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An Introduction to U.S. Export Control: Regulations for Patent Practitioners

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**AN INTRODUCTION TO U.S. EXPORT CONTROL:
REGULATIONS FOR PATENT PRACTITIONERS**

*Michael K. Carrier**

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I. INTRODUCTION

Patent practitioners are aware that the U.S. Patent and Trademark Office (USPTO) has jurisdiction over patent applications for inventions made in the U.S. that are to be filed abroad.¹ However, this jurisdiction does not extend to the export of technology for the purpose of having a patent application prepared in a foreign country.² Jurisdiction instead rests with the Bureau of Industry and Security (BIS) at the Commerce

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1. United States Patent Act, 35 U.S.C. § 184 (2000); *see also* MPEP § 140 (8th ed. Rev. 8, July 2010).

2. MPEP § 140. This implements the regulatory requirement set out in 37 C.F.R. § 5.11(e) (2005), cited in MPEP § 140.

Department,³ and the transfer of such technology outside the U.S. is considered an export of technology subject to U.S. export regulations, thereby potentially triggering U.S. export control restrictions or licensing requirements.⁴ Also subject to U.S. export regulations are disclosures of technology to foreign nationals, including disclosures in the U.S.⁵

This article presents basic information on the U.S. export control laws most relevant to U.S. patent practice, including the preparation and filing of patent applications related to commercial items, and the intended audience of this article is the U.S. patent practitioner who does not routinely deal with export-controlled subject matter. If the patent practitioner intends to: export technical information from the U.S. for the purpose of having a patent application prepared; hire or work with foreign nationals (who may or may not actually be in the U.S.) in conducting technical research or patentability and invalidity searches; or help prepare patent applications for filing, the practitioner is encouraged to become familiar with the Export Administration Regulations (EAR) and the International Traffic in Arms Regulations as discussed below, or to consult an export control practitioner for further guidance.

II. JURISDICTION OF THE USPTO; FOREIGN FILING LICENSE REVIEW

The USPTO has jurisdiction over patent applications for inventions made in the U.S. that are to be filed abroad.⁶ A patent application for an invention made in the U.S. may not be filed in a foreign country without a foreign filing license prior to six months after the filing of the application in the USPTO.⁷ If an application is filed in a foreign country prior to the six-month period without the necessary license, the applicant is barred from receiving a U.S. patent.⁸ However, the filing of a U.S. patent application serves as a petition for a foreign filing license, and

3. MPEP § 140. As discussed below, one should also consider whether the subject matter may be subject to the International Traffic in Arms Regulations.

4. *Id.*; 15 C.F.R. § 734.2 (2007).

5. See *Deemed Export Resources*, <http://www.bis.doc.gov/deemedexports/>, and specifically *Deemed Exports FAQ*, <http://www.bis.doc.gov/deemedexports/deemedexportsfaqs.html> (last visited Dec. 15, 2010) [hereinafter *Deemed Exports*], as further discussed below.

6. United States Patent Act, 35 U.S.C. § 184 (2000); MPEP § 140.

7. 35 U.S.C. § 184.

8. United States Patent Act, 35 U.S.C. § 185 (2002); MPEP § 140. An applicant may seek a retroactive foreign filing license from the USPTO if an unlicensed foreign filing has occurred through error and without deceptive intent. MPEP § 140. Many countries have similar laws, and some countries may even impose criminal penalties on citizens filing abroad without first obtaining clearance from their governments. See Paul B. Heynssens, *File a Patent, Go to Jail*, INTELLECTUAL PROPERTY TODAY, Mar. 2004, at 28 *et seq.*

most foreign filing licenses are granted as a matter of course as indicated on the patent application filing receipt.⁹

If a U.S. applicant wishes to file a patent application in a foreign country without first filing in the U.S., or prior to a foreign filing license being granted or expiry of the required six month period, an applicant may obtain an expedited foreign filing license for the application from the USPTO.¹⁰ However, the Manual of Patent Examining Procedure states explicitly that a foreign filing license may *not* be obtained from the USPTO to export technical information from the U.S. *for the purpose of preparing an application in a foreign country* for subsequent filing in the USPTO.¹¹ The USPTO instead directs applicants to the BIS at the Commerce Department for the appropriate clearances.¹²

In determining whether a foreign filing license is to be granted, the USPTO reviews all patent applications filed in the U.S. (whether provisional, non-provisional, or international applications filed under the PCT) for information that might impact national security if disclosed.¹³ If the application contains information that might affect national security if disclosed, the application is referred to the appropriate agencies including the Atomic Energy Commission, the Department of Defense (DOD), and any other department or agency of the government designated by the President as a defense agency.¹⁴ If the reviewing agency in turn concludes that disclosure would be detrimental to national security, the Commissioner will issue a Secrecy Order and withhold publication of the application or the grant of a patent “for such period as the national interest requires.”¹⁵ Conversely, if the application does *not*

9. 37 C.F.R. § 5.12 (2004); MPEP § 140. The office of Licensing and Review of the USPTO administers the Patent Secrecy Act dealing with secrecy orders, foreign filing licenses, and related matters.

