

Export Control Constraints on Offshore Patent Preparation and Prosecution

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I. Introduction

Much has been written recently about U.S. businesses outsourcing research and development offshore to take advantage of highly technically skilled labor in lower wage countries, such as India. The legal services industry is beginning to follow suit. U.S. law firms and businesses that prepare and prosecute U.S. patent applications could similarly benefit from lower wage offshore labor, but must be careful to comply with U.S. technology export laws. This article addresses how such laws apply to offshore outsourcing of patent prosecution and related activities, such as by a U.S. law firm representing multiple high technology clients.

II. The Framework For Regulating Technology Exports

Unlike the patent laws, regulations, and administrative rules, which are relatively neatly codified into a coherent source of legal authority and administered by a single government agency, technology export controls are dispersed widely among both legal authorities and administrative agencies. Such export controls apply not only to shipping goods from the U.S., but also to transferring U.S. originated technical data and know-how from the U.S.² Importantly, export controls also extend to “deemed exports”—that is, transferring technical data to a foreign national³, even if it occurs when that person is present within the U.S, is deemed to constitute an export to the home country of the foreign national.⁴ In the modern era of global computer networks, export controls also govern whether a foreign national may be permitted to access such U.S. origin technical data on a computer database.⁵ Although several other countries have their own technology export controls, this article addresses only technology exports from the U.S.

In the U.S., military, space, missile, munitions, chemical or biological weapons or other technology exports implicating national security are regulated primarily by the Department of State, such as through its Office of Defense Trade Controls (DTC). In regulating technology exports implicating national security, the State Department DTC administers the Arms Export Control Act⁶ and the International Traffic in Arms Regulations (ITAR).⁷ The ITAR applies to items “specifically designed, developed,

configured, adapted, or modified for a military application.” It includes the United States Munitions List (USML) prohibiting certain exports.⁸

Dual-use technology, having both commercial and potential military applications, is regulated primarily by the Department of Commerce, such as through its Bureau of Industry and Security (BIS), formerly known as the Bureau of Export Administration (BXA). For exporting dual-use technologies to countries not subject to a U.S. embargo, the Commerce Department BIS applies the Export Administration Regulations (EARs)⁹, which include the Commerce Control List (CCL)¹⁰ prohibiting certain dual-use exports.

Foreign policy controls, such as economic sanctions against certain embargoed countries¹¹, are regulated primarily by the Department of Treasury Office of Foreign Assets Control (OFAC), BIS, and by the State Department¹². Since relatively few countries are subject to such embargoes, they are not considered further in this article, because most patent prosecution and related activities would likely be outsourced only to countries not subject to trade embargo or other such foreign policy controls.

Other government agencies, such as the Department of Defense, are also involved in regulating both national security related and dual use technologies.¹³ For example, nuclear energy technology is regulated primarily by DTC, BIS, the Department of Energy (DOE), and the Nuclear Regulatory Commission (NRC).¹⁴ Of particular interest to patent practitioners, inventions in U.S. patent applications will undergo scrutiny by the U.S. Patent & Trademark Office in conjunction with Defense (including Army, Navy, and Air Force) and other government agencies, such as National Security Agency, Department of Energy, and National Aeronautics and Space Administration.

Violation of export control laws can result in criminal penalties (e.g., up to ten years in jail and a fine of up to 5 times the value of the export or \$1 million), civil penalties (e.g., up to \$11,000 per violation), and administrative penalties, such as denial or restriction of export privileges.

III. License of Exports

A. Jurisdiction

The first question that patent practitioners must address is: Which agency controls the export of the information contained in my particular patent application? Is it

the Department of Commerce under the Export Administration Regulations? Or, is it the Department of State under the International Traffic in Arms Regulations?

As pointed out previously, the Department of Commerce has jurisdiction with respect to technologies described in the CCL, and the Department of State has jurisdiction with respect to technologies described on the USML. In some cases, there is overlapping jurisdiction, such as for GPS and other similar technologies. Where it is not clear which agency has primary jurisdiction, a patent practitioner may wish to file a Commodity Jurisdiction Request to the Department of State¹⁵ and/or a Commodity Classification Request to the Department of Commerce.¹⁶

Information related to defense articles on the USML generally requires a license for export from the United States, except for some limited exceptions governing exports to Canada. Information related to “dual use” items on the CCL may not require a license for export from the United States, depending on how it is classified on the CCL of the EAR.

Patent practitioners are not required to file Commodity Jurisdiction or Commodity Classification Requests, but may instead self-classify as to the proper jurisdiction.

B. Classification

The CCL of the EAR presents hundreds of different options for the classification of hardware, software, capital equipment and materials, and technology related thereto. These options are referred to as “Export Control Classification Numbers” (or “ECCNs”). Depending on the appropriate ECCN, items controlled thereunder may require a license for export to all destinations, including Canada, or may be eligible for export to most destinations with no license required, or under a license exception.¹⁷ In all cases except encryption¹⁸, the patent practitioner may self-classify the technology to the appropriate ECCN, and may also then export under a License Exception or No License Required, where appropriate.¹⁹ Thus, for a large number of patent applications relating to dual-use technology, such self-classification may permit export of such technical data without ever obtaining a formal export license, although this may entail substantial recordkeeping and reporting requirements for compliance.²⁰

C. Licensing

Where the jurisdiction and classification decisions result in the requirement for an export license, the patent practitioner must file an application with the Department of State or Commerce, as appropriate. Export license applications are referred to other agencies, notably the Departments of Defense, Energy, Justice and the intelligence agencies, as appropriate, before being approved or denied by the Department of State or Commerce. Because of this inter-agency referral process, it usually takes about 60 days to process an export license application. However, some export license applications may take much longer, depending on the technology at issue, the country of destination and the parties to the proposed transaction. For multiple transactions, such as to a wholly-owned subsidiary or a controlled-in-fact affiliate, it is sometimes possible to get a “Special Comprehensive License” to avoid having to obtain a separate license for each export occurrence.²¹

