

Where US export controls, trade sanctions and intellectual property rights meet



There are many overlaps between the control of sensitive items and the exercise of intellectual property rights – both impose restrictions, albeit that the underlying drivers are not the same. As a result, US export controls and sanctions regulations create potential pitfalls for IP practitioners that may not always be apparent. Matthew Goldstein and Brian Bianco survey the terrain.

US export controls and trade sanctions restrict various activities related to intellectual property rights ('IPR'). These laws may require a licence or other government authorisation for foreign patent filings and for exports of controlled technical information used in research and development, patent searches, patent preparation, and other common IPR activities. They may also require notification to the US government of certain non-US government requests and before transfers of certain IPR bundled with other assets to non-US persons, and they impose special conditions on IPR filings in certain countries. These and other nuanced intersections of law create potential pitfalls for intellectual property practitioners that can lead to significant penalties.

EXPORTS OF PATENT APPLICATIONS

USPTO secrecy orders

Pursuant to the Invention Secrecy Act of 1951, the US Patent and Trademark Office ('USPTO') imposes secrecy orders when the publication or disclosure of an invention by the publication of an application or grant of a patent might, in the opinion of the head of an interested US government agency, be detrimental to US national security. Secrecy orders can vary in scope of restrictions. Generally, they order that an invention be kept secret and result in the USPTO withholding publication of an application and not issuing a patent while an order is in effect.



Absent declarations of national emergency and times of war, secrecy orders are effective for a year, subject to annual renewals by the USPTO. There is no limit on the number of times the USPTO can renew a secrecy order, which has had an increasingly cumulative effect. Between fiscal years 2015 and 2022, the USPTO reportedly issued an average of 89 secrecy orders a year and, as of fiscal year 2022, there were 6,057 active secrecy orders.

Foreign filing licences

A USPTO foreign filing licence is required before filing a patent application in a foreign country or with an international intellectual property authority for an invention made in the United States where:

- An application for the invention has been filed in the United States less than six months prior to the date on which the foreign patent application is to be filed; or

- No application for the invention has been filed in the United States.

Each US patent application is considered a request for a foreign filing licence and the filing receipt or other official USPTO notice acknowledging an application will indicate whether a foreign licence is granted. A licence is granted and acknowledged in response to the initial application in most cases. In cases where a licence is not initially granted or an applicant wishes to apply for a foreign patent before filing an application with the USPTO, they must petition the USPTO for a foreign filing licence.

When granted, a USPTO foreign filing licence authorises filing a patent in a foreign country. It also authorises the export of technical information contained in the US patent application for the purpose of patenting in a foreign country.

Violations of USPTO secrecy orders are subject to civil fines

of \$10,000 and up to two years in prison. Moreover, the USPTO may not issue patents for inventions where a person has made, consented to, or assisted another person's making of a foreign filing without first obtaining a USPTO foreign filing licence. The USPTO may also invalidate a patent previously issued to such person.

Exports of technical information contained in patent applications

Export controls restrict exports, reexports, and transfers (in-country) of hardware, materials, and other physical items, software, technology, and services described on agency control lists. They are principally administered in the United States by the Department of Commerce under the Export Administration Regulations ('EAR') and the Department of State under the International Traffic in Arms Regulations

(‘ITAR’). Controls on nuclear items are administered by the Department of Energy (‘DoE’) and the Nuclear Regulatory Commission (‘NRC’).

Agencies broadly define an ‘export’ to include an actual shipment or transmission out of the United States, disclosing or otherwise transferring technical information or software source code to a non-US person anywhere in the world, and the provision of controlled services to a non-US person. The scope of ‘export’ includes sending controlled technology to persons at locations outside the United States for use in research and development, patent searches, and patent preparation. Regardless of the form of export involved, exporting without an agency licence or other authorisation where one is required can result in significant civil and criminal penalties, to include fines of over a million dollars per violation.

Scope of items subject to export controls

The scope of technical information requiring a licence for export varies among export control authorities. EAR licence requirements are generally based on the export classification, destination, end use, and end user of an item described on the EAR Commerce Control List (‘CCL’). Among other items, the CCL describes certain physical items (called ‘commodities’), technical information (called ‘technology’), and software for materials processing, electronics, computers, information security, sensors, lasers, navigation, avionics, aerospace, and propulsion technologies relevant to today’s novel inventions.