10. MPEP § 140.

11. MPEP § 140 (emphasis added). This implements the regulatory requirement set out in 37 C.F.R. 5.11(c), cited in MPEP § 140.

12. MPEP § 140. As discussed *infra*, one should also consider whether the subject matter may be subject to the International Traffic in Arms Regulations.

13. MPEP § 115 (8th ed. Rev. 8, July 2010).

14. MPEP § 115 (citing 35 U.S.C. § 181 (2000)).

15. MPEP § 115. The present discussion is focused on identifying export-controlled subject matter for which an export license typically would be granted if applied for. Those dealing with classified information or munitions items, for example, should be aware of the applicable regulatory requirements for the filing of patent applications containing classified information (see MPEP § 115) as well as additional requirements that apply to classified information per Executive Order 13526, Exec. Order No. 13526, 75 FR 707 (2009) and the International Traffic in Arms Regulations, 22 C.F.R. § 120-30 (2006), which are briefly discussed below as they relate to commercial items.

contain information that would impact national security if disclosed, a foreign filing license is granted.¹⁶

However, a foreign filing license will not be granted so that one may *prepare* a patent application in a foreign country for filing in the US; the USPTO instead directs applicants to the BIS at the Commerce Department.¹⁷ The USPTO reinforced this point in July 2008 in a Federal Register notice intended as a reminder that if necessary, such exports of technology should be cleared by BIS.¹⁸

III. THE BIS AND THE EAR

A. *Scope of the EAR; Jurisdiction of BIS*

The BIS of the Commerce Department is responsible for implementing and enforcing the EAR which regulate the export and re-export of commercial items that are so-called “dual use” items.¹⁹ Dual use items are items that have a positive, commercial use, but also have uses in chemical or biological weapons production, nuclear proliferation, missile development, terrorist applications, and the like.²⁰ It is important to understand that purely commercial items without an obvious military use are nonetheless subject to the EAR even though their export may not be tightly restricted.²¹ Those items with express military uses or that are adapted for such a use are briefly discussed below and are regulated by the International Traffic in Arms Regulations (ITAR).²² Other examples of items not subject to the EAR include those regulated by the DEA, the FDA, and the DOE.²³ Information in the public domain and information arising from fundamental research are

16. 37 C.F.R. § 5.12; MPEP § 140.

17. MPEP § 140, implementing 37 C.F.R. 5.11(c). As discussed *infra* regarding guidance on classification requests, BIS notes that agencies such as the USPTO have jurisdiction over certain items which BIS therefore cannot classify.

18. 73 Fed. Reg. 42,781 (July 23, 2008).

19. 15 C.F.R. § 730.1 (2010).

20. 15 C.F.R. § 730.3 (2010); *see also Introduction to Commerce Department Export Control*, <http://www.bis.doc.gov/licensing/exportingbasics.htm> [hereinafter *Exporting Basics*]. The EAR are found at 15 C.F.R. § 730-74, and online at http://www.access.gpo.gov/bis/ear/ear_data.html (last visited Dec. 15, 2010).

21. *Exporting Basics*, *supra* note 20. Being subject to the EAR does not mean that a license or other requirement exists. *See* 15 C.F.R. § 734.2(a)(3).

22. The ITAR are found in Title 22 of the CFR, 22 CFR § 120-30, as discussed *infra*, and may be referenced at http://www.pmdtc.state.gov/regulations_laws/itar_official.html (last visited Dec. 15, 2010).

23. *See* 15 C.F.R. § 734.3(b) (2010).

likewise not subject to the EAR,²⁴ but these exceptions are narrowly construed and would not extend to that portion of technology that a party would wish to maintain as proprietary.