IV. Technical Data in U.S. Patent Applications

Because patent practitioners deal with intellectual property rather than physical goods, export controls on technical data will be their primary concern. Patent applications are written to enable a person skilled in the art to make and use the underlying invention.²² Therefore, by their very nature, U.S. patent applications contain technical data that is subject to U.S. export control laws, at least when the invention originated at least partially in the U.S.²³

Under the Invention Secrecy Act of 1951²⁴, the U.S. patent laws require an applicant to obtain a foreign filing license from the U.S. Patent & Trademark Office (USPTO) before filing an international or foreign patent application on an invention made in the United States.²⁵ Failure to obtain a foreign filing license may invalidate a U.S. counterpart application on the same invention.²⁶ All U.S. patent applications are deemed to automatically include a petition for such a foreign filing license.²⁷ Therefore, the USPTO (and other agencies, if needed) review every U.S. patent application to determine whether a foreign filing license should be granted.²⁸ If a foreign filing license is granted, a notification to that effect is included on the filing receipt for that patent application.²⁹ Alternatively, the USPTO may issue a secrecy order, which requires that the invention be kept secret.³⁰ If the patent applicant does not receive a foreign filing

license or secrecy order within six months after filing the U.S. patent application, the applicant may nonetheless then file an international or foreign counterpart patent application based on the U.S. patent application.³¹

To determine whether to grant a foreign filing license, the USPTO works with Defense and other government agencies.³² Such agencies provide guidance to the USPTO to help it determine which patent applications might be detrimental to national security if the technical data therein were to be disclosed.³³ Such guidance includes the Patent Security Category Review List (PSCRL), the Militarily Critical Technologies List (MCTL), the Commodity Control List, and the U.S. Munitions Controls List.³⁴

If a secrecy order is imposed, it will typically remain in effect for one year—or longer if it is renewed.³⁵ Secrecy orders are categorized into different types.³⁶ A “Type 1” secrecy order applies to patent application technical data that is subject to U.S. export controls.³⁷ A “Type 2” secrecy order applies to patent application technical data that is security-classified, or classifiable and where the applicant has a current security agreement with the Department of Defense.³⁸ A “Type 3” secrecy order applies to patent application technical data that is classifiable, but not subject to such a security agreement.³⁹ In practice, any type of secrecy order is extremely rare. During the 2003 fiscal year, 133 new secrecy orders were imposed and 87 previous secrecy orders were rescinded, such that at the end of fiscal 2003, 4838 secrecy orders were in effect.⁴⁰ Of these 4838 secrecy orders, all but 75 resulted from patent applications involving U.S. government sponsorship.⁴¹

As the above numbers indicate, the vast majority of U.S. patent applications will not be subjected to a secrecy order. Instead, a foreign filing license will typically be granted. Unless the patent applicant files a petition to withhold the patent application from publication (which includes a promise not to file a corresponding foreign or international patent application abroad)⁴², the USPTO will publish the patent application as early as 18 months from its filing date or from the filing date of any earlier patent application to which priority is claimed.⁴³ After the technical data in a patent application is published—by the U.S. Patent & Trademark Office, by a foreign or international patent office, in a technical journal, or at an open technical conference—it is no longer subject to the EARs or the ITAR.⁴⁴

Other than this clear principle that publication releases technical data in a patent application from the purview of export controls, the Commerce Department BIS has delegated its authority to regulate patent application technical data to the USPTO.⁴⁵ The Export Administration Regulations state that “exports and reexports of such technology not approved under PTO regulations must comply with the EAR.”⁴⁶ This raises the important question of whether the granting of a foreign filing license constitutes approval by the USPTO that removes patent application technical data from the purview of the Export Administration Regulations.

V. The Effect of the Foreign Filing License on Export Control of Patent Application Technical Data

Several sources of legal authority seem to indicate that a foreign filing license granted by the USPTO does not operate to remove patent application technical data from the purview of the Export Administration Regulations. For example, the foreign filing license obtained on a patent application filing receipt includes the following notice from the USPTO:

The grant of a license does not in any way lessen the responsibility of a licensee for the security of the subject matter as imposed by any Government contract or the provisions of existing laws related to espionage and national security or the export of technical data. Licensees should apprise themselves of the current regulations especially with respect to certain countries, of other agencies, particularly the Office of Defense Trade Controls, Department of State (with respect to Arms, Munitions and Implements of War (22 CFR 121 - 128)); the Office of Export Administration, Department of Commerce (15 CFR 370.10(j)); the Office of Foreign Assets Control, Department of Treasury (31 CFR Parts 500+) and the Department of Energy.

This language from the foreign filing license itself suggests that the mere granting of a foreign filing license does not remove the technical data in a patent application from the purview of U.S. export controls. Language in 37 C.F.R. 5.11(b) also alludes to the rather limited scope of a foreign filing license:

The [foreign filing license] would also authorize the export of technical data abroad *for purposes relating to the preparation, filing or possible filing and prosecution of a foreign patent application* without separately complying with the regulations contained in 22 CFR parts 121 through 130 (International Traffic in Arms Regulations of the Department of

State), 15 CFR part 779 (Regulations of the Office of Export Administration, International Trade Administration, Department of Commerce) and 10 CFR part 810 (Foreign Atomic Energy Programs of the Department of Energy).⁴⁷

This suggests that the foreign filing license only authorizes export of the underlying technical data for the purposes of foreign filing and prosecution of the patent application.

