

Strafford

Presenting a live 90-minute webinar with interactive Q&A

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

THURSDAY, FEBRUARY 7, 2019

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

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

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What are Export Controls?

- Regulations that control distribution of certain exports to foreign nationals and foreign countries
- One who “exports” from the U.S. often needs a license
- Licenses are usually, readily available, *but not always*.

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Why?

- Protect National Security & US foreign obligations
- Combat Terrorism
- Prevent spread of weapons of mass destruction (nuclear, chemical, biological, missiles, etc.)

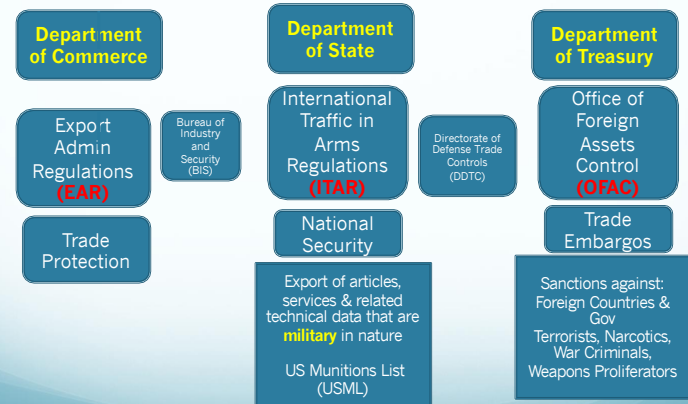
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Why, Do We, As Patent Attorneys/Agents Care About Export Control Laws?

- Disclosure, even of certain information, as simply as by email (or even conversation), can be an “export” that may subject you and/or your client to criminal or civil sanctions.
- It is easy to illegally “export”, and not even know it.

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Primary US Agencies and Their Export Control Schemes



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Why Do We Care?

- **Penalties for EAR Violations**
- **Criminal:**
 - Up to greater of **\$1 million or 5x export value** for the company/institution
 - Up to **\$1 million** for *each* violation for individuals and/or up to 20 years in prison
- **Civil:**
 - Up to the greater of **\$250k or 2x export value** for *each* violation for individuals and the institutions/companies.
 - Loss of export privileges.

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Why Do We Care?

- **Penalties for ITAR Violations**
- **Criminal:**
 - Up to **\$1 million fine** for *each* violation for institution, company or individual;
 - and/or up to **10 years in prison**
- **Civil:**
 - Up to **\$500k** for *each* violation for individuals and the institution or company

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Why Do We Care?

- **Penalties for OFAC violations**
- **Criminal:**
 - Fine of no more than **\$1 million** for companies
 - Fine of no more than **\$1 million** for **individuals** (including corporate officers) and/or **20 years imprisonment**
- **Civil penalties:**
 - Fine up to **\$250k or twice the amount of the transaction** for *each* violation by any person

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What is an “Export”? **MORE** than you probably think!

- Transfer of Controlled....

Technology	Software
Information	Source Code
Equipment	Services (ITAR)
- To: A non-U.S. entity or individual, ***wherever located***
Anyone outside the U.S., including U.S. citizens
- By ***Any Means:***
 - Actual shipment outside the US
 - Visual inspection in *or* outside the US
 - FAX – PHONE – EMAIL – FACE to FACE
 - Allowing Access to Computer Systems Areas with Controlled Technology**
 - Cloud Storage**
 - Tours of labs
 - Teaching and Training sessions

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What is a “Deemed” Export? (A truly easy way to accidentally “export”)

- The transfer, release or disclosure of technology or source code that is subject to the EAR to a foreign national, ***even within the United States.***
 - Exception: persons lawfully admitted for permanent residence
 - Exception: persons protected under the Immigration and Naturalization Act.
- A transfer is the same as exporting it to the home country of foreign national.
- ***A BIG PROBLEM FOR EMPLOYERS OF FOREIGN NATIONALS!***

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When do the “EARs” (Export Administration Regulations) – Apply?

Export Administration Regulations (**EAR**)
(15 CFR § 734-774)

- Unless subject to jurisdiction of another U.S. agency, exclusive of BIS, things subject to EAR include *inter alia* that of: (1) “items” of “**US Origin**”, in the U.S. or abroad; (2)) certain foreign made items containing “items” of “**U.S. Origin**” or embodying **U.S. Technology**, and (3) certain *activities* of “U.S. Persons”.

