Webinar on:

Make No Mistake: How US Firms ensure Compliance with Export Control Regulations when Offshoring Patentability Searches

Sagacious Webinars

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Sagacious IP is a leading, award-winning **Intellectual Property Research** and **Consulting** company that is helping participants in the IP ecosystem through innovative solutions and services **since 2008**. Sagacious IP has served more than **1,200** clients from over **45 countries** with more than **17,500 projects** in over **16 languages**.

Sagacious IP has been successfully solving business challenges for **Fortune 500** companies, **IAM1000** law firms, **start-ups**, **investors**, **universities**, **licensing agencies** and other participants in the IP ecosystem for the last 10 years. Its services and solutions span across the IP life-cycle – from developing an IP strategy, to creation of IP and right up to its maintenance and monetization.

Sagacious IP

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Search-Center has been providing expert patent searching services to the worldwide intellectual property community since 2012.

The team includes patent attorneys, former USPTO Examiners, scientists, and engineers from a broad spectrum of industries.

Search-Center will deliver the right prior art information, in the right format, at the right time. Guaranteed.

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SEARCH-CENTER

Hello!

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Agenda

Empower you to save costs while complying with export control

1. How do we know what is controlled?

2. How to comply with export control regulations while outsourcing patentability searches?

What’s an export?

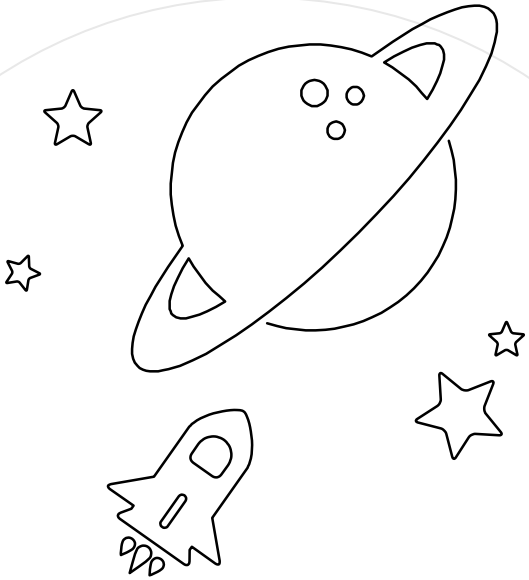
- Any item that is sent from the United States to a foreign destination, regardless of the method used for the transfer, is an export.
- “Items” include **commodities**, **software or technology**, such as clothing, building materials, circuit boards, automotive parts, blueprints, design plans, retail software packages and **technical information**.

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/142-eccn-pdf/file

Export examples:

- Transmission of material goods
  - Items shipped out of the U.S.
  - Items hand-carried (laptop, memory devices) out of the U.S.
  - Use of controlled materials by a foreign person
- Use or application of controlled technology on behalf of, or for the benefit of, any foreign person or entity
- Dissemination of **research data** and **information** to a foreign person
  - **Email**
  - **Website**
  - Face-to-face
  - Visual inspection that reveals controlled technical data
  - Conference

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/2382-part-734-scope-of-the-export-administration-regulations-1/file



Why does the government control export?

The US government controls certain technologies that it considers to be strategically important for:

- National Security Reasons
- Nuclear Non-Proliferation Reasons
- Missile Technology Controls
- Anti-Terrorism
- Chemical & Biological Controls
- Regional Stability
- Crime Control Measures
- Anti-boycott Reasons

Source: https://2009-2017.state.gov/strategictrade/overview/index.htm

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/2382-part-734-scope-of-the-export-administration-regulations-1/file

Export without crossing borders

- In its simplest terms, a "**Deemed Export**" can be defined as (1) the release (2) of technology or source code (3) having both military and civilian applications (4) to a foreign national (5) within the United States.
- Thus, even though the release in question takes place within the confines of the United States, the transaction is "deemed" to be an export and therefore subject to certain United States Government export control regulations.