The scope of the foreign filing license is defined in 37 C.F.R. 5.15. It provides that a granted foreign filing license will have one of two different scopes. If the USPTO determines that the technical data in a patent application might be detrimental to national security, then that patent application must be made available to inspection by other governmental agencies involved in defense and national security. If a foreign filing license is nonetheless granted for such a patent application, it will have the narrower scope set forth in 37 C.F.R. 5.15(b):

Grant of this license authorizes the export and filing of an application in a foreign country or the transmitting of an international application to any foreign patent agency or international patent agency. Further, this license includes authority to export and file all duplicate and formal papers in foreign countries or with foreign and international patent agencies and to make amendments, modifications, and supplements to, file divisions of, and take any action in the prosecution of the foreign or international application, provided subject matter additional to that covered by the license is not involved.⁴⁸

Otherwise, if the USPTO determines that the technical data in a patent application is not a possible detriment to national security, then any foreign filing license that it grants will have the broader scope set forth in 37 C.F.R. 5.15(a):

This license permits subsequent modifications, amendments, and supplements containing additional subject matter to, or divisions of, a foreign patent application, if such changes to the application do not alter the general nature of the invention in a manner which would require the United States application to have been made available for inspection under 35 U.S.C. 181. Grant of this license authorizing the export and filing of a patent application in a foreign country or the transmitting of an international application to any foreign patent agency or international patent agency when the subject matter of the foreign or international application corresponds to that of the domestic application. This license includes authority:

(1) To export and file all duplicate and formal application papers in foreign countries or with international agencies;

(2) To make amendments, modifications, supplements, including divisions, changes or supporting matter consisting of the illustration, exemplification, comparison, or explanation of subject matter disclosed in the application; and

(3) To take any action in the prosecution of the foreign or international application provided that the adding of subject matter or taking of any action under paragraphs (a)(1) or (2) of this section does not change the general nature of the invention disclosed in the application in a manner which would require such application to have been made available for inspection under 35 U.S.C. 181 by including data pertaining to:

(i) Defense services or articles designated in the United States Munitions List applicable at the time of foreign filing, the unlicensed exportation of which is prohibited pursuant to the Arms Export Control Act, as amended, and 22 CFR Parts 121 through 130; or

(ii) Restricted Data, sensitive nuclear technology or technology useful in the production or utilization of special nuclear material or atomic energy, dissemination of which is subject to restrictions of the Atomic Energy Act of 1954, as amended, and the Nuclear Non-Proliferation Act of 1978, as implemented by the regulations for Unclassified Activities in Foreign Atomic Energy Programs, 10 CFR Part 810, in effect at the time of foreign filing.⁴⁹

A comparison of the two different types of foreign filing licenses indicates that the broader foreign filing license of 5.15(a) additionally permits minor alterations in the patent application technical data provided that such alterations do not create a detriment to national security. Interestingly, both the broader license of 5.15(a) and the narrower license of 5.15(b) define the scope of the license as “authorizing the export and filing of a patent application.” One might reasonably argue that this provision authorizes both “export” and “filing,” and therefore authorizes export of technical data without any accompanying foreign filing. However, such an interpretation conflicts with the above-quoted language from 37 C.F.R. 5.11(b), which limits the purpose for which technical data may be exported pursuant to a granted foreign filing license to the actual foreign filing and prosecution.

From a pragmatic viewpoint, the grant of a foreign filing license for such a limited purpose is somewhat troubling, because most U.S. patent practitioners are not authorized to file or prosecute a patent application in a foreign patent office. Therefore, U.S. patent practitioners typically rely on a foreign patent attorney to perform the foreign

filing and prosecution on their behalf. Consequently, filing and prosecuting a foreign counterpart to a U.S. patent application necessarily requires disclosure of its technical data to a foreign national. Under a strict interpretation of the foreign filing license scope in accordance with the limited purpose set forth in 37 C.F.R. 5.11(b), the granting of a foreign filing license does not by itself permit such technical data to be disclosed to that same foreign national for the purpose of assisting the U.S. practitioner in prosecuting the U.S. patent application domestically in the USPTO, rather than in a foreign or international patent office. This is indeed a curious result, but it must be considered in determining what patent prosecution work can be shifted offshore.

This result grows even more curious when other regulations are considered. A patent applicant that receives a foreign filing license apparently is not required to seek further State Department approval to export technical data contained within a U.S. patent application:

The exportation of technical data relating to arms, ammunition, and implements of war generally is subject to the International Traffic in Arms Regulations of the Department of State (22 CFR parts 120 through 130); the articles designated as arms, ammunitions, and implements of war are enumerated in the U.S. Munitions List (22 CFR part 121). However, if a patent applicant complies with regulations issued by the Commissioner of Patents and Trademarks under 35 U.S.C. 184, no separate approval from the Department of State is required unless the applicant seeks to export technical data exceeding that used to support a patent application in a foreign country. This exemption from Department of State regulations is applicable regardless of whether a license from the Commissioner is required by the provisions of §§ 5.11 and 5.12 (22 CFR part 125).⁵⁰

The Department of Energy has created a similar license waiver if a foreign filing license is granted by the USPTO:

Under regulations (10 C.F.R. 810.7) established by the United States Department of Energy, an application filed in accordance with the regulations (§§ 5.11 through 5.25) of the Patent and Trademark Office and eligible for foreign filing under 35 U.S.C. 184, is considered to be information available to the public in published form and a generally authorized activity for the purposes of the Department of Energy regulations.⁵¹

This DOE waiver clearly extends beyond limiting technical data export to foreign filing purposes, because it regards the underlying technical data as being publicly available.

Although the State Department regulation lacks this language, because it speaks to the exportation of technical data generally, it similarly has implied that its permission to export the technical data in a patent application is broader than for the limited purpose of foreign filing and prosecution. The State Department and DOE regulations, however, should be compared to an accompanying regulation pertaining to the Commerce Department, which is conspicuously more narrowly drawn:

(a) Under regulations (15 CFR 770.10(j)) established by the Department of Commerce, a license is not required in any case to file a patent application or part thereof in a foreign country if the foreign filing is in accordance with the regulations (§§ 5.11 through 5.25) of the Patent and Trademark Office.

