisions of § 401.14(k)(4) that provide that "the decision whether to give a preference in any specific case will be at the discretion of the <u>contractor</u>." 50 Fed. Reg. 13535, <u>Id</u>., emphasis original.) Nonetheless, because of the authority given the Assistant Secretary to negotiate changes in licensing practices "to more effectively implement" the small business preference provisions of the statute, we believe that the final regulations should make clear, whether in the preamble or the regulations themselves, that the small business preference provisions do not forbid a contractor from entering into a long-term relationship with a large company where, in the view of the contracting institution, such a long-term relationship (which may incorporate a preference in licensing) best serves the interests of the institution and best ensures the successful commercialization of the institution's work.

We thank you for this opportunity to comment on these proposed regulations, and we thank you for your work on behalf of America's research institutions.

Very truly yours,

Sheldon Elliot Steinbach

Sheldon Elliot Steinbach
General Counsel

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