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What Happens When the EARs Apply?

Export Administration Regulations (EAR)
(15 CFR § 734-774)

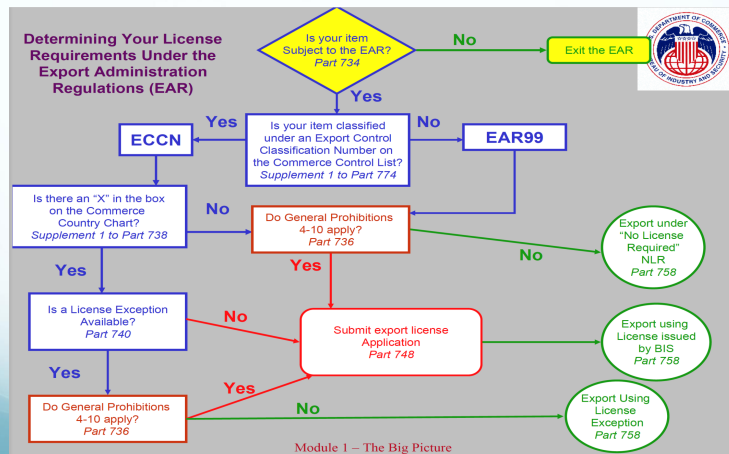
- The **Commerce Control List (CCL)** provides for “items” (commodities, technology & software) identified an **Export Control Classification Number (ECCN)**.
- With each **ECCN** is provided types of export restrictions (“Reason for Control”) that apply (Anti-Terrorism (AT), Chemical & Biological Weapons (CB), Chemical Weapons Convention (CW), Crime Control (CC), Encryption Items (EI), Firearms Convention (FC), Missile Technology (MT), National Security (NS), Nuclear Nonproliferation (NP), Regional Stability (RS), Short Supply (SS), Significant Items (SI), Surreptitious Listening (SL) and United Nations sanctions (UN))

What Happens When the EARs Apply?

Export Administration Regulations (EAR)
(15 CFR § 734-774)

- Each country to which an “item” may be “exported”, “re-exported”, or “deemed exported” has assigned to it the **Reason(s) for Control** that apply, and whether **License Exceptions** are available.
- License Exceptions (*when available*) include: Shipments to Certain Specified Countries (GBS), Civil End Users (CIV), Limited Value Shipments (LVS), Technology and Software Restricted (TSR), Temporary Imports, Exports & Re-exports (TMP), Service & Replacement of Parts & Equipment (RPL), and Technology & Software Unrestricted (TSU).

An EAR Decision Tree



EAR – Commerce Control List Categories

- Category 0 - Nuclear Materials, Facilities & Equipment (and Miscellaneous Items)
- Category 1 - Materials, Chemicals, Microorganisms, and Toxins
- Category 2 - Materials Processing
- Category 3 – Electronics
- Category 4 – Computers
- Category 5 (Part 1) – Telecommunications
- Category 5 (Part 2) - Information Security
- Category 6 - Sensors and Lasers
- Category 7 - Navigation and Avionics
- Category 8 – Marine
- Category 9 - Propulsion Systems, Space Vehicles and Related Equipment

CATEGORY 2 - MATERIALS PROCESSING

Note: For quiet running bearings, see the U.S. Munitions List.

A. "END ITEMS," "EQUIPMENT," "ACCESSORIES," "ATTACHMENTS," "PARTS," "COMPONENTS," AND "SYSTEMS"

2A001 Anti-friction bearings and bearing systems, as follows, (see List of Items Controlled) and "components" therefor.

License Requirements

Reason for Control: NS, MT, AT

Control(s) *Country Chart (See Supp. No. 1 to part 738).*

NS applies to entire entry NS Column 2

MT applies to radial ball bearings having all MT Column 1

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List Based License Exceptions (See Part 740 for a description of all license exceptions)

LVS: \$1500
GBS: N/A
CIV: N/A

Special Conditions for STA

STA: Paragraph (c)(2) of License Exception STA (§ 740.20(c)(2) of the EAR) may not be used for any item in 8B609.