(b) An export license is not required for data contained in a patent application prepared wholly from foreign-origin technical data where such application is being sent to the foreign inventor to be executed and returned to the United States for subsequent filing in the U.S. Patent and Trademark Office (15 CFR 779A.3(e)).⁵²

This narrow language indicates that the Commerce Department has apparently only waived the license requirement of the EARs to the extent needed for foreign filing and prosecution, or for sending foreign-origin technical data to a foreign inventor for obtaining a signature on application filing papers. Paradoxically, after a foreign filing license is granted, more sensitive military or nuclear technical data is apparently regulated less closely by the State Department and the DOE than dual-use technical data is by the Commerce Department. Nevertheless, in the absence of further guidance from the Department of Commerce, a U.S. patent practitioner seeking to use offshore labor to assist in preparing and prosecuting U.S. patent applications would be ill-advised to consider a granted foreign filing license as exempting the underlying patent application technical data from the Export Administration Regulations administered by the Commerce Department BIS.⁵³

VI. Offshore Patent Practice Opportunities

From the above discussion, it is apparent that export controls on technical data can be classified along an “exportability scale” as: (A) Not exportable; (B) License Required; (C) License Exception or No License Required; (D) Not Subject to Controls.

A. *Not exportable.* Patent application technical data that is subject to a security classification or secrecy order is, of course, not exportable for the purposes of patent preparation and prosecution.

B. *License Required.* Although an export license from the State Department or DOE is theoretically available for some patent application technical data pertaining to military, space, missile, munitions, chemical or biological weapons, nuclear energy related, or other technology exports implicating national security, the time and expense involved with obtaining such a formal license likely outweighs any cost benefit from utilizing cheaper offshore labor to prepare and/or prosecute a patent application. Similarly, the cost savings of exporting technical data to prepare and/or prosecute a patent application involving dual-use technology that requires a formal export license from the Commerce Department BIS is diminished by the time and expense of obtaining such a license. However, for a group of patent applications within a well-defined technology area, it may be cost effective to obtain a single transaction license or a Special Comprehensive License for multiple transactions to allow patent preparation and prosecution to be performed offshore. This will be more easily accomplished by a corporate legal department than by a law firm, because a corporation typically operates within a more well defined technology area that is easier to accurately describe on an export license application. By contrast, a law firm with multiple clients will necessarily involve diverse technology areas that may require multiple individual export license applications if a Special Comprehensive License cannot be obtained.

C. *License Exception or No License Required.* Relative to technology requiring an export license, a patent application relating to dual-use technology that is covered by the CCL, but that can be self-classified as either: (1) being subject to a License Exception or, (2) for which no license is required for the particular export transaction, is a better candidate for utilizing offshore labor, because no formal export license need be obtained. However, there still exists a substantial amount of self-policing and compliance recordkeeping before a law firm can export such patent application technical data to make use of foreign labor. The technical data to be exported must be first carefully reviewed against the Export Administration Regulations and other export control laws to determine whether a License Exception exists, or that no license is

required. Because the regulations are complex, and the penalties for violation are severe, a law firm will probably want to concentrate on those clients with technologies that are most clearly distant from both national security concerns and dual military/commercial use (that is, technologies that are not listed on either the ITAR or the CCL) such as most business methods, business software (not involving encryption), medical devices, etc.⁵⁴ The attorney responsible for deciding whether to export technical data must be familiar with both the technology and the export control laws, otherwise competent export control counsel should be consulted. If technical data is to be exported to a single country where the patent prosecution work will be performed, then checklists can be created to simplify the regulations as they pertain to that particular destination country.

D. Not Subject To Controls. The least difficult patent application technical data to export will be that which does not require a formal export license or any complicated self-evaluation of the export control regulations to determine that a license exception exists or that no license is required for that particular technology export. What are some examples of these “low-hanging fruit” that can most easily take advantage of lower cost offshore labor?

1. Incoming foreign patent work. Many U.S. patent practitioners have a substantial practice in filing and prosecuting U.S. patent applications that claim priority to a previously-filed foreign counterpart patent application for an invention arising out of foreign R&D. Because the Export Administration Regulations pertain only to U.S. origin technology, such incoming foreign work could use offshore labor for preparing and prosecuting the U.S. patent application. Because such incoming foreign work often must be performed on a much more limited budget than originally-filed U.S. patent applications, it could also benefit greatly from cost savings from using offshore labor. However, such incoming foreign work should be sent directly to the offshore office to avoid re-export from the U.S. of the technical data, which is subject to similar export control restrictions as technical data that originates in the U.S.⁵⁵

2. Validity and searching and analysis. U.S. patent practitioners are often asked to evaluate the validity of an issued U.S. patent. This usually involves searching for published prior art references that could invalidate the patent. Since both the issued patent and prior art references are publicly available, validity searching and analysis

typically does not involve export of unpublished technical data. Therefore, such work can easily leverage the technical expertise of high-skilled offshore engineers.

3. *Patent landscape mapping.* As the number of issued patents grows, U.S. companies face an increasingly crowded competitive IP landscape. Clients are increasingly turning to their outside patent counsel and other consultants to help them understand the patent landscape, such as for product clearance and for identifying and implementing a competitive IP strategy. Foreign patent engineers can be trained to use commercially available software to map this publicly available information. The U.S. patent lawyer can then use his or her time more effectively for counseling clients on IP strategy using such patent landscape maps, instead of performing the time-consuming task of preparing such maps.

4. *After-publication patent preparation and prosecution.* After the USPTO (or another entity) publishes the technical data in a patent application, it is no longer subject to the EARs or the ITAR. Appropriately trained foreign personnel can then assist in further patent preparation and prosecution work for that patent application, as well as for any continuation or divisional patent applications that include the same technical data. It should be noted, however, that because a continuation-in-part patent application includes new matter, publication of the parent patent application would not release such new matter in a continuation-in-part for export. In practice, there is still much patent prosecution activity that typically takes place after a patent application is published—particularly for any continuation or divisional children of the published parent patent application. Examples include responding to office actions, drafting claims for a continuation application, and creating or revising formal drawings.

5. *Paralegal and docketing functions.* The examination of a U.S. patent application involves considerable correspondence with the USPTO. This typically triggers docketing and other paralegal work that usually involves entry of non-technical data into a docketing or other computer database. To the extent that such data doesn't pertain to the technical data in the underlying patent application, it doesn't implicate U.S. technology export control laws. However, care must be exercised to ensure that foreign personnel cannot access such patent application technical data, which may sometimes be stored in the same computer database. Since office actions received from the USPTO

and responses to such office actions may include a discussion of the underlying patent application, it is possible that such correspondence may itself include technical data that should be protected against improper export. After a patent application is published, however, the foreign paralegals may access the underlying technical data in the patent application, and any continuation or divisional patent applications (but not continuation-in-part applications), as well as the correspondence associated with such patent applications.