B. *Exports of Technology Under the EAR*

Under the EAR, sending any item from the U.S. to a foreign destination (whether a shipment or transmission)²⁵ is considered an export, and items that may be exported include commodities, software, and technology.²⁶ Technology is defined in the EAR in part as “specific information necessary for the ‘development’, ‘production’, or ‘use’ of a product.”²⁷ Development, production, and use are, in turn, defined terms under the EAR as further discussed *infra*.²⁸ While any item may be *physically* exported, *technology* exports may also include phone calls, access to servers, email communications, and even oral disclosures to foreign nationals in the U.S., which are known as “deemed exports.”²⁹

C. *Deemed Exports*

An export of technology for the purpose of preparing a patent application in a foreign country thus constitutes an export under U.S. export control law.³⁰ Note also, however, that technology exports can include disclosures to foreign nationals in the U.S.—the so-called “deemed exports” just mentioned.³¹ Such deemed exports may occur in a wide variety of situations, for example: while giving tours of laboratories to foreign nationals; the hiring of foreign national employees to conduct research, development, and manufacturing activities; foreign students or scholars conducting research in

24. 15 C.F.R. § 734.3(b)(3). Information is “published” when it becomes generally accessible to the interested public in any form. 15 C.F.R. § 734.7 (2010). Fundamental research is basic and applied research in science and engineering, which is ordinarily published and shared broadly within the scientific community. 15 C.F.R. § 734.8 (2010).

25. 15 C.F.R. § 772.1 (2010).

26. *Exporting Basics*, *supra* note 20. Re-exports of U.S.-origin items, i.e., shipments or transmissions of items subject to the EAR from one foreign country to another foreign country, likewise fall under U.S. jurisdiction and are subject to the same requirements. *See* 15 C.F.R. § 734.2(b).

27. 15 C.F.R. § 772.1.

28. *See generally* 15 C.F.R. § 772.1.

29. *Exporting Basics*, *supra* note 20. *See also Deemed Exports*, *supra* note 5. Foreign nationals are those who are not U.S. citizens, not permanent residents, and not seeking asylum in the U.S. 15 C.F.R. § 734.2(b)(2)(ii).

30. *See Exporting Basics*, *supra* note 20.

31. *Id.* *See also Deemed Exports*, *supra* note 5.

universities; and the hosting of foreign scientists by universities and corporations. Deemed exports thus implicate even domestic employees if such employees do not have U.S. citizenship or permanent residence status in the U.S.

Employers should therefore screen the work assignments of foreign national employees to determine whether a deemed export license may be needed; those working with controlled technology as identified *infra* should be aware that the technology they are working with is controlled, and the technology should not be shared beyond those who have been cleared to receive it. Thus when assigned to a project, new team members should be screened to determine whether a deemed export license will be required in order for the employee to work on the project, and if necessary a deemed export license must be obtained prior to granting access to the controlled technology.³² Of course, this also applies to foreign national technical advisors who may be assisting patent practitioners, foreign national searchers in the U.S. or abroad who receive technology for the purpose of conducting patentability or invalidity searches, foreign national employees conducting research related to controlled technology, and the like.

D. *Determining Licensing Restrictions/Requirements Under the EAR*

The EAR and specifically the Commerce Control List (CCL) is essentially a list of products, equipment, software, and technology that have predominantly commercial applications but may also be diverted for proliferation or military purposes.³³ The CCL includes ten categories such as Nuclear Materials, Materials Processing, Electronics, Computers, Telecommunications, Navigation and Avionics, and Sensors and Lasers.³⁴ While most commercial items are subject to the EAR,³⁵ relatively few exports require a license.³⁶ Whether a license is required depends on the item's technical characteristics (as evidenced by its

32. See BUREAU OF EXPORT ADMINISTRATION, GUIDELINES FOR PREPARING EXPORT LICENSE APPLICATIONS INVOLVING FOREIGN NATIONALS, *available at* <http://www.bis.doc.gov/deemedexports/foreignnationals.pdf>.

33. The CCL is 15 C.F.R. Pt. 774, Supp. 1 (2010), *available at* http://www.access.gpo.gov/bis/ear/ear_data.html.

34. *Id.*

35. As noted, items not subject to the EAR include those regulated by the ITAR, the DEA, and the DOE. See 15 C.F.R. § 734.3(b).

36. *Exporting Basics*, *supra* note 20.

Export Control Classification Number, or ECCN), the country of destination, the end-user, and the end-use.³⁷

The first step in determining whether a license is required under the EAR is to classify the item by ECCN using the CCL.³⁸ The CCL includes item descriptions as well as the reasons for control, which include nuclear nonproliferation (NP), chemical and biological weapons (CB), and crime control (CC).³⁹ Once the ECCN is determined and the reason for control is known, the Commerce Country Chart is consulted to determine whether a license is required for the country of the intended export.⁴⁰ Items that are not highly controlled are designated EAR99 and may be shipped without a license to most destinations.⁴¹ Items that are not EAR99 are more highly controlled, and the reason for control and the destination country must be reviewed to determine whether a license is required in a given instance.⁴²

If one is unable to determine the correct ECCN, it is possible to request a commodity classification from BIS.⁴³ Guidance from BIS advises that information needed to make the request should include information on any previous classifications by BIS, identification of ECCNs that seem to be appropriate, all of the technical parameters identified in the CCL for similar items, and confirmation that the item is indeed subject to the EAR rather than another agency.⁴⁴ If informed by another agency that Commerce has jurisdiction over the item, BIS asks that the party provide this information in the request for classification.⁴⁵ This guidance suggests that BIS might refuse to classify a patent application as such, but might instead refer an applicant to the USPTO. It suggests also that if an application to export technology for the purpose of preparing a patent application is not distinguished in the request from the export of a patent application to be filed in a foreign

37. *Id.*

38. *Id.*

39. *Id.*; see also CCL, 15 C.F.R. Pt. 774, Supp. 1.