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Commerce Control List Overview and the Country Chart Supplement No. 1 to Part 738—page 1

Commerce Country Chart

Reason for Control

Countries	Chemical & Biological Weapons			Nuclear Nonproliferation		National Security		Missile Tech	Regional Stability		Firearms Conventions	Crime Control			Anti-Terrorism	
	CB 1	CB 2	CB 3	NP 1	NP 2	NS 1	NS 2	MT 1	RS 1	RS 2	FC 1	CC 1	CC 2	CC 3	AT 1	AT 2
Alghanistan	X	X	X	X		X	X	X	X	X		X	X			
Albania	X	X		X		X	X	X	X	X		X	X			
Algeria	X	X		X		X	X	X	X	X		X	X			
Andorra	X	X		X		X	X	X	X	X		X	X			
Angola ¹	X	X		X		X	X	X	X	X		X	X			
Antigua & Barbuda	X	X		X		X	X	X	X	X	X	X	X			
Argentina	X					X	X	X	X	X	X	X	X			
Armenia	X	X	X	X		X	X	X	X	X		X	X			
Australia	X					X		X	X							
Austria	X					X		X	X	X		X	X			
Azerbaijan	X	X	X	X		X	X	X	X	X		X	X			
Bahamas, The	X	X		X		X	X	X	X	X	X	X	X			
Bahrain	X	X	X	X		X	X	X	X	X		X	X			

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If no ECCN, no "Reasons for Control", or if a License Exception applies, is all clear? *Not necessarily!*

- Under the Enhanced Proliferation Control Initiative ("EPCI"), for example, if the known (or reasonably suspected, based on "Red Flags") end-use of the item to be exported or re-exported is related to nuclear, chemical and biological weapons, or missiles, licensing requirements may apply for some or all countries of intended export.
- There are "black lists":
 - Denied Persons List (BIS)
 - Unverified List (BIS)
 - Entity List (BIS)
 - Specially Designated Nationals List (OFAC)
 - Debarred List (DDTC)
 - Nonproliferation Sanctions (DDTC)

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“ITAR” (International Traffic in Arms Regulations) – State Dept.

International Traffic in Arms Regulations (ITAR)

22 CFR Parts 120-130

- US Munitions List (USML) covers **military articles, services and related technical data**
- Prior Authorization required for:
 - Sending or taking out of U.S. in any manner
 - Disclosing (including oral or visual disclosure)
 - Transferring to foreign person, whether in U.S. or abroad.
 - Performing a defense service on behalf of, or for the benefit of, a foreign person, whether in the U.S. or abroad.

Certain information may be controlled even if in public domain – Defense Services.

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ITAR Munitions List

- I – Firearms, Close Assault Weapons and Combat Shotguns
- II – Guns and Armament
- III – Ammunition/Ordnance
- IV – Launch Vehicles, Guided & Ballistic Missiles, Rockets, Torpedoes, Bombs and Mines
- V – Explosives & Energetic Materials, Propellants, Incendiary Agents
- VI – Vehicles of War & Special Naval Equipment
- VII – Tanks and Military Vehicles
- VIII – Aircraft and Associated Equipment
- IX – Military Training Equipment and Training
- X- Protective Personnel Equipment and Shelters

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ITAR Munitions List

- XI – Military Electronics
- XII – Fire Control, Range Finder, Optical and Guidance & Control Equip.
- 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**
- XVIII - Direct Energy Weapons

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OFAC (“Office of Foreign Asset Control – Dept. of the Treasury)

The **Office of Foreign Assets Control (OFAC)**

31 CFR 500-599

Based on US foreign policy and national security goals. They cover economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction.

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Scope of OFAC:

- Applies to “U.S. Persons” wherever they are, and to persons in the U.S., or otherwise subject to its jurisdiction.
- OFAC license required for transactions or activities (of varying nature and scale) with, to or from specified countries, entities, or individuals.
- Linked to Sanctions and Embargos
- **May apply when ITAR, EAR and other restrictions do not.**
 - Multiple lists must be checked (applies to entities and individuals even if their country is not listed)
 - Covers some activities (i.e. proliferation of WMD or diamond trading)
- Restrictions (and the availability of licenses) vary by designated country, entity or persons, as well as in relation to specified activities or items.

