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Foreign Companies With R&D Facilities in the United States, by Samson Helfgott, Director of Patents, Katten Muchin Zavis Rosenman, New York. Because of the globalization of products, a huge market potential in the United States, and the changing labor costs and tax laws, many foreign companies have established facilities in the United States.

FOREIGN COMPANIES WITH R&D FACILITIES IN THE UNITED STATES

By Samson Helfgott, Director of Patents, Katten Muchin Zavis Rosenman, New York; tel. (212) 940-8683; e-mail: shelfgott@kmzr.com

Introduction

Because of the globalization of products, a huge market potential in the United States, and the changing labor costs and tax laws, many foreign companies have established facilities in the United States. To the extent that these facilities are simply sales and marketing organizations, few problems are faced in connection with intellectual property matters. However, more typically, these facilities become U.S.-based R&D organizations developing their own technology, either alone or jointly with the foreign parent company. Generally, the U.S. facility is separately incorporated in the United States as a subsidiary of the foreign parent company.

Such U.S.-based subsidiary, carrying out its own R&D, creates numerous problems relating to U.S. export control laws, which are among the most stringent of any country in the world. Additionally, administration problems on how to control such R&D must also be addressed by the foreign company. Finally, the problem of how to protect inventions which result from the R&D work must also be determined.

The complexity of the situation generally is increased, since much of the R&D may not take place solely in the United States or exclusively by U.S. residents or citizens. In many cases, the R&D work may be joint efforts, either through exchange of technology between the foreign parents and the U.S. subsidiary, or through an exchange of temporary employees sent from overseas to the United States to work on specific products or projects. Presently, the situation may event be further complicated if nationals other than Americans and those of the parent company are involved in such projects.

For example, some Japanese parent companies with U.S. R&D facilities may have Korean or Chinese employees, or employees of other nationalities to be temporarily included in the development of a particular project in the United States, and the technology is shared and flows between all of these nationals even while they are present in the U.S.-based facility.

As such foreign subsidiary R&D facilities in the United States continue to flourish, these problems become more complex and more sophisticated and often require legal opinions to resolve specific unique situations. This paper will not attempt to cover all such situations. However, it will provide a fundamental outline covering the general export problems, the administration problems, and approaches to filing and protecting the intellectual property from such U.S.-based R&D facilities.

Control of Export of Technology Under U.S. Law

When the U.S. R&D subsidiary develops certain technology, decisions for patent filing must be made. To the extent they are made in the United States, there may not be an export problem. However, to the extent that the subsidiary in the United States sends the technical information to the foreign parent company for a determination of whether to file, such export of technology is regulated and controlled in the United States.

Likewise, if a foreign national is sent to the United States on a particular project, and is present only on a temporary basis and then returns to his foreign country,

the exchange of technology between the American personnel and the foreign personnel would also be controlled by such regulations and would be considered an export of technology. Furthermore, to the extent that projects are worked on simultaneously within the U.S. and a foreign country and technical information is sent back and forth, any such information sent from the U.S. to the foreign parent is again controlled by U.S. export control laws.

The U.S. Department of Commerce has ruled that use outside of the United States of personal knowledge or technical experience acquired in the United States constitutes an export of the knowledge and experience and may be subject to the regulations. Disclosure in a foreign country by a U.S. resident would be considered "export", since the disclosure takes place in the foreign country. In addition, the release of technology to a foreign national in the United States, even by such means as demonstrations or oral disclosures, is considered to be an export under the regulation as long as that information is taken back to the foreign country and made use of there.

The basic laws in the United States controlling such technology transfer are the Export Administration Regulations (EAR) administered by the Commerce Department's Bureau of Export Administration (BXA). This organization covers all technology, including patent applications, and places restrictions on the type of technology and the various countries in which such technology can or cannot be exported.

A. Using USPTO Route

However, the United States Patent and Trademark Office (USPTO) has been granted the authority to clear such technology through a foreign filing license granting procedure (35 U.S.C. 184), which can be obtained through the USPTO by any one of three different ways:

- filing a patent application (complete or provisional) and waiting for the grant of a foreign filing license. Typically, such grant appears on the filing receipt, which may be issued within one to two months;
- waiting six months from the filing date of an application filed in the United States, where upon automatically a license is deemed to be granted; or
- petitioning the USPTO for a foreign filing license before filing in the United States. Such petition requires the payment of the Petition Fee and can be expedited within a few weeks.