40. *Exporting Basics*, *supra* note 20. The Commerce Country Chart is Supplement No. 1 to Part 738 of 15 CFR, 15 C.F.R. Pt. 738, Supp. 1, and is available at <http://www.access.gpo.gov/bis/ear/pdf/738spir.pdf>.

41. *Exporting Basics*, *supra* note 20.

42. *Id.*

43. See DEPARTMENT OF COMMERCE, GUIDELINES FOR REQUESTING A COMMODITY CLASSIFICATION, <http://www.bis.doc.gov/licensing/cclrequestguidance.html> (last visited Dec. 15, 2010). This is distinguished from a commodity jurisdiction (CJ) conducted on request by the DDTC of the State Department to determine whether Commerce or State has jurisdiction over an item, as discussed *infra*.

44. *Id.*

45. *Id.* Most typically, the DDTC of the State Department.

country, BIS may attempt to deny jurisdiction over the technology as a patent application under the jurisdiction of the USPTO. The BIS guidance also notes that technology controls are typically based on the resulting hardware or equipment to which the technology relates, and so a complete request should include detailed information on the equipment itself in addition to details on the nature and extent of the technology to be exported.⁴⁶

Note that the EAR also includes “end-user” controls relating to certain individuals and organizations which are prohibited from receiving U.S. exports, and others which may only receive goods if they have been licensed (even if the items do not normally require a license) including those designated as EAR99.⁴⁷ These end-user controls are implemented as lists prepared by the interested government agencies and include the Entity List,⁴⁸ the Treasury Department’s Specially Designated Nationals and Blocked Persons List,⁴⁹ the Unverified List,⁵⁰ and the Denied Persons List.⁵¹ Exporters are expected to know their customers and to screen entities prior to exporting to them.⁵² “End-use” controls also apply, and some end-uses are prohibited entirely while others may require a license.⁵³ For example, one may not export to certain entities involved in the proliferation of weapons of mass destruction (e.g., nuclear, biological, chemical, and the missiles used to deliver them) without specific authorization, no matter the item.⁵⁴ Note also that virtually all exports require a license if going to embargoed

46. *Id.*

47. *Exporting Basics*, *supra* note 20.

48. 15 C.F.R. Pt. 744, Supp. 4 (2010).

49. DEPARTMENT OF THE TREASURY, SPECIALLY DESIGNATED NATIONALS LIST (Dec. 14, 2010), <http://www.ustreas.gov/offices/enforcement/ofac/sdn/>.

50. This list, available at http://www.bis.doc.gov/enforcement/unverifiedlist/unverified_parties.html, is composed of firms for which the BIS was unable to complete an end-use check. Firms on this list present a “red flag” about which exporters have a duty to inquire before making an export. *Exporting Basics*, *supra* note 20.

51. This is a list of parties whose export privileges have been denied by the BIS, and is available at <http://www.bis.doc.gov/dpl/default.shtm>. These lists have recently been consolidated for users’ convenience by the various agencies. CONSOLIDATED SCREENING LIST, http://www.export.gov/ecr/eg_main_023148.asp (last visited Jan. 18, 2011).

52. See DEPARTMENT OF COMMERCE, DENIED PERSONS LIST, <http://www.bis.doc.gov/dpl/default.shtm>.

53. *Exporting Basics*, *supra* note 20.

54. See DEPARTMENT OF COMMERCE, INTRODUCTION TO COMMERCE DEPARTMENT EXPORT CONTROLS, <http://www.bis.doc.gov/licensing/exportingbasics.htm> (last visited Dec. 15, 2010). Information on prohibited end uses may be found in Part 744 of the EAR, 15 C.F.R. Pt. 744. *Exporting Basics*, *supra* note 20.

destinations and countries designated as supporting terrorist activities.⁵⁵ Currently, these countries are Cuba, Iran, North Korea, Sudan, and Syria.⁵⁶

While the foregoing classification process clearly applies to shipments of tangible items, the process applies as well to “technology” as that term is defined in the regulations. In reviewing the various categories of the CCL, the reader will note that each of the categories is laid out in similar fashion into five product groups, A through E, with the first ECCNs including the letter “A,” corresponding to Systems, Equipment, and Components; followed by those that include the letter “B,” corresponding to Test, Inspection, and Production Equipment; followed by “C,” corresponding to Material; “D,” corresponding to Software; and finally the letter “E,” corresponding to Technology.⁵⁷ The reader will also note that each of the technology ECCNs typically refer back to at least one ECCN in at least one of the groups A through D.⁵⁸ Thus, the first step in determining whether a given technology requires a license for export is to identify the ECCN of the item to which the technology relates, determine whether the technology related to that item is “development,” “production,” or “use” technology as those terms are defined in the regulations, and determine whether the technology is listed in one of the technology ECCNs.