V. Implementation and Compliance

As a practical matter, offshore assistance in patent prosecution will not be carried out by physically shipping law firm files to an office offshore. Instead, communication with offshore personnel will likely be electronic, such as via e-mail, or by allowing access by the foreign personnel over a global computer network to law firm files stored in a computer database. FoundationIP, of Minneapolis, Minnesota, provides one such enterprise IP management software package. The FoundationIP system provides an electronic database for law firm files. These electronic files include scanned images of the documents involved in patent prosecution, such as correspondence with the USPTO and correspondence with the client.

Using FoundationIP, foreign nationals can be assigned a more restricted access to certain electronic files than domestic personnel. Documents stored in the FoundationIP database can be classified as either “Technical” or “Non-technical,” to reflect whether they potentially include technical data that is subject to export control restrictions. For example, U.S. patent applications, USPTO office actions, and responses to USPTO office actions would be classified as “Technical.” Other documents, such as assignments, information disclosure statements, etc., that do not include technical information would be classified as “Non-technical.” Foreign nationals can only access the “Technical” information of a particular patent application file if: (1) the technical data in that patent application (or its parent, if no new matter has been added) has published; or (2) appropriately designated domestic personnel have reviewed the file and determined that the underlying patent application technical data is either licensed for export, or a license exception applies. The FoundationIP database itself, therefore, serves a recordkeeping and access control function for determining which technical data has been published, and

which technical data subject to export control restrictions was either licensed or determined to be subject to a license exception.⁵⁶ This prevents inappropriate access to technical data by foreign nationals.

Of course, such access control software is necessarily only as good as the personnel using it. Domestic personnel must be trained to properly enter documents as “Technical” or “Non-technical,” to properly enter U.S. patent application publication dates, and to be familiar enough with the technology and the export control regulations to correctly determine whether a license exception applies.

It may also be helpful to train domestic personnel to recognize other warning signs that a particular patent application might be non-exportable, or require a license for export. Such warning signs would include, for example: (1) any national security classification information in a patent application file; (2) an indication in the patent application file of government sponsorship, such as by a defense, energy, or space agency; (3) military specifications (“mil specs”) included in the patent application file. Both in-house and outside counsel should consider export control restrictions when reviewing every invention disclosure. It may be helpful to develop a software program that parses the text of an invention disclosure, patent application, or other document for certain buzzwords to which export control regulations apply. Such a software program could then display the buzzword from the document in visual correspondence to language from the regulation to which it possibly relates.

Standardized invention disclosure forms should include questions relevant to technology export controls. Does the invention disclosure include classified material? Is it specially designed, developed, configured, adapted, or modified for a military, space, or nuclear energy application? Is it capable of such an application? Was there government sponsorship of funding for the research and development of the invention? A company’s standard invention disclosure form can also include other questions, taken from the export regulations themselves, that are more specifically tailored to that company’s sphere of technology. Obtaining such information is important not only for possibly exporting technical data for patent preparation and prosecution, but for avoiding accidental deemed exports to foreign nationals located within U.S. facilities.

Foreign personnel should also be instructed how to comply with the U.S. export control laws so that they do not accept technical data that hasn't been appropriately cleared for export. In general, it may be useful for the foreign personnel to have a single point-of-contact in the U.S. for receiving work projects. The responsible person in the U.S. can then ensure compliance with export control regulations before such information is made available to the foreign personnel. The foreign office should also screen its personnel to make sure that it does not allow access to technical data by persons on the OFAC Specially Designated Nationals list.⁵⁷ The manager of the foreign office and the foreign technical personnel should also execute a "Letter of Assurance," as part of their employment agreements, or otherwise, agreeing not to disclose, use, or re-export the patent application technical data, or to export the direct product of the patent application technical data.⁵⁸ The foreign facility should be secured similar to a facility of a U.S. company seeking to protect its trade secrets.

A compliance program should also be instituted. One notable authority has suggested that such a compliance program should: (1) be adopted by the board of directors or an executive officer of a company or law firm; (2) appoint a compliance official; (3) be set forth in a written document; (4) include ongoing education for domestic and foreign personnel; (5) monitor changes in the law to update the program; (6) include a periodic audit; (7) sanction employee violations; (8) investigate suspected violations; and (9) include adequate recordkeeping.⁵⁹ In addition, export control counsel should be retained to provide training, to assist in applying the export control laws to particular technologies, and to audit and monitor compliance procedures.

VI. Conclusion

It is possible to export certain tasks related to patent prosecution and other patent-related activities to make use of less expensive technically-skilled labor. However, such activities are constrained by U.S. laws governing technical data exports and their associated compliance requirements. Some savvy patent practitioners will make use of such opportunities, at least for projects that are least likely to run afoul of export control restrictions. However, all patent practitioners should recognize the potential pitfalls associated with both U.S. and foreign export control laws, since such issues may arise (such as with deemed exports) even when all parties are located within the U.S.

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² A listing of various statutes and regulations pertaining to control of technical data is available at <<http://www.fas.org/sgp/othergov/invention/program.html> (visited Feb. 2, 2004)>. For a good overview, see Rajat P. Kuver and Daniel C. Horne, "Recent Changes Regarding Export License Control," 8 *Bender's Immigration Bulletin* 1323 (Aug. 15, 2003).

³ A "foreign national" is someone who is not a U.S. citizen or lawful permanent U.S. resident. *See* 15 C.F.R. § 734.2(b)(2)(ii) ("This deemed export rule does not apply to persons lawfully admitted for permanent residence in the United States and does not apply to persons who are protected individuals under the Immigration and Naturalization Act (8 U.S.C. § 1324b(a)(3))")

⁴ *See* 15 C.F.R. §§ 734.2(b)(1) and 734.2(b)(2)(ii).

⁵ *See* 15 C.F.R. § 734.2(b)(1).