The USPTO, as part of its review procedures, has the obligation of determining whether the particular technology covered in the patent application, or in the special petition for export, relates to any limited technology. In such case, it may place a restrictive classification on the material or it may then send the application to one or more other government departments for further review. This includes review by the Department of Defense, the Atomic Energy Commission, the Department of Energy, or other government agencies. Occasionally, a questionnaire will be sent to the patent applicant in order to assist the USPTO in making a determination on the classification and restriction that might be applied to such technology.

B. Using Bureau of Export Administration Route

In the event that the USPTO is not utilized for such clearance, it is then necessary to utilize the Bureau of Export Administration (BXA) to obtain a Commodity Classification on the type of goods and thereafter a determination whether the export of such information will not abridge the Export Regulations.

Such determination by the BXA is often necessary during the course of the project itself, where foreign nationals and Americans will be working together on the project and no invention has yet been identified for review by the USPTO for a foreign license. Likewise, such BXA determination would be required if the foreign parent organization insists on reviewing any invention and making a determination in the foreign country whether the invention should be filed at all. Likewise, such review by the BXA would be necessary if the foreign company insists that the case first be filed in the home country before filing anywhere else in the world.

Direct compliance with the EAR basically involves analyzing two lists. The first requires classification of the subject technology according to the Commerce Control Lists (15 CFR Part 774, Sup. 1). This is the step required to obtain an Export Control Classification Number (ECCN). Once the ECCN is determined, it is then necessary to study the information pertaining to that ECCN number in order to determine various categories applied to that number.

The next step is to check the reason for the control, and this is done against a separate list referred to as a Commerce Country Chart (15 CFR Part 738, Sup. 1). From this second list, it can be determined whether an export license is required for that particular country. If no export license is required, the item is deemed to fall within the general license and may be exported without

applying for any specific individual validated license, assuming other General Prohibitions are not violated, and subject to clearance and record-keeping requirements.

For example, Figure 1 shows a page from the Commerce Control List relating to Category 5 (Telecommunications and "Information Security"). Assume an invention is determined to pertain to one subclass of this category, and the number assigned is ECCN 5A001. In this list it states that the reason and basis for the control in this list is stated to be NS (National Security) and AT (Anti-Terrorism). Based on this reason, one would then look at the Commerce Country Chart as shown in Figure 2. Assume one is looking for the country of Japan. The entry next to the country of Japan does not contain a marking of X in the column AT1. Likewise, for NS2 there is no X. However, for NS1 there is an X. Thus, for any equipment described in 5A001, a license may be needed unless a License Exception is available. For equipment not in this subgroup, it might be assumed that an export license is not required and that the general license would be available.

While the above appears to be rather straightforward, in fact, the process, unfortunately, is not as straightforward as it would otherwise appear. Firstly, there are many, many different categories for each technology and determining which ECCN number applies is rarely done without applying to the BXA.

For example, in connection with software, it makes a difference whether you are dealing with source code or object code, the number of bytes in the product, the purpose or use of the product, etc. It also makes a difference as to the extent to which the software forms a part of the product, whether it can be deemed "de minimis" or not. Furthermore, the regulations keep changing and the classification of technology keeps shifting, making it more difficult to know what the current state of particular technologies requires.

One of the primary concerns under the regulations is the transfer of information relating to certain technologies such as encryption, which are strictly regulated for national security purposes. However, encryption covers a broad range of subjects covering many areas of software and hardware in the computer industry. Although the regulations provide some exceptions, most encryption software in an electronic form remains subject to the license requirements for export. Surprisingly, encryption software or any other technology in printed form, which is published, is not subject to the regulations. In the case of encryption software itself, it is important to determine whether the programs relate to object code or source doe, since distinctions occur between these two as well.

In many cases, where there are export restrictions, it is possible to obtain a License Exception to a commodity that would otherwise be restricted. Such License Exception is an authorization that allows export, under restricted conditions, of those items that would normally require a license under the EAR. However, in cases where you do get a License Exception, there may be continued reporting requirements, record-keeping, and the like.

By way of example, with respect to Japan and other countries falling within that countries category, it is possible to obtain a license exception for microprocessors and other devices by having the parent company send a letter to the U.S. R&D subsidiary that the technology will not be exported from the U.S. Such letter would be sufficient so long as the U.S. subsidiary receives the letter and all of the employees involved in the exchange of technology are U.S. and Japanese employees.

However, if one of the technical individuals involved is not from such countries in the category, it would then be necessary to obtain a full license in the exception category. For example, in the case of a Chinese national working for a U.S. R&D company, it would be necessary to obtain a license unless that person happened to be a permanent resident of Japan and was authorized by Japanese law to continue to live in Japan, in which case the person would then be considered to be a Japanese individual.

