July 6, 2009

The Honorable David Wu
Chairman
Subcommittee on Technology and Innovation
House Science and Technology Committee
2320 Rayburn House Office Building
Washington, DC  20515

Dear Mr. Chairman:

On behalf of the Association of American Universities, I write today to express support for reauthorization of the Small Business Innovative Research (SBIR) programs with the inclusion of two key provisions contained only in the House version of the bill, H.R. 2965, the Enhancing Small Business Research and Innovation Act of 2009. These provisions would maintain the current Small Business and Innovative Research set-aside at 2.5 percent and increase the ability of firms with significant amounts of venture capital to participate in the SBIR program. AAU does not support S. 1233, legislation recently marked up by the Senate Committee on Small Business and Entrepreneurship, specifically because of language it includes on these two aspects of this critically important legislation.

AAU is the association of 60 leading U.S. public and private research universities whose member institutions perform roughly 60 percent of federally funded university-based research, and award more than half of all Ph.D. degrees earned in our country. We strongly prefer H.R. 2965, as currently drafted, over its Senate counterpart, S.1233, for two reasons. First, the House bill does not propose to increase the SBIR percentage set-aside. Like the House, we believe that there is no clear justification for such increases; especially as such increases would come at the expense of peer-reviewed basic and applied research programs at agencies such as NIH and NSF. In our view, increasing the set-aside would reduce even further the number of successful research grants that are awarded by federal research agencies.

This is not to suggest that we do not favor increasing the amount of funds going to SBIR and STTR. Our view is that the best way to increase the amount of funding available to these programs is to provide steady and sustained funding increases for federally supported research. Indeed, we hope to work with the small business community to increase research budgets across all of the major research agencies, which would result in significant funding increases for the SBIR and STTR, as well as other important research programs.

AAU also supports a second provision of H.R. 2965 that allows firms with significant venture capital funding to compete for SBIR and STTR awards. As you know, current Small Business Administration (SBA) regulations effectively disqualify small companies that have received significant venture capital investment or are owned by another company with significant venture capital investment from competing for SBIR and STTR funds. As then-NIH Director Elias Zerhouni said in a 2005 letter to the SBA, “this rule dries up Federal funding for early stage ideas from small companies that, by attracting substantial [venture capital] funding, show strong signs of likely success.” AAU shares the view of the NRC that venture capital investment in companies seeking SBIR funding confirms the quality of those projects and would raise the quality of the applicant pool overall.

AAU strongly supports reauthorization of the SBIR and STTR programs and hopes that Congress will approve legislation similar to that approved by the House. We agree with the National Academies’ assessment of these programs as being “sound in concept and effective in practice.” Both programs play an important role in the nation’s overall innovation ecosystem by transforming cutting-edge,
innovative ideas and research into viable, market-ready products for the American consumer. We strongly oppose legislation such as S. 1233, which increases the percentage of R&D funding set-aside for SBIR at the expense of other equally important research. We also favor increasing the ability of firms with significant amount of venture capital to participate in the SBIR program.

With best regards,

Robert M. Berdahl
President
Association of American Universities