⁶ *See* 22 U.S.C. 2771 - 2781

⁷ 22 C.F.R. Part 120 – 130.

⁸ 22 C.F.R. Part 121. The USML includes the following categories: (I) Firearms, Close Assault Weapons and Combat Shotguns; (II) Guns and Armament; (III) Ammunition/Ordnance; (IV) Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs and Mines; (V) Explosives and Energetic Materials, Propellants, Incendiary Agents and Their Constituents; (VI) Vessels of War and Special Naval Equipment; (VII) Tanks and Military Vehicles; (VIII) Aircraft and Associated Equipment; (IX) Military Training Equipment; (X) Protective Personnel Equipment; (XI) Military Electronics; (XII) Fire Control, Range Finder, Optical and Guidance and Control Equipment; (XIII) Auxiliary Military Equipment; (XIV) Toxicological Agents, Including Chemical Agents, Biological Agents, and Associated Equipment; (XV) Spacecraft Systems and Associated Equipment; (XVI) Nuclear Weapons, Design and Testing Related Items; (XVII) Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated; (XVIII) Directed Energy Weapons; (XIX) (Reserved); (XX) Submersible Vessels, Oceanographic and Associated Equipment; (XXI) Miscellaneous Articles (i.e., Any article (or related technical data or defense services) not specifically enumerated in the other categories of the U.S. Munitions List which has substantial military applicability and which has been specifically designed or modified for military purposes).

⁹ 15 C.F.R. §§ 368-799

¹⁰ 15 C.F.R. § 774. The CCL includes the following ten categories: (0) Nuclear Materials, Facilities and Equipment and Miscellaneous; (1) Materials, Chemicals, "Microorganisms," and Toxins; (2) Materials Processing; (3) Electronics; (4) Computers; (5) Telecommunications and Information Security; (6) Lasers and Sensors; (7) Navigation and Avionics; (8) Marine; (9) Propulsion Systems, Space Vehicles and Related Equipment.

¹¹ *See* 31 C.F.R. § 500 et seq. In addition to embargoed countries, OFAC regulates transfers to specially designated nationals (SDNs) deemed to be acting on behalf of sanctioned countries. *See* <http://www.ustreas.gov/offices/eotffc/ofac/sdn/index.html> (visited Feb. 5, 2004).

¹² *See* Christopher F. Corr, "The Wall Still Stands! Complying with Export Controls on Technology Transfers in the Post-Cold War Post-9/11 Era," 25 *Hous. J. Int'l L.* 441, 467.

¹³ *See id.* at 469.

¹⁴ *See id.* at 467-468.

¹⁵ *See* 22 C.F.R. §§ 120.3, 120.4. *See also* <<http://www.bis.doc.gov/licensing/facts3.htm>>

¹⁶ *See* 15 C.F.R. § 748.3. *See also* <<http://www.bis.doc.gov/licensing/ccrequestguidance.html>>

¹⁷ License exceptions are listed in 15 C.F.R. §§ 740.1 – 740.18. For example, under License Exception GBS (15 C.F.R. §740.4), certain items on the CCL (indicated by GBS=Yes on the CCL) that are controlled only for national security reasons may be exported to Country Group B (which includes India). In another example, under License Exception TSR (15 C.F.R. § 740.6), certain items on the CCL (indicated by TSR=Yes) that are controlled only for national security reasons may be exported to Country Group B

provided that a written assurance against re-export is obtained from the consignee). Certain license exceptions, such as license exception TSR, trigger further reporting requirements.

¹⁸ Encryption technology is controlled by the CCL (15 C.F.R. § 774) under Category 5, Part 2 “Information Security.”

¹⁹ See 15 C.F.R. § 730.7 (“A relatively small percentage of exports and reexports subject to the EAR require an application to BIS for a license. Many items are not on the Commerce Control List (CCL) (Supplement No. 1 to Sec. 774.1 of the EAR), or, if on the CCL, require a license to only a limited number of countries. Other transactions may be covered by one or more of the License Exceptions in the EAR. In such cases no application need be made to BIS.”)

²⁰ See 15 C.F.R. § 762 regarding recordkeeping requirements.

²¹ See 15 C.F.R. §§ 752.1 – 752.17.

²² See 35 U.S.C. § 112.

²³ See 15 C.F.R. §§ 734.3 and 734.4.

²⁴ 35 U.S.C. 181 – 188.

²⁵ See 35 U.S.C. 184. Several other requirements have similar screening requirements before foreign or international filing is permitted. See, e.g., World Intellectual Property Organization, “PCT Applicant’s Guide,” Vol. 1/A, Annex B1 (“Information on Contracting States”). The current version (updated 1 January 2004) of these annexes are presently available online at <http://www.wipo.int/pct/guide/en/index.html> (visited Feb. 9, 2004). See also Paul B. Heynssens, *File a Patent, Go To Jail*, Intellectual Property Today, Vol. 11, No. 3 at 28 (March 2004).

²⁶ See *In re Gaertner*, 604 F.2d 1348 (CCPA 1979) and *Beckman Instruments, Inc. v. Coleman Instruments, Inc.*, 333 F.2d 573 (7th Cir. 1964). For an excellent discussion of *Gaertner* and foreign filing license procedures, see Kenneth L. Cage, *Foreign Filing License Procedure – The Invention Secrecy Act of 1951*, 66 J. Patent & Trademark Office Soc’y. at 497 (October 1984).

²⁷ 37 C.F.R. 5.12

²⁸ If the government has a property interest, the appropriate agency head, instead of the USPTO, determines whether disclosure might be detrimental to national security. See 35 U.S.C. 181. If the patent application bears a national security classification, the USPTO will impose a secrecy order. See 37 C.F.R. 5.1(d).

²⁹ See *id.*

³⁰ See 35 U.S.C. 181.

³¹ See 37 CFR 5.11(a) and 5.11(d). A more limited foreign filing license, under 37 C.F.R. 5.11(b) instead of 37 C.F.R. 5.11(a), is made available after the six months have elapsed without receiving notification of the granting of the broader foreign filing license of 37 C.F.R. 5.11(a).

