Patents and Export Control Compliance: Managing Risk and Avoiding Unintentional Violations

Minimizing Export Control Liability in Patent Application Preparation, Development and Analysis of Innovation, and Licensing

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Today’s faculty features:

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Intellectual Property and Export Controls Compliance: Managing Risk and Avoiding Unintentional Violations

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Topics for Discussion

- A brief overview of U.S. Export Control Regulations
  - Export Administration Regulations ("EAR")
    15 C.F.R. § 730 et. seq.
  - International Traffic in Arms Regulations ("ITAR")
    22 C.F.R § 120 et. seq.
  - U.S.P.T.O. Foreign Filing License
    37 C.F.R. § 5 et. seq.
Topics for Discussion (con’t)

- Fundamental Export Control Concepts for Understanding Intellectual Property Issues
- Effects of Export Controls on Intellectual Property Development & Implementation
  - Filing Patent Applications
  - Intra Corporate Communications
  - Research Projects
  - Licensing/developing foreign markets
Brief Overview – ITAR

- Administered by the Directorate of Defense Trade Controls, U.S. Department of State
- Controls exports of “Defense Articles,” Defense Services, and related technical data
- Takes precedent over the EAR
- Don’t assume the ITAR does not apply to your Company’s products or technology
- However, note series 600/500 under the EAR
ITAR Overview (con’t)

- A Defense Article is any article that:
  - meets the criteria of a defense article on the U.S. Munitions List;
  - provides the equivalent performance capabilities of a defense article on the U.S. Munitions List; or
  - is determined in the future to provide a critical military or intelligence advantage such that it warrants control under the ITAR.

(The intended use of the article after its export (i.e., for a military or civilian purpose), by itself, is not a factor in determining whether it is a defense article)
An article is not a Defense Article if it:

- is determined to be under the jurisdiction of another department or agency of the U.S. Government; or
- meets one of the following criteria when the article is used in or with a Defense Article and the term “specially designed” is used as a control criteria.
  
  a) is subject to the EAR pursuant to a commodity jurisdiction determination;
  
  b) is, regardless of form or fit, a fastener washer, spacer, insulator, grommet, bushing, spring, wire, or solder;
c) has the same function, performance capabilities, and the same or “equivalent” form and fit as a commodity or software used in or with a commodity that: (i) is or was in production (i.e., not in development); and (ii) is not enumerated on the U.S. Munitions List;

d) was or is being developed with knowledge that it is or would be for use in or with both defense articles enumerated on the U.S. Munitions List and also commodities not on the U.S. Munitions List; or

e) was or is being developed as a general purpose commodity or software, i.e., with no knowledge for use in or with a particular commodity or type of commodity.
ITAR Overview (con’t)

- Regulatory requirements under the ITAR are far more stringent than the EAR
- The term “Export” is broadly defined
- ITAR controls are extraterritorial in nature
- Almost all exports of Defense Articles and related technical data will require the submission of a license application
  - Exceptions are very limited
ITAR Overview (con’t)

- If you engage in the United States in the business of manufacturing or exporting or temporarily importing defense articles, or furnishing defense services, you are required to register with the Directorate of Defense Trade Controls.
  - Engaging in such a business requires only one occasion of manufacturing or exporting or temporarily importing a defense article or furnishing a defense service. A manufacturer who does not engage in exporting must nevertheless register.

- Only DDTC can determine jurisdiction of a product
Administered by the Bureau of Industry and Security, U.S. Commerce Department

Controls the export of objects, technical data and software for a variety of reasons (e.g., national security, foreign policy, non-proliferation, etc.)

Encompasses the vast majority of U.S. exports

Like the ITAR, the term “Export” is broadly defined in the EAR

EAR controls are extraterritorial in nature

Unlike the ITAR, a substantial amount of EAR-controlled exports may occur with having to submit a license application

A very large and complex set of regulations
USPTO Foreign Filing License (FFL) Overview

- Administered by the Licensing and Review Branch of the U.S. Patent and Trademark Office, U.S. Commerce Department
- An FFL is required to file a patent application in a foreign country, if the invention was:
  a) Made in the United States; and
  b) The U.S. application for that invention has been on file with the USPTO for less than 6 months; or
  c) No application on the invention was filed with the USPTO.
FFL Overview (con’t)

- Authorizes the export of technical data **solely** for the preparation, filing, or possible filing and prosecution of a patent application in a foreign country.
  - Failure to obtain a FFL can result in the denial of a patent or revocation of an issued patent