The ITAR requires a licence or other form of agency authorisation for all exports of items (called ‘defense articles’) to include technical information (called ‘technical data’), and certain services (called ‘defense services’) described in the ITAR United States Munitions List (‘USML’). The USML focuses on military and intelligence items, such as automatic firearms, tanks, jet fighters, bombs, missiles,

BOYCOTTING COUNTRIES ARE KNOWN TO REQUEST INFORMATION IN IPR FILINGS FOR THE PURPOSE OF SUPPORTING THE ARAB LEAGUE BOYCOTT. FOR EXAMPLE, THE SYRIAN TRADE MARK AUTHORITY HAS REQUIRED COMPLETION OF A BOYCOTT QUESTIONNAIRE AS PART OF THE SYRIAN TRADE MARK APPLICATION PROCESS.

military electronics, fighter aircraft, and other munitions, their parts, components, accessories, attachments, and equipment, and certain developmental systems funded by the Department of Defense. Information covered by a USPTO secrecy order is considered technical data subject to ITAR control.

The DOE requires a licence for exports of sensitive nuclear technology and certain technical assistance described in the DOE regulations. ‘Sensitive nuclear technology’ includes any non-public information important to the design, construction, fabrication, operation, or maintenance of uranium enrichment, nuclear fuel reprocessing facilities, or facilities for the production of heavy water. The NRC requires a licence for exports of nuclear materials, facilities, parts, components, equipment, and assemblies that are designed or prepared for exclusive use in nuclear facilities.

Patent filing exclusions

A USPTO foreign filing licence is not an export licence for the purpose of otherwise applicable export controls. However, technical information contained in a US patent application authorised for export under the authority of a USPTO foreign filing licence is not subject to ITAR, EAR, or DoE export licence requirements when used to support a foreign patent application. This exclusion is limited to information contained in a US patent application and the export of controlled technical information beyond this limited scope remains subject to otherwise applicable export licence requirements. For example, the USPTO foreign filing licence and the respective EAR, ITAR, and DoE exclusions from export licence requirements for published patents do not apply to the following activities that may precede filing of a US patent application:

- exports of controlled technical information for use by non-US co-inventors in research and development,

- even when the co-inventors work for the same or affiliated companies;
- exports of controlled technical information for patent searches or preparation of a US patent application; and
- exports of physical items.

Once a patent application or issued patent is published and made generally accessible to the public by the USPTO, technical information contained in the published document is no longer export controlled unless it relates to certain encryption functionality.

ANTIBOYCOTT LAWS

In certain countries, particularly those in the Middle East and North Africa, IPR filings present risks under US Antiboycott laws. These laws are administered by the Department of Commerce and the Department of the Treasury and prohibit US persons from supporting foreign country boycotts not authorised by the US government, focusing on the Arab League Boycott of Israel (the ‘Arab League boycott’).

Pursuant to authority under the Anti-Boycott Act of 2018, the EAR prohibit US persons from refusing to do business with Israel, agreeing to boycott-related requests to discriminate against a US person on the basis of race and other traits, furnishing information on business relationships with Israel, and taking certain other actions to further or support the Arab League boycott. The EAR also require reports by US persons who receive a request to take any action which has the effect of furthering or supporting the Arab League boycott. Violations of the EAR antiboycott provisions are subject to civil penalties of \$300,000 or an amount that is twice the value of the transaction at issue and criminal penalties of up to \$1,000,000 and 20 years in prison, per violation.

The Department of the Treasury enforces section 999 of the Internal Revenue Code, which denies certain tax benefits to US companies that cooperate with the Arab League boycott and requires taxpayers

to report operations in, or related to, countries designated by the Treasury Department on a list of countries that require or may require participation in, or cooperation with, the Arab League boycott. The official list of boycotting countries is updated quarterly and presently contains Iraq, Kuwait, Lebanon, Libya, Qatar, Saudi Arabia, Syria, and Yemen. Section 999 also requires that taxpayers report operations in any other country which they know or have reason to know requires participation in or cooperation with the boycott and report whether they have participated or cooperated in or with the boycott or were requested to do so.

Boycotting countries are known to request information in IPR filings for the purpose of supporting the Arab League boycott. For example, the Syrian trade mark authority has requested completion of a boycott questionnaire as part of the Syrian trade mark application process. Department of Commerce website guidance provides other examples of prohibited antiboycott conditions found in trade mark applications. It has also taken enforcement action against an intellectual property law firm for an alleged violation of the EAR antiboycott provisions.