In one example, ECCN 2B350 is in Category 2 of the CCL entitled Materials Processing, and ECCN 2B350 refers specifically to “[c]hemical manufacturing facilities and equipment” For this ECCN, one would review the item description in 2B350 to determine whether a given piece of equipment is of a type—for example a reaction vessel or reactor; a material of construction—for example titanium; and a size—for example having a total internal (geometric) volume greater than 0.1 m³ (100 liters) and less than 20 m³ (20,000 liters), so as to fall within the description. If so, then the item is controlled under ECCN 2B350.⁵⁹

Once the item has been classified as to its ECCN, one can then determine the ECCNs for the technology related to that item. One of the corresponding ECCNs for technology related to 2B350 equipment is

55. *Exporting Basics*, *supra* note 20.

56. *Id.*

57. The CCL is at 15 C.F.R. Pt. 774, Supp. 1, available at http://www.access.gpo.gov/bis/ear/ear_data.html (last visited Dec. 15, 2010).

58. 15 C.F.R. Pt. 774, Supp. 1.

59. 15 C.F.R. Pt. 774, Supp. 1. This is merely one example. There are a number of other types of equipment, sizes, and materials of construction that are included in this particular ECCN.

2E001, referring to “[t]echnology . . . for the ‘development’ of equipment controlled by . . . 2B.”⁶⁰ The CCL notes that the technology related to 2B350 equipment falling under ECCN 2E001 is controlled for chemical and biological weapons (CB) reasons under column CB2.⁶¹ CB column 2 must therefore be consulted in the Commerce Country Chart to determine whether a license is required for the country of the intended export.⁶² The technology related to 2B350 equipment falling under ECCN 2E001 is also controlled for anti-terrorism (AT) reasons under column AT1.⁶³ AT column 1 must therefore *also* be consulted in the Commerce Country Chart to determine whether a license is required for the country of the intended export.⁶⁴

Another technology ECCN related to 2B350 equipment is 2E002, referring to “[t]echnology . . . for the ‘production’ of equipment controlled by . . . 2B.”⁶⁵ The CCL notes that the technology related to 2B350 equipment falling under ECCN 2E002 is also controlled for CB and AT reasons.⁶⁶ The relevant columns must therefore be consulted in the Commerce Country Chart as above, and the technology is subject to the same controls as just discussed.⁶⁷

Note that “development” technology is defined in the regulations as technology “related to all stages prior to serial production, such as: design, design research, design analyses, design concepts, assembly and testing of prototypes, pilot production schemes, design data, process of transforming design data into a product, configuration design, integration design, [and] layouts”⁶⁸ Thus, whether a given technology is covered under ECCN 2E001 depends upon whether the technology relates to a stage prior to serial production of an item controlled under one of the various 2B ECCNs cited in the 2E001 entry.

“Production” technology is defined in the regulations as technology related to “all production stages, such as: product engineering, manufacture, integration, assembly (mounting), inspection, testing, [and]

60. CCL, 15 C.F.R. Pt. 774, Supp. 1.

61. CCL, 15 C.F.R. Pt. 774, Supp. 1.

62. *See generally Exporting Basics, supra* note 20. As noted, the Commerce Country Chart is Supplement No. 1 to Part 738 of 15 CFR, 15 C.F.R. Pt. 738, Supp. 1, *available at* <http://www.access.gpo.gov/bis/ear/pdf/738spir.pdf> (last visited Dec. 15, 2010).

63. CCL, 15 C.F.R. Pt. 774, Supp. 1.

64. *See Exporting Basics, supra* note 20.

65. CCL, 15 C.F.R. Pt. 774, Supp. 1.

66. CCL, 15 C.F.R. Pt. 774, Supp. 1.

67. *See Exporting Basics supra* note 20.

68. 15 C.F.R. § 772.1.

quality assurance.”⁶⁹ Thus, whether a given technology is covered under ECCN 2E002 depends upon whether the technology relates to a production stage, such as those in the definition immediately *supra* relating to an item controlled under one of the various 2B ECCNs cited in the 2E002 entry.