Although the major concern with the export requirement involves the EAR, it should be appreciated that other U.S. agencies have additional restrictions on specific technologies and products and these might come into play. For example, the International Traffic in Arms Regulations applies to weapons or military-related items, and this is administered by the Department of State. The Foreign Atomic Energy Programs for Nuclear-Related Controls is administered by the Department of Energy. In the case of drugs and narcotics, the Drug Enforcement Administration may get involved. For export to specific countries such as Iran and Iraq, the Office of Foreign Asset Control may also get involved.

However, for most of the technologies and situations of foreign-owned R&D companies, the EAR would be the basic area of concern.

C. Recommendations

Accordingly, with respect to the export of technology, the following are the recommendations.

- Wherever possible, file an application first in the United States (complete or provisional) and wait for the Foreign Filing License to be granted before any detailed information about the invention is conveyed to the foreign parent company. Decisions for foreign filing should be made directly at the R&D facility in the United States.

- Where the foreign parent insists on making the filing decisions of inventions and insists that the information be transmitted to the foreign parent company before any application is filed, it is best to petition the USPTO directly for a Foreign Filing License, without filing an application. This can be done by submitting an explanation of the relevant subject matter. This can also be done on an expedited basis by paying the petition fee, and typically this can be achieved within one-two weeks.

- Where there is going to be a joint development effort between foreign nationals who will be participating directly in the R&D work, or where development is taking place simultaneously at the R&D subsidiary in the United States as well as in a foreign country, or any other situation where there will be a flow of technology required between U.S. & foreign countries during the course of the development, an official Export Control Classification Number (ECCN) should be requested from the BXA to determine whether an Export License is required. Once the ECCN number is determined and the particular country of the nationals is determined, the BXA will cooper ate in determining the type of requirements needed for export of the information. In some cases a full Export License is required. In some cases, exemptions can be obtained, although monitoring and recording require ments may be needed. In a limited number of cases, a simple letter indicating that no further export of the technology will take place may be sufficient. However, this should be determined by the BXA. Requesting an ECCN number is free of charge and takes approximately 14 days.

It should be apparent that despite the above generalities, there may be unique situations involving specific technologies, personnel, or particular facts or situations which are different, and each case should be checked with a U.S. attorney before any export of technology is made.

Ownership of Technology

Another issue that is often faced by a foreign parent company having a U.S. R&D subsidiary is who owns the technology, and specifically in whose name the patent application should be filed. Many different scenarios can be envisioned.

For example, in some cases the foreign parent company wants all of the patent applications around the world in the name of the foreign parent company. In other situations, the foreign parent may give up the technology and the ownership of the intellectual property to its subsidiaries. Thus, the foreign parent would own the intellectual property in its own country, its U.S. subsidiary would own all of the intellectual property in the United States, and to the extent it may have R&D operations in other countries in Europe, the Far East, and other locations, each of those subsidiaries would own their respective intellectual property in their own name.

Such ownership of the intellectual property by the subsidiary in its own name would be not only for the country involved, but throughout the world. Thus, in some cases the foreign parent company having a U.S. subsidiary R&D operation has that R&D operation own its intellectual property worldwide, and the subsidiary has the right to foreign file anywhere around the world and will own and enforce its own intellectual property around the world.

However, in many situations, ownership may be split. The subsidiary company may own the intellectual property in the country in which it is located. The foreign parent company would then own the intellectual property rights elsewhere in the world. In such case, ownership of the intellectual property rights are split depending upon the country involved.

Other possible arrangements can include joint ownership of the intellectual property rights between both the parent company and the subsidiary company in either every country of the world, or in at least the country in which the subsidiary is located.

Typically, such decisions on ownership of intellectual property rights depend upon the administration and control between the parent and the subsidiary company. Thus, it would be an internal organizational matter that determines the relationship between the parent and the subsidiary, and likewise the resulting ownership of the intellectual property rights.

Often, numerous other factors get involved in making the determination of the ownership of intellectual property rights. For example, where the foreign parent company pays for the cost of the filing and maintaining of patents around the world in many countries, the only way they can get a tax deduction for such expenses is if the parent company owns the intellectual property rights. Otherwise, no tax benefit can be taken for such expense.

In addition, other laws in either a foreign country or in the U.S. might also influence the decision on ownership of the intellectual rights. Ownership of the technology can determine who has the right to enforce the patent in the United States and the extent of discovery that might be obtained.