FOREIGN DIRECT INVESTMENT CONTROLS ON IPR

The Committee on Foreign Investment in the United States ('CFIUS') is an interagency committee chaired by the Department of the Treasury that reviews non-US person acquisitions of and investments in US businesses and domestic real estate that implicate national security concerns. CFIUS has the power to investigate transactions subject to its jurisdiction ('covered transactions'), seek mitigation of national security concerns, and recommend that the President issue an order to block or unwind a covered transaction. CFIUS can take these actions at any time unless it previously reviewed and cleared the transaction through issuance of a 'safe harbour'

ALTHOUGH A PATENT ITSELF IS NOT AN ITEM SUBJECT TO THE EAR, IF A PATENT LICENCE WOULD DIRECTLY OR INDIRECTLY ENABLE A NON-US PERSON TO ACCESS EXPORT-CONTROLLED TECHNOLOGY OR OTHERWISE ACQUIRE AN ITEM SUBJECT TO THE EAR, A LICENCE MAY BE REQUIRED.

letter.

Parties to a covered transaction may voluntarily, and in certain circumstances are mandated to, submit a declaration or notice with detailed information on the transaction to CFIUS. Failure to submit a mandatory notification to CFIUS for a covered transaction when required is subject to a civil penalty of up to \$250,000 or the value of the transaction, whichever is greater.

Among other types of transactions, CFIUS jurisdiction extends to non-US person acquisitions of 'critical technology', which is defined to include export-controlled items under the EAR, ITAR, DoE, and NRC regulations, select agents and toxins, and certain emerging and foundational technologies.

Covered transactions can therefore include the transfer of IPR rights when such transfer includes certain other assets (e.g., land and equipment) of a US business that produces, designs, tests, manufactures, fabricates, or develops one or more export-controlled items.

PROTECTING IPR IN SANCTIONED COUNTRIES

The Department of the Treasury Office of Foreign Assets Control ('OFAC') administers and enforces trade sanctions programmes against US adversaries, oppressive regimes, proliferators of weapons of mass destruction, and other targets that engage in activities contrary to US national security and foreign policy interests. The sanctions can be selective or comprehensive, may freeze and

OTHER IPR INTERSECTIONS

This article is not an exhaustive list of export controls, sanctions, and related US national security laws that may intersect with intellectual property rights ('IPR'). Some other notable intersections include the following:

Deemed export controls

As noted above, disclosing US export-controlled technical information to a non-US person anywhere in the world in the course of research and development, patent searches, or patent preparation constitutes an export. These and other forms of releases to non-US persons, known as 'deemed exports,' may require a licence based on the export control jurisdiction and classification of technical information and the countries of citizenship and permanent residence of non-US persons. US companies engaged in research and development face considerable deemed export risks given their reliance on non-US employees working in the United States under H1-B visas and use of international graduate students in proprietary research.

Transfer of manufacturing rights to ITAR-controlled articles

The ITAR requires State Department approval in the form of a manufacturing licence agreement for a US person to authorise a non-US person to manufacture International Traffic in Arms Regulations ('ITAR')-controlled defence articles abroad where such arrangement involves or contemplates the export of ITAR technical data or defence articles or the performance of a defence service; or the use by a non-US person of ITAR technical data or defence articles previously exported by a US person. This requirement can apply to a variety of IPR transactions, to include those relating to offshore assembly of defence articles where production rights or manufacturing know-how are conveyed.

Relatedly, although a patent itself is not an item subject to the Export Administration Regulations ('EAR'), if a patent licence would directly or indirectly enable a non-US person to access export controlled technology or otherwise acquire an item subject to the EAR, a licence may be required.

block assets, and may prohibit exports, imports, or other dealings with sanctions targets.

Scope of OFAC restrictions

Among other things, selective sanctions block dealings with persons designated on the OFAC Specially Designated Nationals and Blocked Persons ('SDN') list. These measures prohibit US persons from making any contribution of funds for the benefit of an SDN and from transferring, paying, exporting, withdrawing, or otherwise dealing in property and interests of an SDN that are in the United States, that come within the United States, or that are or come within the possession or control of any US person.

Comprehensive sanctions bar most transactions and other activities with individuals and entities in embargoed countries and regions, which presently include Cuba, Iran, North Korea, Syria, and the Crimea Region of Ukraine. In addition, sanctions against Russia and the Donetsk and Luhansk regions of Ukraine for Russia's invasion of Ukraine are subject to multiple executive orders that prohibit many types of commercial transactions, to include new investments, transactions with sanctioned financial institutions, and dealings with government entities. US trade sanctions also prohibit transactions with the government of Venezuela, unless excepted.