The third type of technology according to the EAR is “use” technology.⁷⁰ “Use” technology is defined in the regulations as that related to “[o]peration, installation (including on-site installation), maintenance (checking), repair, overhaul *and* refurbishing.”⁷¹ I have emphasized the word “and” in this definition because under the relevant BIS regulatory interpretation, for technology to qualify as “use” technology it must meet all six of the attributes in the definition.⁷² If the technology does not meet all six attributes, that is, operation, installation, maintenance, repair, overhaul, and refurbishing, then it is not “use” technology under the EAR.⁷³ 2E301 is the ECCN for “use” technology related to 2B350 equipment, and this ECCN likewise is controlled for CB and AT reasons and has the same level of controls.

In summary then, the level of control under the EAR is a function of the reason(s) for the control (nuclear proliferation, chemical and biological weapons, anti-terrorism, etc.), the ultimate destination (country and entity), and the intended end-use. It is important to note that classification under the EAR does *not* depend upon the use a party is actually making of an item, but rather for what the item is *capable* of being used, as determined by the government. One cannot avoid the regulations relating to chemical and biological weapons for example, simply by concluding that one’s own use of the equipment does not relate to chemical or biological weapons, or by speculating that one’s own use could not be readily modified or adapted for such a use. That determination has presumably already been made by the government. Therefore the licensing process presumably includes an analysis of how easily the technology used to make a commercial item might be modified, adapted, or diverted to a prohibited use, as well as a determination of the reliability of the end-user and the intended use. For

69. *Id.*

70. *Id.*

71. *Id.* (emphasis added).

72. See DEPARTMENT OF COMMERCE, QUESTIONS AND ANSWERS TO SUPPLEMENT CLARIFICATION OF DEEMED EXPORT RELATED REGULATORY REQUIREMENTS, available at <http://www.bis.doc.gov/deemedexports/deemedexportssupplementqa.html> (last visited Dec. 15, 2010).

73. *Id.*, citing *Revisions and Clarification of Deemed Export Related Regulatory Requirements*, 71 Fed. Reg. 30840 (May 31, 2006).

instances in which a license is required prior to export, the BIS licensing process discussed *infra* should be followed.

IV. THE DIRECTORATE OF DEFENSE TRADE CONTROLS OF THE STATE DEPARTMENT AND THE ITAR

The ITAR may also apply in certain instances to items that appear to be commercial in nature if in fact the items were specifically designed or modified for military purposes.⁷⁴ The ITAR regulations are administered by the Directorate of Defense Trade Controls (DDTC) of the State Department and are different from (but similar in purpose to) the EAR administered by the BIS of the Commerce Department.⁷⁵ The ITAR regulates defense articles and services, that is, items having express military uses, while the EAR regulates dual-use commercial items.

Part 121 of the ITAR (entitled the United States Munitions List) is analogous to the CCL of the EAR, and provides a list of items controlled under the ITAR by various categories including but not limited to Guns and Armament, Ammunition/Ordnance, Explosives and Energetic Materials, Vessels of War, and Special Naval Equipment.⁷⁶ A comprehensive review of the ITAR is well beyond the scope of this article, and one hopes those dealing in ITAR items are well aware of the regulatory requirements. However, there is one category of the U.S.M.L. which those dealing in commercial items should be aware: Category XXI, entitled Miscellaneous Articles.⁷⁷

Category XXI reads as follows:

Category XXI-Miscellaneous Articles

(a) Any article 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. The decision on whether any article may be included in this category shall be made by the Director of the Office of Defense Trade Controls.

(b) Technical data (as defined in § 120.21 of this subchapter) and defense services (as defined in § 120.8 of this subchapter) directly

74. See 22 C.F.R. § 120.1(a) (2006); 22 C.F.R. § 120.3 (2006).

75. The ITAR are found in Title 22 of the CFR, 22 C.F.R. § 120-30, available at http://www.pmddtc.state.gov/regulations_laws/itar_official.html.

76. Part 121 of the ITAR, 22 C.F.R. § 121, the U.S. Munitions List, available at http://www.pmddtc.state.gov/regulations_laws/documents/official_itar/ITAR_Part_121.pdf.