- Each application filed with the USPTO automatically contains a request for a FFL and the filing receipt subsequently issued by the USPTO will indicate whether an FFL has been issued.
  - If a FFL is not issued as part of the filing receipt, the right to foreign file automatically issues 6 months after the filing date, provided that a secrecy order has not been issued.
  - One may also obtain a FFL, without filing a U.S. application, by submitting a petition to the USPTO.
Fundamental Export Control Concepts

- These concepts aid in understanding the ITAR/EAR’s effect on the development, use and transfer of Intellectual Property

- Concept 1: Except for technical data and software in the public domain, all exports are subject to some form of U.S. Export Controls.
  - Does not mean necessarily that a license is required, just means that one must consult and comply with applicable regulations.
  - Data in a published patent application is considered to be in the public domain.

- Concept 2: Both sets of regulations define the term technical data or technology very broadly – operate under the assumption that these regulations and the Department of State and Commerce control information of the slightest technical nature.
Concept 3: Both the ITAR and EAR also define an export very broadly. Generally speaking, the term export encompasses:

- Any shipment of technical data or software out of the U.S.;
- Any transmission of technical data or software (e.g., email, fax) outside of the U.S.; or
- Any release (visual, oral) of technical data or source code outside of the U.S. or to a foreign person in the U.S. (“deemed export”)
Fundamental Concepts (con’t)

- **Concept 4:** A foreign person is someone who is neither a citizen nor permanent resident of the U.S.
  - Includes employees of a U.S. company located in the U.S. or aboard as well as foreign employees temporarily working in the U.S. (Many companies consider US persons working for a foreign entity to be foreign persons for export control purposes.)

- **Concept 5:** Both the EAR and ITAR apply to reexports of technical data and software and, in some cases, apply to the direct products of such items.
Export Controls Effects on Filing Patent Applications

- Example 1 - U.S. employee of a U.S. Company A creates an invention subject to the EAR in the U.S. and Company A wants to file patent applications in and outside of the U.S. A U.S. application will be filed by Company A’s in-house counsel and a foreign application will be prepared and filed by Company A’s in-house counsel located at Company’s A French subsidiary (“French In-house counsel”).

- Company A must obtain a FFL in order to export technical data to French In-house counsel.
  - FFL authorizes French In-house counsel to use the technical data solely for the purpose of preparing, filing, and prosecuting a foreign patent application and for no other purpose.
  - U.S. company must comply with the EAR, before its French subsidiary can use the data for any other purpose (e.g., R&D, manufacturing, etc.)
Effects on Patent Applications (con’t)

- Example 2 - An employee of a U.S. Company A creates an invention subject to the EAR in the U.S. and Company A wants to send related technical data to India to have an initial draft of the U.S. application prepared.
  - Company A must comply with the EAR before transferring the data to India.
  - Company A must also obtain a FFL if it intends to foreign file.
Example 3 - Invention subject to the EAR was created by a Japanese inventor while temporally employed at the Japanese parent’s U.S. facility. Protocol requires that an invention disclosure be sent to Japanese parent’s headquarters for a determination as to whether and where to file patent applications.

- The U.S. facility must comply with the EAR, before sending the invention disclosure to its parent company.

- Compliance with the EAR would enable the Japan parent to use that technical data to decide whether to file a U.S. patent application and for any other purpose (authorized under the EAR), except the filing of a foreign patent application.

- However, a FFL must be obtained before the Japanese parent can file a patent application outside of the U.S.
Export Controls Effects on Corporate Communications

- U.S. export controls apply to any shipments or transmittal of technology, software, or source code out of the U.S., including shipments/transmittal to subsidiaries, suppliers, manufacturers, service providers, etc.

- U.S. export controls also apply to the release of any technical data or source code outside of the U.S. or to a Foreign Person in the U.S.

- Does not matter if the Foreign Person is an employee or the foreign entity is a whole-owned subsidiary.
Export Controls Effects on Corporate Communications (con’t)

- Does not matter if the U.S. Company has a non-disclosure agreement or has placed other contractual restrictions on the use and subsequent disclosure of its technology, software, or source code.

- Such controls substantially affect the day-to-day development, disclosure and use of a Company’s Intellectual Property

  • One area that is overlooked is access to a company’s corporate intranet
Corporate Intranet - is an internal network which allows authorized users to gain access to corporate information, technology, and/or software.