³² See “The Secrecy Order Program in the United States Patent & Trademark Office,” June 27, 1991, <http://www.fas.org/sgp/othergov/invention/program.html> (visited on February 9, 2004).

³³ See *id.*

³⁴ See *id.*

³⁵ See 35 U.S.C. 181.

³⁶ See “The Secrecy Order Program in the United States Patent & Trademark Office,” June 27, 1991, <http://www.fas.org/sgp/othergov/invention/program.html> (visited on February 9, 2004).

³⁷ See *id.*

³⁸ See *id.*

³⁹ See *id.*

⁴⁰ See “Invention Secrecy Activity,” as reported by the Patent & Trademark Office as of September 10, 2003, <http://www.fas.org/sgp/othergov/invention/stats.html> (visited on February 9, 2004). The 4838 secrecy orders are up from 4792 in FY 2002, 4736 in FY 2001, and 4741 in FY 2000. See *id.*

⁴¹ See *id.*

⁴² See 35 U.S.C. § 122(b)(1)(B).

⁴³ See 35 U.S.C. § 122(b)(1)(A).

⁴⁴ See 15 U.S.C. § 734.3(b)(3); see also 22 C.F.R. § 120.11(a)(5).

⁴⁵ See 15 C.F.R. § 734.3(b)(1)(v) (“Patent and Trademark Office (PTO). Regulations administered by PTO provide for the export to a foreign country of unclassified technology in the form of a patent application or an amendment, modification, or supplement thereto or division thereof (37 C.F.R. Part 5). BIS has delegated authority under the Export Administration Act to the PTO to approve exports and reexports of

such technology which is subject to the EAR. Exports and reexports of such technology not approved under PTO regulations must comply with the EAR.”)

⁴⁶ *Id.*

⁴⁷ 37 C.F.R. § 5.11(b) (emphasis added).

⁴⁸ 37 C.F.R. § 5.15(b).

⁴⁹ 37 C.F.R. § 5.15(a).

⁵⁰ 37 C.F.R. § 5.18(a).

⁵¹ 37 C.F.R. § 5.20.

⁵² 37 C.F.R. § 5.19.

⁵³ The author is presently seeking an advisory opinion or other such guidance from the Department of Commerce and the U.S. Patent & Trademark Office on this issue.

⁵⁴ Even if a technology is not listed on the ITAR or the EAR’s CCL, one must still ensure that none of the EAR’s General Prohibitions (GPs) apply. *See* 15 C.F.R. § 736.

⁵⁵ *See* 15 C.F.R. § 734.4.

⁵⁶ Other recordkeeping and/or reporting requirements may also exist. *See, e.g.*, 15 C.F.R. §§ 762.1 – 762.7.

⁵⁷ The OFAC Specially Designated Nationals list is available online at

<http://www.treas.gov/offices/eotffc/ofac/sdn/t11sdn.pdf> (visited on February 12, 2004).

⁵⁸ The agreement should state that these promises survive the termination of the agreement. *See* 15 C.F.R. § 740.6(a)(3).

⁵⁹ *See* Thomas B. McVey, Esq., “International Business Compliance Programs,” presented at the American Conference Institute Pre-Conference Workshop, “Export Controls: The Fundamentals of Export Licensing,” May 7, 2003.

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PATENT PROTECTION FOR HIGH TECHNOLOGY

Export Control Constraints on Offshore Patent Preparation and Prosecution

AIPLA 2004 Spring Meeting

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Framework for US Export Control Laws

- Applies to both goods and “technical data” of U.S. origin
- Applies to “deemed exports”
 - transferring technical data to a foreign national (even in U.S.)
 - foreign national: not U.S. citizen or lawful permanent resident
- Applies to network access of U.S. computer database from abroad

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Military and Other Technology Implicating National Security

- State Department Office of Defense Trade Controls (DTC) administers:
 - Arms Export Control Act
 - International Traffic in Arms Regulations (ITAR)
 - ITAR applies to items “specifically designed, developed, configured, adapted, or modified for a military application
 - ITAR includes the United States Munitions List (USML)

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Dual-Use Technology

- Having both commercial and military applications
- Commerce Dept. Bureau of Industry and Security (BIS) regulates dual-use technology
 - Export Administration Regulations (EARs)
 - Commerce Control List (CCL)

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Foreign policy controls

- Regulated by Treasury Dept. Office of Foreign Assets Control (OFAC), BIS, and State Dept.
 - Economic sanctions against certain embargoed countries
 - Prohibitions against certain Specially Designated Nationals (SDNs)

Nuclear Energy

- Regulated primarily by DTC, BIS, the Department of Energy (DOE), and the Nuclear Regulatory Commission (NRC).

U.S. Patent Applications

- Reviewed Under Invention Secrecy Act of 1951
 - U.S. Patent & Trademark Office
 - Department of Defense (e.g., Army, Navy, Air Force)
 - National Security Agency
 - Department of Energy
 - National Aeronautics and Space Administration.

Violations

- Criminal penalties (e.g., up to ten years in jail and a fine of up to 5 times the value of the export or \$1 million)
- Civil penalties (e.g., up to \$11,000 per violation)
- Administrative penalties, such as denial or restriction of export privileges

Formal License Process

- Can self-determine who has jurisdiction (State or Commerce or both)
- Can file Commodity Jurisdiction Request to State
- Can file Commodity Classification Request to Commerce

Is a formal license needed?

- Defense articles on USML
 - Need license from State Dept. DTC
- Dual-use articles on CCL
 - Classify technology to ECCN
 - Need license from BIS unless either
 - CCL indicates No License Required; or
 - License Exception Exists
- Not on USML or CCL
 - OK to export so long as General Prohibitions on CCL aren't violated

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Multiple Export Transactions

- Can obtain separate export licenses for each transaction, or
- Can obtain “Special Comprehensive License” for the multiple transactions

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Technical Data in U.S. Patent Applications

- Governed by the Invention Secrecy Act of 1951
- Must obtain a foreign filing license
- Failure to obtain a FFL can invalidate the U.S. counterpart
 - See *In re Gaertner*, 604 F.2d 1348 (CCPA 1979).
- FFL may be denied and a Secrecy Order imposed, but this is rare.

