To: Senator
From: Joe — file
Re: Your Phone Interview on Patents
June 25, 1980
cc: Kevin, Mary, Linda, Tom, Eve, David B., Press, Bob, Ann M., Leg, Ind

Dave Carter told me that you are having a phone interview this afternoon on patents and I have prepared a summary on the various bills now pending. For your information Rep Kastenmeier's Subcommittee is having its markup on a number of patent bills this afternoon at 2:00.

Patent Policy- There are 3 main bills pending on this they are: 1. S. 414, Bayh-Dole which passed the Senate on April 23 by a vote of 91-4 and which was reported out of the House Small Business Committee; 2. The Administration bill which gives patent ownership to small businesses and universities like your bill and has a very complicated exclusive license for big business contractors. This was introduced by Kastenmeier on the House side and has not been introduced over here (they couldn't find anyone willing to put it in), 3. The Schmitt-Stevenson bill (or the Ertel bill in the House) which treats everyone alike and gives all contractors full title.

The main differences between your bill and the other efforts is that S. 414 is restricted to small businesses and universities and has a pay back provision (15% for all licensing income over $70,000 in each year must be paid to the Government, and a maximum of 5% of all gross income over $1,000,000 in sales for each year). It is precisely because of these two prosions that your bill has been so successful. While Stevenson and the Administration have minimized the importance of your bill because it does not cover all contractors, you could stress that the bill is intended as a stimulus to small businesses to enter into Government research where they have been systematically ignored (receiving less than 3.5% of Government contracts) even though they are the most reliable innovative segment of the economy. You might also add that the wide disparity in how to

treat big businesses is evidenced in the differences in the Schmitt-Stevenson approach and the Administration approach which is much more cautious. The Senate rejected Stevenson-Schmitt amendment to S. 414 to include big businesses by a vote of 60-34.

Patent policy is the most controversial patent issue that is now being decided. Patent Reexamination- Here there are 2 bills, yours (S. 2446) which passed the Senate unanimously on March 20 and the Administration bill which is very similar except that they delete two provisions that indicate that a reexamination should be conducted before a case is litigated. Your bill does not require this (which is commonly reported) but rather gives a sense of the Congress that reexamination should precede litigation whenever possible although the courts would still be allowed to procede immediately under your bill is they so desire.

The concept is that whenever patents are challanged on the basis that some written material relevant to the patent's validity was not considered by the Patent Office before the patent issued any party may ask the Patent Office to reexamine the patent and consider this new material. Presently these cases go to court with an average cost of $250,000 per party according to the American Patent Law Assn versus an estimated cost of $1,000 to $1,500 for reexamination.

This concept is not controversial and some reexamination bill should be enacted.

The Independent Patent Office - this is your most widesweeping and popular patent bill. It is based on evidence (such as the testimony of every former Patent and Trademark Commissioner of the past 25 years) that the Commerce Department has routinely ignored the needs of the patent and trademark system so that today U.S. patents and trademarks take longer and longer to obtain but their actual worth is less and less because of the doubts of their strength. This undercuts our innovation and productivity and hurts all businesses and inventors. The bill would not create any new bureaucracy but frees the PTO from an unneeded layer of bureaucracy and should cost about $150,000 to setup as an independent agency.

Rep Railsback, the ranking Republican on Kastenmeier's Subcommittee, has introduced this and is expected to push it at today's markup. On the Senate side the bill is pending in Governmental Affairs with a sequential referral to Judiciary.

Patent Office Funding- You have written to Sen Hollings on the Appropriations Committee asking for an additional $2.1 million for the FY 1981 PTO budget. This money would hire new patent examiners to cut down on patent pendency times, provide adequate support staff for the examiners (many of which now must issue their findings in longhand because there are not enough typists), double the staff going through the PTO's files to locate the 2-3% of the files missing in every subclass, and set up computer terminals in the 30 depository libraries around the country to assist inventors to locate relevant patents that might relate to their research.

Patent Extension - This is still being considered by Kastenmeier although he is backing off in light of opposition and controversy surrounding it. It appears that some sort of amendment might be offered in today's markup and is unclear how it will do. The problem that this deals with is that many times agencies like the Food and Drug Administration will require years of testing before a product can be introduced onto the market. During this period that life of the patent (17 years) is ticking away and many times these companies emerge from the FDA with over half of the patent's life gone before they can even use the invention. You might say that you are concerned about this and would like to hold hearings on the concept next year and even consider the role that patents and trademarks in general play in innovation and productivity.