For example, if the intellectual property is owned by the subsidiary company in the United States, and the subsidiary company files a suit to enforce the patent, it may be possible to restrict discovery to only the subsidiary company and avoid having the parent involved in the discovery. However, to the extent that the foreign parent is the owner or co-owner of the technology, it would definitely expose the parent to discovery.

The decision as to who owns the technology is often complicated where the invention involves joint invention between the foreign parent and the U.S. subsidiary, or at the very minimum, employees from the foreign parent company who are sent to the United States to participate and cooperate in the work in the United States. The foreign employees have an obligation to assign their work to the parent company and the U.S. employees have an obligation to assign the work to the U.S. company.

To the extent that the foreign parent and the U.S. subsidiary can work out an arrangement whereby appropriate assignments can be made from the employee of the foreign parent company to the subsidiary company, that would be helpful. However, that would also involve the necessity of other financial and payment arrangements from the U.S. company to the employees while they are in the United States. Typically, foreign nationals on assignment in the United States for any fixed period of time are paid through the U.S. subsidiary, and that could facilitate the ability to assign the intellectual property developed by that employee to the subsidiary company.

To the extent possible, it is recommended that the Intellectual Property ownership of the subsidiary inventions be given to the subsidiary company, at least for the country in which it is located. For a foreign R&D subsidiary in the United States, it would therefore be recommended that the Intellectual Property be filed in the name of the subsidiary company, at least for the United States. Thereafter, the invention can be assigned to the foreign parent company for filing in the parent's home country and elsewhere in the world, if so desired.

However, to the extent that the subsidiary retains ownership of its Intellectual Property throughout the world, it makes for an even "cleaner" situation with respect to enforcement activities as well as prosecution activities, since that way that subsidiary can coordinate everything relating to that invention. Nevertheless, depending upon particular requirements, other arrangements could be achieved, although with somewhat more complexity involved.

Filing of Patent Applications

Taking into consideration the export restrictions as discussed above, whereby a patent application should be first filed in the United States, as well as considering the ownership possibilities as previously discussed, some recommendations are now given as to how best to file such patent applications from a U.S. R&D subsidiary.

Where the invention is made in the United States by U.S. employees of the U.S. subsidiary company, there is generally little problem, as those inventions can be filed directly in the United States as a U.S. patent application assigned to the U.S. subsidiary.

Even to the extent that foreign personnel are positioned in the United States and participate in the development, those employees typically are either temporarily working for the U.S. subsidiary or, if necessary, could assign their rights to the U.S. subsidiary, and filing in the United States as a U.S. patent application could still be effected. Such U.S. filings would satisfy the U.S. export control requirements, and any further filing elsewhere or transfer of the application outside of the United States would await receipt of the Foreign Filing License, either as included on the filing receipt or upon the waiting of the six months.

Once the Foreign Filing License is received, the application can then be sent to the foreign country for review by the parent company and for further decisions on filing in the parent's home country or elsewhere.

The problem becomes more difficult when the invention arises from discussions between inventors in the foreign parent company and inventors in the U.S. subsidiary. Of course, it is assumed that initially appropriate BXA licenses were obtained for the ongoing discussions between the foreign country and the United States, and the flow of technology from the United

States to the foreign country was already covered either by a specific license or by a determination that no license was required.

Once a patent application between such joint development work has been completed, there are a number of possibilities for filing the application:

1. File a PCT application first in the United States designating both the U.S. and the parent's home country, as well as any other countries desired. Based upon ownership determinations, the subsidiary can be named as the applicant for the United States as well as other countries, or for that matter the subsidiary can be listed only in the U.S. and the foreign parent company can be listed as owner for all other countries. The inventors of both the foreign parent company and the subsidiary company are listed for the one application. Upon entry into the national phase, the U.S. national application will then belong to the subsidiary company, and the applications in the parent's home country and other foreign countries would then belong to the parent company. Suitable assignments might be needed in specific countries.

2. File a U.S. application first in the United States listing both the U.S. and the foreign inventors and obtaining assignments from the foreign inventors to the U.S. company. The U.S. company would be listed as the owner. Upon receipt of the foreign export license on the USPTO official filing receipt, and within the one-year Paris Convention date, an application in the parent's home country and other foreign applications may be filed claiming priority from the first U.S. filing. If required, the foreign applications can then be assigned by the inventors to the foreign parent.

3. Filing of a U.S. application can be achieved in a similar manner as described above, but both the U.S. and the foreign parent companies can be listed as co-owners. Thereafter, suitable assignments can be made if necessary, to adjust ownership as desired by the foreign parent company and its relationship with the subsidiary.