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Technical Data in U.S. Patent Applications (cont'd.)

- Unless petition to withhold from publication is filed, a patent application will publish as early as 18 months from its earliest priority date.
- After publication, the technical data is no longer subject to ITAR or EARs.
- Does granted FFL have the same effect?

Effect of foreign filing license?


- Language from FFL on filing receipt: "The grant of a license does not in any way lessen the responsibility of a licensee for the security of the subject matter as imposed by any Government contract or the provisions of existing laws related to espionage and national security or the export of technical data. Licensees should apprise themselves of the current regulations especially with respect to certain countries, of other agencies, particularly the Office of Defense Trade Controls, Department of State (with respect to Arms, Munitions and Implements of War (22 CFR 121 - 128)); the Office of Export Administration, Department of Commerce (15 CFR 370.10(j)); the Office of Foreign Assets Control, Department of Treasury (31 CFR Parts 500+) and the Department of Energy."



Effect of foreign filing license?

- “The [foreign filing license] would also authorize the export of technical data abroad *for purposes relating to the preparation, filing or possible filing and prosecution of a foreign patent application* without separately complying with the regulations contained in 22 CFR parts 121 through 130 (International Traffic in Arms Regulations of the Department of State), 15 CFR part 779 (Regulations of the Office of Export Administration, International Trade Administration, Department of Commerce) and 10 CFR part 810 (Foreign Atomic Energy Programs of the Department of Energy).” [i] 37 C.F.R. § 5.11(b) (emphasis added).

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Effect of foreign filing license?

- Scope of license is defined in 37 C.F.R. 5.15
- Two possible scopes
 - If national security is implicated, such that the patent application must be made available for inspection by other government agencies, then get narrow scope of 37 C.F.R. 5.15(b)
 - Otherwise get broader scope of 37 C.F.R. 5.15(a).


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Effect of foreign filing license?

- FFL scope authorizes “export and filing of a patent application”
- Can you export without filing, or does that conflict with the limited purpose of 37 C.F.R. 5.11(b)?
- Why would FFL authorize use of foreign associate to help foreign prosecution, without permitting the same person to help with domestic prosecution?


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Effect of foreign filing license?

- State Dept. waives further compliance with ITAR after FFL is granted:
 - “if a patent applicant complies with regulations issued by the Commissioner of Patents and Trademarks under 35 U.S.C. 184, *no separate approval from the Department of State is required* unless the applicant seeks to export technical data exceeding that used to support a patent application in a foreign country.” 37 C.F.R. § 5.18(a).


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Effect of foreign filing license?

- Dept. of Energy also waives further compliance with export regulations after FFL is granted:
 - “Under regulations (10 C.F.R. 810.7) established by the United States Department of Energy, an application filed in accordance with the regulations (§§ 5.11 through 5.25) of the Patent and Trademark Office and eligible for foreign filing under 35 U.S.C. 184, is considered to be information available to the public in published form and a generally authorized activity for the purposes of the Department of Energy regulations.” 37 C.F.R. § 5.20.

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Effect of foreign filing license?

- But Commerce Dept. has not waived compliance with the EARs:
 - “(a) Under regulations (15 CFR 770.10(j)) established by the Department of Commerce, a license is not required in any case to file a patent application or part thereof in a foreign country if the foreign filing is in accordance with the regulations (§§ 5.11 through 5.25) of the Patent and Trademark Office.
 - (b) An export license is not required for data contained in a patent application prepared wholly from foreign-origin technical data where such application is being sent to the foreign inventor to be executed and returned to the United States for subsequent filing in the U.S. Patent and Trademark Office (15 CFR 779A.3(e)).” 37 C.F.R. § 5.19.
- Paradoxically, after FFL is granted, nuclear and military technical data is regulated less closely than dual-use technical data


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Offshore Patent Practice Opportunities

- An “exportability” scale:
 1. Not exportable
 2. License Required
 3. License Exception or No License Required
 4. Not Subject To Controls
- What are the “low-hanging fruit”?

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1. Not Exportable

- Patent Application subject to a Secrecy Order
- Technical Data with a Security Classification

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2. License Required

- Defense articles
- Dual-use items on CCL for which a license is required, and for which no License Exception exists
 - Special Comprehensive License available for multiple export transactions

3. No License Required or License Exception

- If item appears as an ECCN listed on the CCL
 - Some exports of that item are indicated by CCL as No License Required
 - Some exports of that item are possible under a License Exception
- If item does not appear on USML or CCL
 - OK to export so long as General Prohibitions on CCL aren't violated.

4. Not Subject to U.S. Controls

- Incoming foreign work (inventions not of U.S. origin)
- Validity Searching and Analysis
- Patent Landscape Mapping
- Post-publication patent preparation and prosecution
- Paralegal and Docketing Functions

Implementation and Compliance

- Use computer database that controls access
 - e.g., FoundationIP
 - Determine which documents potentially contain technical information
- Train domestic personnel to recognize warning signs (e.g., security classification, government sponsorship, mil specs, etc.)
- Capture information relevant to export controls in invention disclosure forms
- Retain export control counsel

Foreign Office Considerations

- Foreign personnel should have single point-of-contact in U.S.
- Screen foreign personnel against OFAC Specially Designated Nationals List
- Foreign manager and employees should execute “Letter of Assurance”
- Secure the foreign facility to protect confidential information

Compliance Program Should:

- be adopted by the board of directors or an executive officer of a company or law firm
- appoint a compliance official
- be set forth in a written document
- include ongoing education for domestic and foreign personnel
- monitor changes in the law to update the program
- include a periodic audit
- sanction employee violations
- investigate suspected violations
- include adequate recordkeeping

(Taken from Thomas B. McVey, Esq. “International Business Compliance Programs,” presented at the American Conference Institute Pre-Conference Workshop, “Export Controls: The Fundamentals of Export Licensing,” May 7, 2003)

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