Source: https://www.trade.gov/us-export-controls

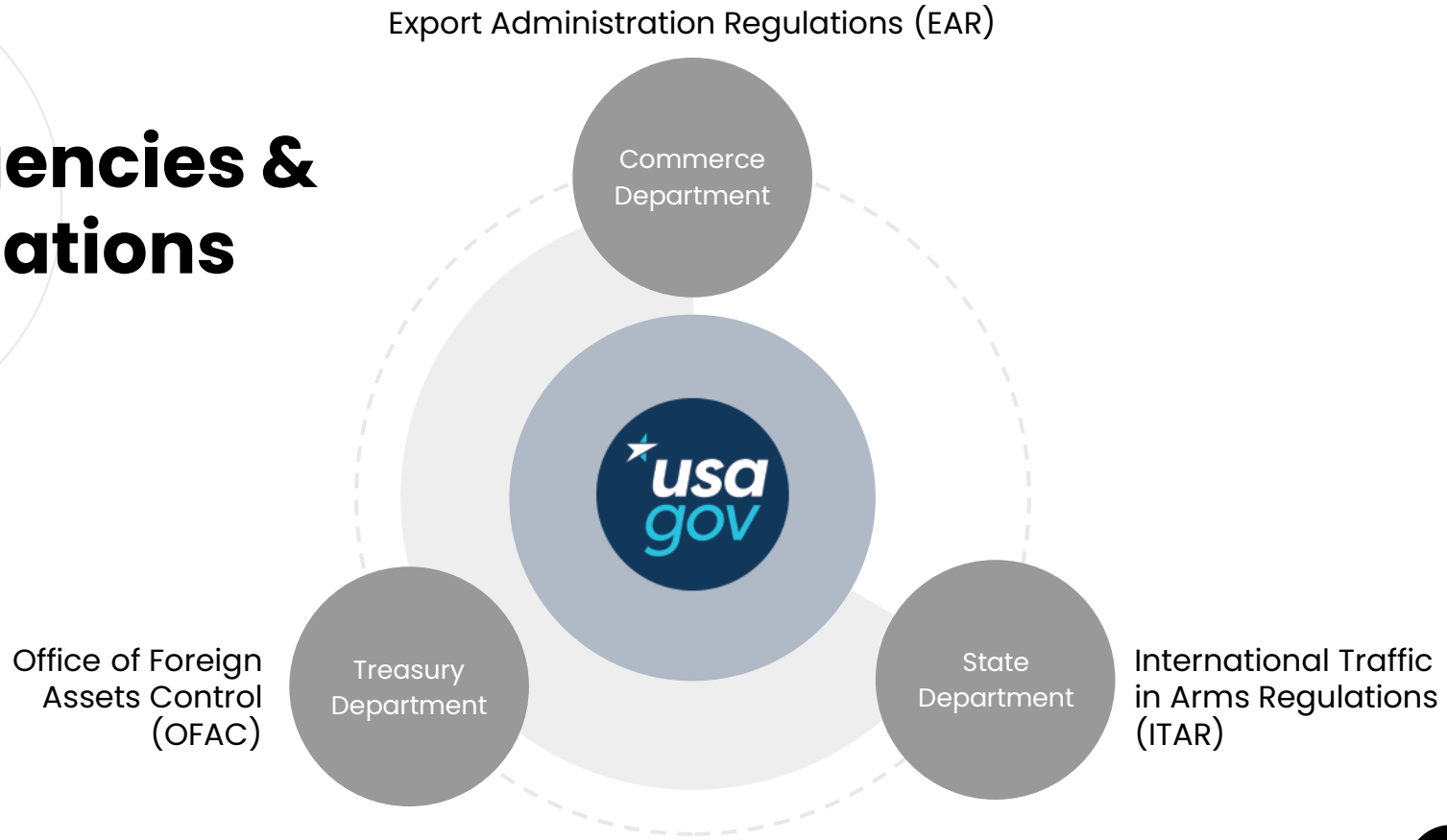
How do we know what is controlled?

How do we know what is controlled? What can be easily exported?

1. What is the destination country?
2. Who will receive services, information, technology or technical data (individuals and entities)?
3. Who will benefit from services provided?
4. What is the end use of the item?
5. What information, technology or technical data is involved? Is it controlled?