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OFAC

- Examples of Sanctioned Countries
 - (Balkans, Belarus, Burma, Burundi, Central African Republic, Cote d’Ivoire, Cuba, DRC, Iran, North Korea....)
- Type of Sanctions against Countries, Entities, Individuals
 - Research, field-work, or instruction
 - Surveys or interviews
 - Trade – Importing merchandise
 - Furnishing anything of value (i.e. materials, payments, services, honoraria, training)
 - Collaborating, presenting or training

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PARTIAL List of Areas of Concern

Export of any product or service

Entertaining non-U.S. Business associates and guests and disclosing potentially controlled technology

Non-us persons as employees (anywhere) – **I 129 due diligence**

What happens after your export?

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PARTIAL List of Areas of Concern (cont.)

Lack of procedures and policies for export control compliance

Failure to self-report

Ignorance of “red flags”

Controlled technology in benign context (toilet brush example)

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PARTIAL List of Areas of Concern (cont.)

TRAVEL

- Travel to embargoed countries
 - (Balkans, Burma, Cote d' Ivoire, Cuba, Dem. Rep of Congo, Iran, Iraq, Liberia, Lebanon, North Korea, Somalia, Sudan, Syria, and Zimbabwe)
- **Taking equipment (laptops, etc.), out of the country may require a license for equipment or controlled technology loaded on equipment**

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So.....

Get help! (Legal and non-legal consultants / audits)

In-house export control personnel, written policies/procedures and frequent training.

Obtain license(s) if possible and needed?

Exemptions?

General prohibitions?

Check all export control schemes (EAR, ITAR, OFAC...!)

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Licensing & Review

- almost all patent applications filed at USPTO
 - ✓ full utility applications
 - ✓ provisional applications
 - ✓ PCT applications designating the U.S.
 - ✓ 35 U.S.C. §371(c) applications
 - ✓ design patent applications
 - ✓ not plant applications
- 35 U.S.C. §§ 181-186; 37 CFR Part 5; MPEP 115-140
- whether public divulgation would be detrimental to national security

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Possible Decisions of L&R

- foreign filing license granted
- foreign filing license denied
- usually made within a few weeks
- if no answer for 6 months, can foreign file
 - ✓ but this license can be revoked later; 37 C.F.R. 5.11(f)
- application classified by a defense agency
- secrecy order imposed
 - ✓ restricts publication and foreign filing
 - ✓ may or may not be classified
 - ✓ can include license to foreign file in up to 18 countries; 37 CFR 5.5

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D-10 Status; Rescission; PTA

- 37 CFR 5.3(c); MPEP 130
- not "allowed", but applicant can sue government for damages even before patent issues; 35 U.S.C. §183
 - ✓ in U.S. Court of Federal Claims or federal district court in applicant's home district
- must exhaust administrative remedies first; otherwise, must wait until patent issues
- in-camera proceedings authorized
 - ✓ Halpern v. U.S., 258 F.2d 36 (2d Cir. 1958)
 - ✓ Clark v. U.S., U.S. Court of Federal Claims, No. 11-10c, July 28, 2014
- rescission of secrecy order; 37 CFR 5.4
 - ✓ e.g., if invention published
- Patent Term Adjustment (PTA) available
 - ✓ 35 U.S.C. §154(b)
 - ✓ Wyeth v. Kappos, 591 F.3d 1364 (Fed Cir. 2010)
 - ✓ Novartis AG v. Lee, 740 F.3d 593 (Fed. Cir. 2014)

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Sample Filing Receipt

LICENSE FOR FOREIGN FILING UNDER

Title 35, United States Code, Section 184

Title 37, Code of Federal Regulations, 5.11 & 5.15

GRANTED

The applicant has been granted a license under 35 U.S.C. 184, if the phrase "IF REQUIRED, FOREIGN FILING LICENSE GRANTED" followed by a date appears on this form. Such licenses are issued in all applications where the conditions for issuance of a license have been met, regardless of whether or not a license may be required as set forth in 37 CFR 5.15. The scope and limitations of this license are set forth in 37 CFR 5.15(a) unless an earlier license has been issued under 37 CFR 5.15(b). The license is subject to revocation upon written notification. The date indicated is the effective date of the license, unless an earlier license of similar scope has been granted under 37 CFR 5.13 or 5.14.

This license is to be retained by the licensee and may be used at any time on or after the effective date thereof unless it is revoked. This license is automatically transferred to any related application(s) filed under 37 CFR 1.53(d). This license is not retroactive.