OFAC general licences for IPR filings

OFAC issues two types of licences: specific licences and general licences. A 'specific licence' is a licence issued by OFAC in response to a licence application. A 'general licence' is a licence published by OFAC to authorise transactions without the need to request a specific licence.

OFAC has issued general licences under the Cuba, Iran, North Korea, Syria, and Venezuela sanctions programmes that authorise:

1. The filing and prosecution of any application to obtain a patent, trade mark, or copyright;
2. The receipt of a patent, trade mark, or copyright;
3. The renewal or maintenance of a patent, trade mark, or copyright; and
4. The filing and prosecution of opposition or infringement proceedings with respect to a patent, trade mark, or copyright, or the prosecution of a defence to any such proceedings.

These general licences also authorise payment of certain reasonable and customary fees and charges directly connected to the authorised transactions so long as the payments are not made from a blocked account and do not violate another sanctions programme.

For Russia, OFAC issued general licence 31, which authorises the IPR activities listed in (1) to (4) above. However, among other limitations, general licence 31 does not cover activities under certain executive orders that can conceivably restrict IPR activities related to certain sectors. In addition, general licence 31 does not explicitly authorise the payment of fees for IPR filings to the Central Bank of Russia, a sanctioned financial institution that processes IPR fees. OFAC has not provided clear guidance on this issue and practitioners differ in their views on authority for paying IPR filing fees in Russia.

To the extent IPR rights are administered by the Ukrainian National Office for Intellectual Property and Innovations in Kyiv, or otherwise within the free country of Ukraine, no authorisations are required for IPR filings in Ukraine by US persons.

Although not prohibited by comprehensive sanctions, IPR filings in countries subject to selective sanctions programmes present heightened sanctions risks for US persons, who must ensure that they are not engaging in unauthorised transactions with a prohibited financial institution, government ministry, officials, or other parties designated on the OFAC SDN List.

SANCTIONS AGAINST NON-US PERSONS WHO STEAL US TRADE SECRETS

On 5 January 2023, President Biden signed into law the Protecting American Intellectual Property Act of 2022 ('PAIPA') to require the imposition of sanctions on non-US persons that have engaged in significant theft of trade secrets of US persons.¹ This new law provides a means to enforce IPRs that would otherwise take years to litigate.

PAIPA requires the President or his designee to identify and

the President must apply five sanctions from a menu of sanctions that include blocking and prohibitions on all transactions relating to property subject to US jurisdiction of the entity, prohibitions on investing in or purchasing significant amounts of equity or debt instruments of the entity, and designation of the entity on the Department of Commerce Entity List. Any person who violates, conspires to violate, or causes a violation of the sanctions are subject to fines of \$356,579 per violation.

Sanctions are also required against affiliated entities and agents of an identified entity, senior officers, or board members of such entity, and for any entity identified as having provided significant financial, material, or technological support for, or goods or services in support of or to benefit significantly from, a theft of trade secrets of US persons. For any individual identified by the President who is an alien, the President must block and prohibit all transactions relating to property subject to US jurisdiction of the individual and such individual is deemed inadmissible to the United States and ineligible to receive a visa or other documentation to enter the United States.

OFAC HAS NOT PROVIDED CLEAR GUIDANCE AND PRACTITIONERS DIFFER IN THEIR VIEWS ON AUTHORITY FOR PAYING IPR FILING FEES IN RUSSIA.

sanction non-US entities and individuals who have 'knowingly engaged in, or benefitted from, a significant theft of trade secrets of US persons' where such theft 'is reasonably likely to result in, or has materially contributed to, a significant threat to the national security, foreign policy, or economic health or financial stability of the United States.'²

For the purpose of the act, 'trade secret' has the meaning given in section 1839 of Title 18 of the United States Code, which defines the term to mean forms and types of business information, tangible or intangible, that derives independent economic value for which the owner thereof has taken reasonable measures to keep such information secret. The term does not include protections for patents, trade marks, and copyrights.

For each non-US entity identified by the President,

CONCLUSION

The intersections of US export controls, trade sanctions, and IPR create substantial risks for unwary inventors, their attorneys, and agents. These laws can restrict a broad range of common IPR activities, impacting international collaborations, foreign filings, and transfers of IPR involving controlled technical information and the penalties for violations are significant. IP practitioner knowledge of this nuanced area of law and attention to the risks identified above is therefore essential and the key to compliance.

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LINKS AND NOTES

¹ Public Law No: 117-336.

² Id. At Section 2.