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/142-eccn-pdf/file

US Agencies & Regulations



Source: https://www.ucop.edu/ethics-compliance-audit-services/compliance/export-control/export-laws.html

US Agencies & Regulations

Treasury Department	State Department	Commerce Department
Office of Foreign Assets Control (OFAC)	Directorate of Defense Trade Controls (DDTC)	Bureau of Industry and Security (BIS)
Foreign Assets Control Regulations	International Traffic in Arms Regulations (ITAR)	Export Administration Regulations (EAR)
Sanction Programs	United States Munitions List (USML)	Commerce Control List (CCL)
Prohibits transactions with countries, entities and persons subject to boycotts, trade sanctions and embargoes	Transfers of defense articles and provision of defense services; inherently military technologies	Exports and re-exports of commodities, software, equipment and technology including dual-use (civil and military) items

Source: https://www.ucop.edu/ethics-compliance-audit-services/compliance/export-control/export-laws.html

1. What is the destination country?

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- **OFAC countries**

Where is OFAC's Country List? What countries do I need to worry about in terms of U.S. sanctions?

The Office of Foreign Assets Control (OFAC) does not maintain a specific list of countries that U.S. persons cannot do business with.

Here's why:

U.S. sanctions programs vary in scope. Some are broad-based and oriented geographically (i.e. Cuba, Iran). Others are "targeted" (i.e. counter-terrorism, counter-narcotics) and focus on specific individuals and entities. These programs may encompass broad prohibitions at the country level as well as targeted sanctions. Due to the diversity among sanctions, we advise visiting the "Sanctions Programs and Country Information" page for information on a specific program.

Source: https://www.treasury.gov/resource-center/sanctions/Programs/Pages/faq_10_page.aspx

1. What is the destination country?

- **OFAC countries:** List of countries derived by brief review of sanctions.
- Balkans
- Belarus
- Burundi
- Central African Republic
- Cuba*
- Mali
- Nicaragua
- Hong Kong
- Congo
- Iran*
- Iraq
- Lebanon
- Libya
- North Korea*
- Somalia
- Sudan*
- South Sudan
- Syria*
- Ukraine
- Russia
- Venezuela
- Yemen
- Zimbabwe

Source: https://www.treasury.gov/resource-center/sanctions/Programs/Pages/Programs.aspx

1. What is the destination country?

- **International Traffic in Arms Regulations (ITAR)**
- Afghanistan
- Belarus
- Burma
- Central African Republic
- China (PR)
- Cuba
- Cyprus
- Democratic Republic of the Congo
- Eritrea
- Haiti
- Iran
- Iraq
- Kyrgyzstan
- Lebanon
- Libya
- North Korea
- Russia
- Somalia
- South Sudan
- Sudan
- Syria
- Venezuela
- Zimbabwe

Source:
https://www.pmddtc.state.gov/ddtc_public?id=ddtc_public_portal_country_landing&spa=1&table=x_usd10_ddtc_publi_ddtc_public_country_policies&filter=&p=1&o=country&d=asc

1. What is the destination country?

- **Export Administration Regulations (EAR)**

- Cuba
- Iran
- North Korea
- Sudan
- Syria

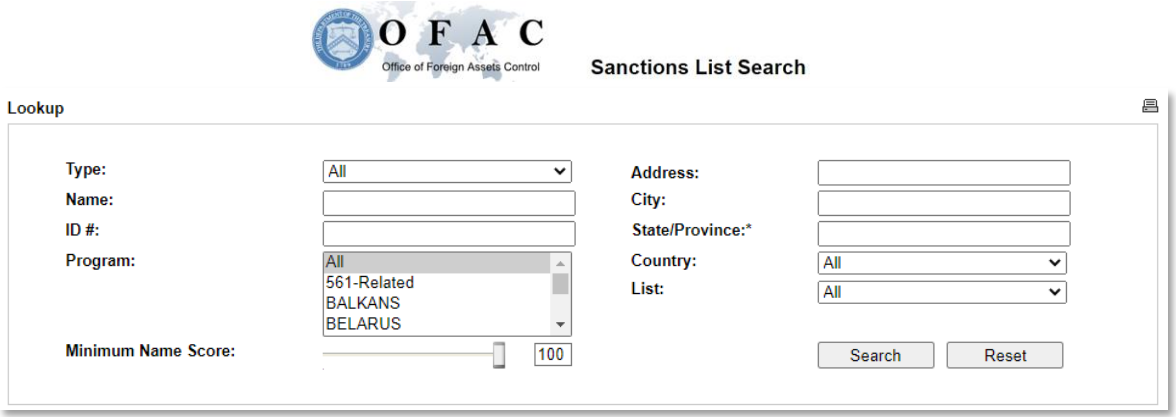
Source: https://www.bis.doc.gov/index.php/policy-guidance/country-guidance/sanctioned-destinations