- Users can include employees (U.S. and foreign), subsidiaries, suppliers, parties participating in a collaborative research project, service providers, joint venture partners, distributors, etc.
Export Controls Effects on Corporate Communications (con’t)

- **Export Issues**
  - Export of technology/software occurs whenever someone outside the United States accesses the technology/software/source code located on your network
  - or when a foreign person within the U.S. or working at your company accesses the technology/software/source code located on your network
  - Exports subject to either ITAR or EAR controls
  - Off-shore server (even just for storage) could result in reexports subject to ITAR or EAR controls
Export Issues (con’t)

- U.S. corporation – strictly liable for complying with EAR or ITAR prior to allowing a foreign person or entity to access technology, software or source code on its network

- Strict liability even if failure to comply is inadvertent

- U.S. Corporation is not, in our opinion, strictly liable for unauthorized access to technology/software/source code that occurs in direct violation of an access agreement or without corporation’s knowledge or consent

- Liability may result if corporation provides unrestricted and unconditional access to the entire network and such access leads to a violation
Compliance and Safeguards

- Deny access to certain types of individuals
  - From denied countries
  - Persons on denial lists
  - Follow general prohibitions set forth in EAR
- Access agreements with foreign users/entities – puts users on notice of U.S. export control responsibilities
Compliance and Safeguards (con’t)

- Analysis of export control issues arising from authorized access
  - Level of controls
  - Compliance procedures
  - Security concerns

- Export control notice on screen

- Segregation of technology/software with different levels of export control

- Audit access

- Demonstrate a clear understanding of the information on network
Projects involving the development or disclosure of technology or software may result in controlled exports

• Joint development efforts

• Internal R&D projects

• Technical assistance or service projects
Effect on Research Projects (con’t)

- Possible effects of U.S. Controls on the project
  - Foreign person employee involved
  - Foreign entity involved (parent, subsidiary or third party)
  - Distribution of results
  - Contaminating background technology with U.S. technology
  - Controls on the use of the results
  - Sales territories
  - Vendor issues
  - Samples, Prototypes, Supplies, or Manufacturing equipment

- Levels of controls dependent on many factors
Effect on Research Projects (con’t)

- Compliance
  - Conduct an export control analysis – before starting on the project
    - Background technology (primary and secondary)
    - Technology to be developed
    - Equipment, materials, software to be used
    - Determine end-user and end-use
    - Determine foreign involvement
Effect on Research Projects (con’t)

- Compliance (con’t)
  - Regulatory compliance
    - Obtain license
    - Comply with terms of license exception
    - Comply with ancillary requirements associated with exporting
    - Insert appropriate clauses into the agreements
Effect of Export Controls – on Licensing

- U.S. export controls affect numerous aspects of the license technology and software

- The effects of U.S. export controls on the licensing of a patent by itself are minimum, provided that the patent does not claim a defense article
  
  - The ITAR’s controls over manufacturing license agreements and technical assistance agreements may still apply to a patent license – is technical assistance required?

  - Although a plain patent license is not subject to EAR control, the act of licensing a patent could still be affected by other regulations prohibiting commercial transaction with certain embargo countries (e.g., Office of Foreign Assets Control Regulations)
U.S. export controls may affect your ability to:

- Market your technology to a prospective licensee
- Grant the license
- Supply technical data, software, source code, or technical assistance under the license
- Supply samples, prototypes, supplies, manufacturing equipment, etc., under the license
- Grant the right to sell the licensed products in certain countries
- Grant sublicenses
- Disclose the licensed technology to a vendor, sublicensee or a customer

U.S. export controls place a strain on your relationship with your licensee
Effect of Export Controls – on Licensing (con’t)

- Compliance
  - Conduct a detailed export control analysis – before starting your licensing efforts
    - What technology (primary and secondary) will be disclosed/licensed?
    - Will any technology be developed?
    - What equipment, materials, software, or source code will the licensor be required to provide the licensee?
Effect of Export Controls – on Licensing (con’t)

- Compliance (con’t)
  - Detailed export control analysis (con’t)
    - Is the proposed licensee precluded from receiving such items?
    - Prohibitions or controls on the proposed end-use?
    - What is the proposed sales territory?
    - Will the licensee be allowed to disclose the licensed technology to others?
Effect of Export Controls – on Licensing (con’t)

- Compliance (con’t)
  - Regulatory compliance
    - Obtain license, if needed
    - Comply with terms of license exception
    - Comply with ancillary requirements associated with exporting
    - Insert appropriate clauses into the agreement
Thank you!

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