77. *Id.*

related to the defense articles enumerated in paragraph (a) of this category.⁷⁸

Category XXI is thus a catchall category that encompasses potentially any item “which has been specifically designed [...] or modified for military purposes.”⁷⁹ Note that this is a fact-based inquiry unlike the description-driven categories of the EAR, and indeed unlike even many of the other categories of the U.S.M.L. This means that unlike an EAR classification, it is not always possible to objectively determine whether an item falls within this category of the ITAR unless one is aware of the purpose for which the item was originally developed. An item may objectively appear to have technical characteristics comparable to items having only commercial uses, and yet have been specifically designed or modified for military purposes. Given the additional regulatory requirements imposed by the ITAR, parties dealing primarily with EAR99 commercial items may want to avoid working with the defense industry to adapt their commercial items for a use that might have a military purpose, or else find themselves subject to the ITAR. It is also prudent when receiving technical information from a third-party such as a client requesting patent application preparation, to confirm that the subject matter of the patent application is not subject to the ITAR. If one is involved in patent application preparation to be carried out in a foreign country, one might also have the client confirm that the subject matter does not require a license under the EAR to the country of interest or else review the subject matter with the client in order to make a joint determination.⁸⁰

If a factual determination as to ITAR status cannot be made, if the technical characteristics of the item are not clear or cannot be determined, or if the facts might suggest ITAR jurisdiction but a manufacturer hopes for a more favorable classification (i.e., EAR jurisdiction), there is a formal process called a commodity jurisdiction (CJ) request which is used to determine whether an item is subject to the EAR or the ITAR.⁸¹ CJ requests are processed by the DDTC under

78. *Id.*

79. *Id.*

80. Note however that the party exporting is responsible for any violation, and since it is a strict liability offense it may not be sufficient to rely upon another party’s inaccurate classification. However, it might be a mitigating factor when determining the penalty if the reliance appears to be reasonable.

81. 22 C.F.R. § 120.4(a) (2010). *See* DEPARTMENT OF COMMERCE, COMMODITY JURISDICTION, available at http://pmddtc.state.gov/commodity_jurisdiction/index.html. Recall that being subject to the EAR does not mean that a license is required, since commercial items are often

procedures established by that office.⁸² To submit a CJ request, a letter is sent with supporting documents to the DDTC and if a party believes that the current jurisdiction of the item is incorrectly assigned, an explanation may be provided outlining the reasons.⁸³ The DDTC sends copies of the CJ request to the appropriate U.S. government agencies (including Commerce) for review, and upon receiving recommendations from the interested agencies DDTC will make a jurisdiction determination, notify the reviewing agencies, and provide the applicant with final notification of the decision by letter.⁸⁴ For purposes of the following licensing discussion we will assume that the technology to be exported is subject to the EAR, and that those subject to ITAR restrictions will have consulted a subject matter expert to determine if and how such items may be patented.

V. EXPORT LICENSING UNDER THE EAR

Once one has determined that a contemplated export of technology requires a license, one will have much of the information needed to prepare an export license application.⁸⁵ The applications are filed electronically, and the application should include: an item description including technical parameters and ECCN; a description of the desired transaction (e.g., export of technology for the purpose of having a patent application prepared or a patentability or invalidity search performed); all the parties to the transaction; and additional information such as previous licenses obtained for the same or similar subject matter that may vary based on the transaction.⁸⁶ BIS reviews the application upon receipt and considers the item, its destination, its end use, and the reliability of each of the parties to the transaction.⁸⁷ The applications are also typically sent for interagency review by the Departments of State, Energy, and/or Defense.⁸⁸

EAR99-classified items. This is distinguished from a classification request to BIS (discussed *supra*), which may be filed once Commerce jurisdiction has been established.

82. *Id.*, citing 22 C.F.R. § 120.3-120.4.

83. 22 C.F.R. § 120.4(a).

84. *Id.*

85. See DEPARTMENT OF COMMERCE, APPLYING FOR AN EXPORT LICENSE, available at <http://www.bis.doc.gov/licensing/applying4lic.htm> (last visited Dec. 15, 2010).

86. See Part 748 of the EAR for more details, 15 C.F.R. § 748 (2010), found at <http://www.access.gpo.gov/bis/ear/pdf/748.pdf>.

87. See APPLYING FOR AN EXPORT LICENSE, *supra* note 85. Further details may be found at Part 750 of the EAR, 15 C.F.R. § 750 (2010).

88. See APPLYING FOR AN EXPORT LICENSE, *supra* note 85. Further details may be found at 15 C.F.R. § 750.3 (2008).

License applications typically take six to eight weeks for processing, and all license applications must be resolved or referred to the President within ninety calendar days; however, there are various exceptions to this requirement.⁸⁹ Application status may be checked electronically during pendency using BIS's System for Tracking Export License Applications (STELA).⁹⁰

Outright denials are rare and seem unlikely in the context of patent application preparation. One should, however, exercise due diligence in selecting a reputable firm to carry out the work. Foreign national employees not having permanent residence status in the U.S. (for example those just out of graduate school) are typically duly licensed as a matter of course upon filing of a deemed export license application. However, the amount of personal information required to accompany the license application is extensive and quite detailed and includes the type of information that employers would not otherwise need or be permitted to ask. This personal information must be safeguarded from inadvertent disclosure outside the licensing process to avoid running afoul of employment or discrimination laws. License conditions or restrictions on the resulting license may be imposed, and may be negotiated with the licensing officer assigned to the application.