2. Who will receive services, information, technology or technical data (individuals and entities)?

3. Who will benefit from services provided?

2 & 3. Who will receive or benefit from the export?

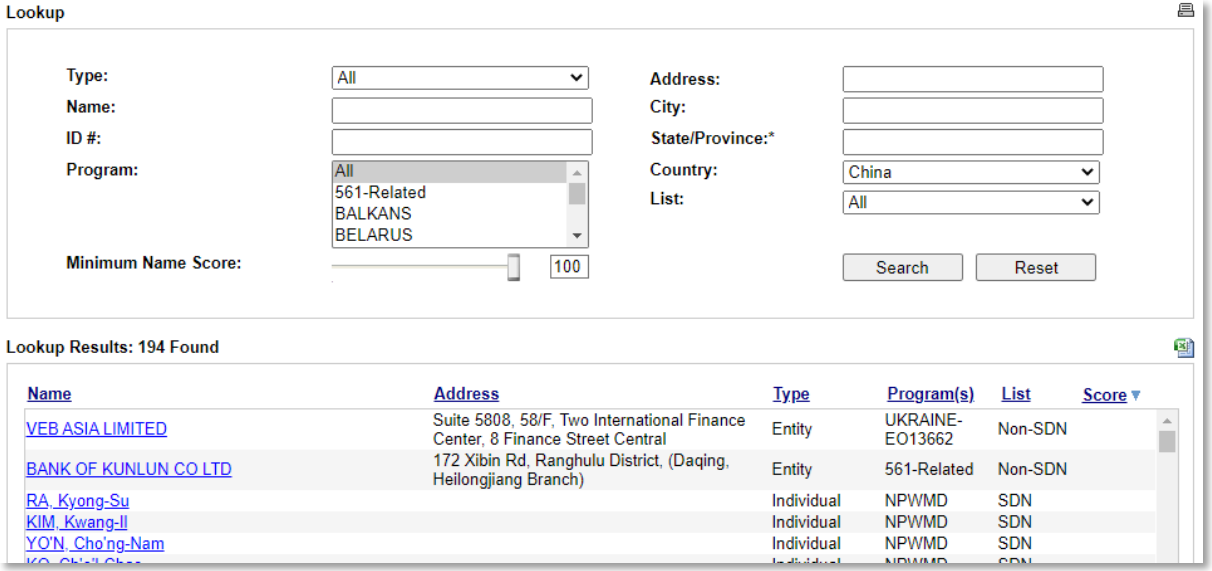
- **OFAC provides various sanctions lists**
- Specially Designated Nationals and Blocked Persons list ("SDN List") and all other sanctions lists administered by OFAC, including the Foreign Sanctions Evaders List, the List of Persons Identified as Blocked Solely Pursuant to E.O. 13599, the Non-SDN Iran Sanctions Act List, the Part 561 list, the Sectoral Sanctions Identifications List and the Non-SDN Palestinian Legislative Council List



Source: https://sanctionssearch.ofac.treas.gov/

2 & 3. Who will receive or benefit from the export?

- **Example search for OFAC Sanctions list in China**



Lookup

Type: All
Name:
ID #:
Program: All, 561-Related, BALKANS, BELARUS
Minimum Name Score: 100
Address:
City:
State/Province:*
Country: China
List: All
Search Reset

Lookup Results: 194 Found

Name	Address	Type	Program(s)	List	Score
VEB ASIA LIMITED	Suite 5808, 58/F, Two International Finance Center, 8 Finance Street Central	Entity	UKRAINE-EO13662	Non-SDN	
BANK OF KUNLUN CO LTD	172 Xibin Rd, Ranghulu District, (Daqing, Heilongjiang Branch)	Entity	561-Related	Non-SDN	
RA, Kyong-Su		Individual	NPWMD	SDN	
KIM, Kwang-Il		Individual	NPWMD	SDN	
YO'N, Cho'ng-Nam		Individual	NPWMD	SDN	

Source: https://sanctionssearch.ofac.treas.gov/

2 & 3. Who will receive or benefit from the export?