Depending upon the particular details of each case, other arrangements might become significant, and depending upon the factual situation, the type of R&D, the nature of the employees, and other factual situations, other scenarios could be recommended for the filing of the inventions.

Conclusion

It should be apparent that a foreign company having a U.S. subsidiary doing R&D work must be very cautious when it comes to protecting the intellectual property of the technology being developed. Because of the strictness, continuous variations, and complexity of the U.S. export laws, care must be taken in analyzing each situation individually, and legal advice should be obtained on how to handle the flow of technology between parent and subsidiary in each specific case.

It must also be determined who will own the technology, who will pay for the intellectual property, the extent of joint involvement, and who will enforce the patents. Finally, once all of these are analyzed and properly addressed, a suitable strategy for handling the filing and prosecution of the patent applications should be worked out.

While general guidelines can be given, as recited above, experience has shown that each particular case winds up with a unique set of circumstances, and as a result, each should be analyzed individually and a separate strategy given for each particular situation as it arises.

FIGURE 1

Category 5 – Telecommunications and "Information Security"

Part I. Telecommunications

Notes: 1. The control status of components, "lasers", test and "production" equipment, and "software" therefore which are specially designed for telecommunications equipment or systems is determined in Category 5, Part I.

2. "Digital computers", related equipment or "software", when essential for the operation and support of telecommunications equipment described in this Category, are regarded as specially designed components, provided they are the standard models customarily supplied by the manufacturer. This includes operation, administration, maintenance, engineering or billing computer systems.

A. SYSTEMS, EQUIPMENT AND COMPONENTS

5A001 Telecommunications systems, equipment, and components.

License Requirements

Reason for Control: NS, AT

Control(s)	*Country Chart*
NS applies to 5A001.a	NS Column 1
NS applied to 5A001.b.c. or .d	NS Column 2
AT applies to entire entry	AT column 1

License Requirement Notes: See §73 of the EAR for reporting requirements for exports under License Exceptions.

License Exceptions

LVS: N/A for 5A001.a and b.4, $5000 for 5A001b.1, b.2, b.3, b.5, and .d $3000 for 5A001.c

GBS: Yes, except 5A001.a and b.4

CIV: Yes, except 5A001.a, b.3 and b.4

List of Items Controlled

Unit: Equipment in number; parts and accessories in $ value

Related Controls: See also 5A101 and 5A991

Related Definitions: N/A

Items:

a. Any type of telecommunications equipment having any of the following characteristics, functions or features:

a.1. Specially designed to withstand transitory electronic effects or electromagnetic pulse effects, both arising from a nuclear explosion;

a.2. Specially hardened to withstand gamma, neutron or ion radiation; or

a.3. Specially designed to operate outside the temperature range from 218K (-55° C) to 397 K (124° C).

Note: 5A001.a.3 applies only to electronic equipment.

Note: 5A001.a.2 and 5A001.a.3 do not apply to equipment on board satellites.

b. Telecommunication transmission equipment and systems, and specially designed components and accessories therefore, having any of the following characteristics, functions or features:

b.1. Being underwater communications

FIGURE 2

Commerce Control List Overview and the Country Chart Supplement No. I to Part 738–page 7

Commerce Country Chart
Reason for Control

Countries	Chemical & Biological Weapons			Nuclear Nonproliferation		National Security		Missile Tech	Regional Stability		Firearms Convention	Crime Control			Anti-Terrorism	
	GB 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
Japan	X					X		X	X							
Jordan	X	X	X	X		X	X	X	X	X		X		X		
Kazakhstan	X	X	X	X		X	X	X	X	X		X	X			
Kenya	X	X		X		X	X	X	X	X		X		X		
Kiribati	X	X		X		X	X	X	X	X		X		X		
Korea, North	X	X	X	X		X	X	X	X	X		X	X	X	X	X
Korea, South	X					X	X2	X	X	X		X		X		
Kuwait	X	X	X	X		X	X	X	X	X		X		X		
Kyrgyzstan	X	X	X	X		X	X	X	X	X		X	X			
Laos	X	X		X		X	X	X	X	X		X	X			
Latvia	X	X				X	X	X	X	X		X	X			
Lebanon	X	X	X	X		X	X	X	X	X		X		X		
Lesotho	X	X		X		X	X	X	X	X		X		X		
Liberia	X	X		X		X	X	X	X	X		X		X		

Export Administration Regulations January 2002