VI. ENFORCEMENT

Under the current act signed into law in 2007, for administrative cases pending or commenced on or after October 16, 2007 a civil penalty amounting to the greater of \$250,000 or twice the value of the transaction may be imposed for each violation.⁹¹ “For criminal violations in cases commenced on or after October 16, 2007, violators may be fined up to \$1,000,000 and/or face up to 20 years of

89. DEPARTMENT OF COMMERCE, STELA THE SYSTEM FOR TRACKING EXPORT LICENSE APPLICATIONS, <http://www.bis.doc.gov/licensing/stela4u.htm> (last visited Dec. 15, 2010).

90. 15 C.F.R. §§ 750.1-750.11 (1997), *available at* <http://www.access.gpo.gov/bis/ear/pdf/750.pdf> (last visited Dec. 16, 2010).

91. International Emergency Economic Powers (IEEPA) Enhancement Act, 50 U.S.C. §§ 2401-2420 (2000) (cited by DEPARTMENT OF COMMERCE, DON'T LET THIS HAPPEN TO YOU!, ACTUAL INVESTIGATIONS OF EXPORT CONTROL AND ANTIBOYCOTT VIOLATIONS 4 fn.1 (2008 ed.), *available at* <http://www.bis.doc.gov/complianceandenforcement/dontletthishappentoyou-2008.pdf> [hereinafter DON'T LET THIS HAPPEN TO YOU!] (providing a lengthy explanation of the history of the *Export Administration Act of 1979*, including: the implementing regulations (the EAR already discussed); lapse of the Act; Executive Orders addressing the lapse; reauthorization of the Act; subsequent lapse; etc.)) For our purposes, it is perhaps sufficient to note that civil penalties have increased twice in the last ten years and are now quite substantial. DON'T LET THIS HAPPEN TO YOU at 4.

imprisonment.”⁹² Administrative penalties may also include the denial of export privileges.⁹³ However, BIS typically reaches negotiated settlements rather than holding a formal administrative hearing, encourages voluntary self-disclosures (VSDs) of inadvertent violations, and considers VSDs to be a mitigating factor when assessing penalties.⁹⁴

VII. CONCLUSION

In summary, foreign filing licenses may be obtained from the USPTO once a patent application is prepared, but may not be obtained from the USPTO for the purpose of having a patent application prepared in a foreign country.⁹⁵ Jurisdiction instead lies with the BIS of the Commerce Department for commercial dual use items,⁹⁶ or with the DDTC of the State Department for munitions items including items specifically designed or modified for military purposes.⁹⁷ The BIS also has jurisdiction over releases of technology to foreign nationals (even in the U.S.), and foreign national employee work assignments should be reviewed to confirm that any disclosures made are consistent with U.S. export control regulations which includes obtaining a deemed export license when required.⁹⁸

Under the EAR, whether a license is required for export depends upon: the technical characteristics of the item as evidenced by the Export Control Classification Number as defined in the EAR; the reason(s) the item is controlled; and the country of the intended export.⁹⁹ If required, a license application will include: a description of the item including its ECCN; the reason for the export; the names of all of the parties to the transaction; and the purpose for which the item is to be exported.¹⁰⁰ ITAR items are more highly controlled than those subject to the EAR, and an ITAR subject matter expert should be consulted in determining whether and how an ITAR item might be patented.

Penalties for violations of U.S. export control regulations include both civil and criminal penalties up to and including denial of export

92. DON'T LET THIS HAPPEN TO YOU, *supra* note 91 at 4; *see also* BUREAU OF INDUSTRY AND SECURITY, MAJOR CASES LIST, (Oct. 2009 ed.), *available at* <http://www.bis.doc.gov/complianceandenforcement/majorcaselist/mcl102009.pdf>.

93. DON'T LET THIS HAPPEN TO YOU!, *supra* note 91 at 5.

94. *Id.*

95. MPEP § 140 (8th ed. Rev. 8, July 2010).

96. *Id.*

97. *See* 22 C.F.R. §§ 120.1(a), 120.3 (2006).

98. *Exporting Basics*, *supra* note 20.

99. *Id.*

100. *See Applying for an Export License*, *supra* note 84.

privileges and imprisonment.¹⁰¹ However, most inadvertent violations are dealt with by negotiated civil settlements, and those having demonstrably effective compliance programs (and voluntarily disclose such violations) are typically subject only to mitigated penalties.¹⁰²

101. See DON'T LET THIS HAPPEN TO YOU!, *supra* note 91 at 4-5.

102. *Id.* at 5.