- **International Traffic in Arms Regulations (ITAR)**
- U.S. DEPARTMENT OF STATE, Directorate of Defense Trade Controls provides **Debarred Parties**
- **Statutory Debarments** → The persons (including entities and individuals) listed in documents linked below have been convicted of violating or conspiracy to violate the Arms Export Control Act (AECA). As a consequence, they are subject to "statutory debarment" pursuant to § 38(g)(4) of the AECA and § 127.7 of the International Traffic in Arms Regulations (ITAR).

Source: https://www.pmddtc.state.gov/ddtc_public?id=ddtc_kb_article_page&sys_id=c22d1833dbb8d300d0a370131f9619f0

2 & 3. Who will receive or benefit from the export?

- **International Traffic in Arms Regulations (ITAR)**
- **Statutorily Debarred Parties**

Keyword Search

Party Name	Date Of Birth	Federal Register Notice	Notice Date	Corrected Notice	Corrected Notice Date	Active
A & C International Trade, Inc.		67 FR 10033 (PDF, 38KB)	2002-03-05			true
Acety, Edwin	November, 1975	83 FR 18112 (PDF, 209KB)	2018-04-25			true
Achurra, Antonio		53 FR 27097 (PDF, 913KB)	1988-07-18			true

Source: https://www.pmddtc.state.gov/ddtc_public?id=ddtc_kb_article_page&sys_id=c22d1833dbb8d300d0a370131f9619f0

2 & 3. Who will receive or benefit from the export?

- Export Administration Regulations (EAR) - Supplement No. 4 to Part 744 of the EAR – Lists the entities subject to license requirements for specified items under this part 744 and part 746 of the EAR

COUNTRY	ENTITY	LICENSE REQUIREMENT	LICENSE REVIEW POLICY	FEDERAL REGISTER CITATION
AFGHANISTAN	Abdul Satar Ghoura, 501, 5th Floor, Amanullah Sancharaki Market Opp Chaman E Huzuri, Kabul, Afghanistan; *and* Flat No. 41 Block No. 24 Macroyan 3, Kabul, Afghanistan. (See alternate addresses under Pakistan).	For all items subject to the EAR. (See §744.11 of the EAR).	Presumption of denial.	76 FR 71869, 11/21/11.
	Afghan-German Construction Company, Golaye Park, Shari Naw, Kabul, Afghanistan, *and* Dasht Qala, Takhar Province, Afghanistan.	For all items subject to the EAR. (See §744.11 of the EAR).	Presumption of denial.	77 FR 25057, 4/27/12.
	Assadullah Majed, 42S WD 18476 22167 Kabul, Afghanistan; *and* A2 Ground Floor, City Computer Plaza, Shar-e-Naw, Kabul, Afghanistan.	For all items subject to the EAR. (See §744.11 of the EAR).	Presumption of denial.	76 FR 71869, 11/21/11.

Source: https://www.bis.doc.gov/index.php/documents/regulation-docs/691-supplement-no-4-to-part-744-entity-list/file

4. What is the end use of the item?

5. What information, technology or technical data is involved? Is it controlled?

4 & 5. What is the technology? What is the end use? Is it controlled?

- **International Traffic in Arms Regulations (ITAR) /U.S. Munitions List**

The United States Munitions List ("USML," part 121 of the ITAR)

Articles, services, and related technical data that are designated as defense articles or defense services pursuant to sections 38 and 47(7) of the Arms Export Control Act constitute the United States Munitions List (USML).

Source: https://www.pmddtc.state.gov/ddtc_public?id=ddtc_public_portal_itar_landing

4 & 5. What is the technology? What is the end use? Is it controlled?