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 relating to espionage and the national security or the export of technical data. Licensees should apprise themselves of 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 121-126)); the Bureau of Industry and Security, Department of Commerce (15 CFR parts 730-774); the Office of Foreign Assets Control, Department of Treasury (31 CFR Parts 500+) and the Department of Energy.

NOT GRANTED

No license under 35 U.S.C. 184 has been granted at this time, if the phrase "IF REQUIRED, FOREIGN FILING LICENSE GRANTED" DOES NOT appear on this form. Applicant may still petition for a license under 37 CFR 5.12, if a license is desired before the expiration of 6 months from the filing date of the application. If 6 months has lapsed from the filing date of this application and the licensee has not received any indication of a secrecy order under 35 U.S.C. 181, the licensee may foreign file the application pursuant to 37 CFR 5.15(b).

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Other Government Agencies with Export Control Regulations

5. Agriculture Department
6. Fish and Wildlife Service
7. Nuclear Regulatory Commission
8. Department of Justice BATFE
 - ✓ Bureau of Alcohol, Tobacco, Firearms, and Explosives

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Penalties for Violating Secrecy Order

- 35 U.S.C. §§ 185, 186
- U.S. patent declared invalid
- fine up to \$10,000
- imprisonment up to 2 years
- private party can allege violation
 - ✓ *Transitron Electronic Corp. v. Hughes Aircraft Co.*, 649 F.2d 871,880 (First Cir. 1981)
 - no violation of USPTO secrecy order

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General Rules for Foreign Filing

- get automatic license from Licensing & Review
 - ✓ triggered by filing a U.S. patent application
- petition for express license; 37 CFR 5.12 - 5.14
 - ✓ must meet "not detrimental to national security" test
- wait 6 months if L&R is silent
- but don't wait more than 12 months!
 - ✓ Paris Convention gives 12 months backdating
- procedure for filing expedited petition; MPEP 140
 - ✓ three days turnaround

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Where to Foreign File – PCT

- currently 152 member states in PCT
- Taiwan, Argentina, and Venezuela are not members
- 4 regional patent offices
 - ✓ EPO – 38 member states, 2 extension states, 2 validation states
 - ✓ EAPO – Eurasian Patent Organization
 - ✓ ARIPO – African Regional IPO, 19 former British colonies
 - ✓ OAPI – 17 former French colonies
- for US/RO, at least one applicant must be a U.S. resident or national
 - ✓ can have multiple applicants
 - ✓ inventors can be applicants
- must file within one year from the first time the matter was filed – Paris Convention Article 4.c.(2)
 - ✓ first filing can be a U.S. provisional
 - ✓ foreign priority claim to U.S. provisional is O.K.

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Where to Foreign File – Non-PCT

- e.g., Taiwan
- Taiwan has standalone treaties with U.S., Japan, etc. for one-year backdating
- file express license request with USPTO
- don't wait until the 12 months has almost expired
 - ✓ license takes at least a few days
 - ✓ you may not get the license

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Limitations to USPTO's Authority

- 73 FR No. 142 notice dated July 23, 2008
 - ✓ U.S. attorneys had complained about offshore entities
 - ✓ confidentiality, export control, quality
- USPTO part of Commerce Department
- but USPTO does not have all the export licensing authority of Bureau of Industry and Security
- USPTO's export licensing authority limited to filing of foreign patent applications
- a USPTO license does not authorize export of data for purposes of preparing patent applications to be filed in the U.S.
- a USPTO license does authorize export of data for purposes of preparing patent applications to be filed in the licensed foreign countries
- USPTO licenses for technical data are limited to four corners of patent application

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Pre-Filing Considerations

- if inventor outside U.S. and application to be filed in U.S.
- BIS (EAR), State Dept. (ITAR), or other agency
- technical support for the invention outside U.S.
- offshore patent drafting companies
 - ✓ with respect to drafting an application for filing in USPTO
- deemed export for recipients physically within U.S. but who are:
 - ✓ "foreign national" (EAR)
 - ✓ "foreign person" (ITAR)
- deemed to be an export to the country of the person's nationality
- can be foreign national of multiple countries or of no country

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Definition of "Foreign National"/"Foreign Person"

- everyone except:
 - ✓ U.S. citizen
 - ✓ permanent resident (green card holder)
 - ✓ "protected person" under 8 U.S.C. §1324(b)(a)(3)
 - political refugee
 - political asylee

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