- **International Traffic in Arms Regulations (ITAR) /U.S. Munitions List**

- Category I - Firearms, Close Assault Weapons and Combat Shotguns
- Category II - Guns and Armament
- Category III - Ammunition/Ordnance
- Category IV - Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs, and Mines
- Category V - Explosives and Energetic Materials, Propellants, Incendiary Agents, and Their Constituents
- Category VI – Surface Vessels of War and Special Naval Equipment
- Category VII – Ground Vehicles
- Category VIII - Aircraft and Related Articles
- Category IX - Military Training Equipment and Training
- Category X – Personal Protective Equipment
- Category XI - Military Electronics
- Category XII - Fire Control, Laser, Imaging, and Guidance Equipment
- Category XIII – Materials and Miscellaneous Articles
- Category XIV - Toxicological Agents, Including Chemical Agents, Biological Agents, and Associated Equipment
- Category XV – Spacecraft and Related Articles
- Category XVI - Nuclear Weapons Related Articles
- Category XVII - Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated
- Category XVIII - Directed Energy Weapons
- Category XIX – Gas Turbine Engines and Associated Equipment
- Category XX - Submersible Vessels and Related Articles
- Category XXI – Articles, Technical Data, and Defense Services Not Otherwise Enumerated

Source: https://www.ecfr.gov/cgi-bin/text-idx?SID=8c4f74d9182f632f40e160ffeaa797d9&mc=true&node=pt22.1.121&rgn=div5#se22.1.121_11

4 & 5. What is the technology? What is the end use? Is it controlled?

- **International Traffic in Arms Regulations (ITAR) /U.S. Munitions List**

- Category VII – Ground Vehicles

CATEGORY VII—GROUND VEHICLES

*(a) Armored combat ground vehicles as follows:

(1) Tanks; or

(2) Infantry fighting vehicles.

*(b) Ground vehicles (not enumerated in paragraph (a) of this category) and trailers that are armed or are specially designed to be used as a firing or launch platform to deliver munitions or otherwise destroy or incapacitate targets (e.g., firing lasers, launching rockets, firing missiles, firing mortars, firing artillery rounds, or firing other ammunition greater than .50 caliber) (MT if specially designed for rockets, space launch vehicles, missiles, drones, or unmanned aerial vehicles capable of delivering a payload of at least 500 kg to a range of at least 300 km).

(c) Ground vehicles and trailers equipped with any mission systems controlled under this subchapter (MT if specially designed for rockets, space launch vehicles, missiles, drones, or unmanned aerial vehicles capable of delivering a payload of at least 500 kg to a range of at least 300 km).

NOTE TO PARAGRAPH (c): "Mission systems" are defined as "systems" (*see* §120.45(g) of this subchapter) that are defense articles that perform specific military functions, such as by providing military communication, target designation, surveillance, target detection, or sensor capabilities.

NOTE TO PARAGRAPHS (b) AND (c): "Payload" is the total mass that can be carried or delivered by the specified rocket, space launch vehicle, missile, drone, or unmanned aerial vehicle that is not used to maintain flight. For definition of "range" as it pertains to aircraft systems, *see* note to paragraph (a) USML Category VIII. For definition of "range" as it pertains to rocket systems, *see* note to paragraph (f)(6) of USML Category VI.

(d) [Reserved]

- Category XIII – Materials and Miscellaneous Articles

CATEGORY XIII— MATERIALS AND MISCELLANEOUS ARTICLES

(a) [Reserved]

(b) Information security or information assurance systems and equipment, cryptographic devices, software, and components, as follows:

(1) Military or intelligence cryptographic (including key management) systems, equipment, assemblies, modules, integrated circuits, components, and software (including their cryptographic interfaces) capable of maintaining secrecy or confidentiality of information or information systems, including equipment or software for tracking, telemetry, and control (TT&C) encryption and decryption;

Source: https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=70e390c181ea17f847fa696c47e3140a&mc=true&r=PART&n=pt22.1.121

4 & 5. What is the technology? What is the end use? Is it controlled?

- **Export Administration Regulations (EAR) Commerce Control List**

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

Source: https://www.bis.doc.gov/index.php/regulations/commerce-control-list-ccl

4 & 5. What is the technology? What is the end use? Is it controlled?

- **Export Administration Regulations (EAR) Commerce Control List**

No License Required (NLR)

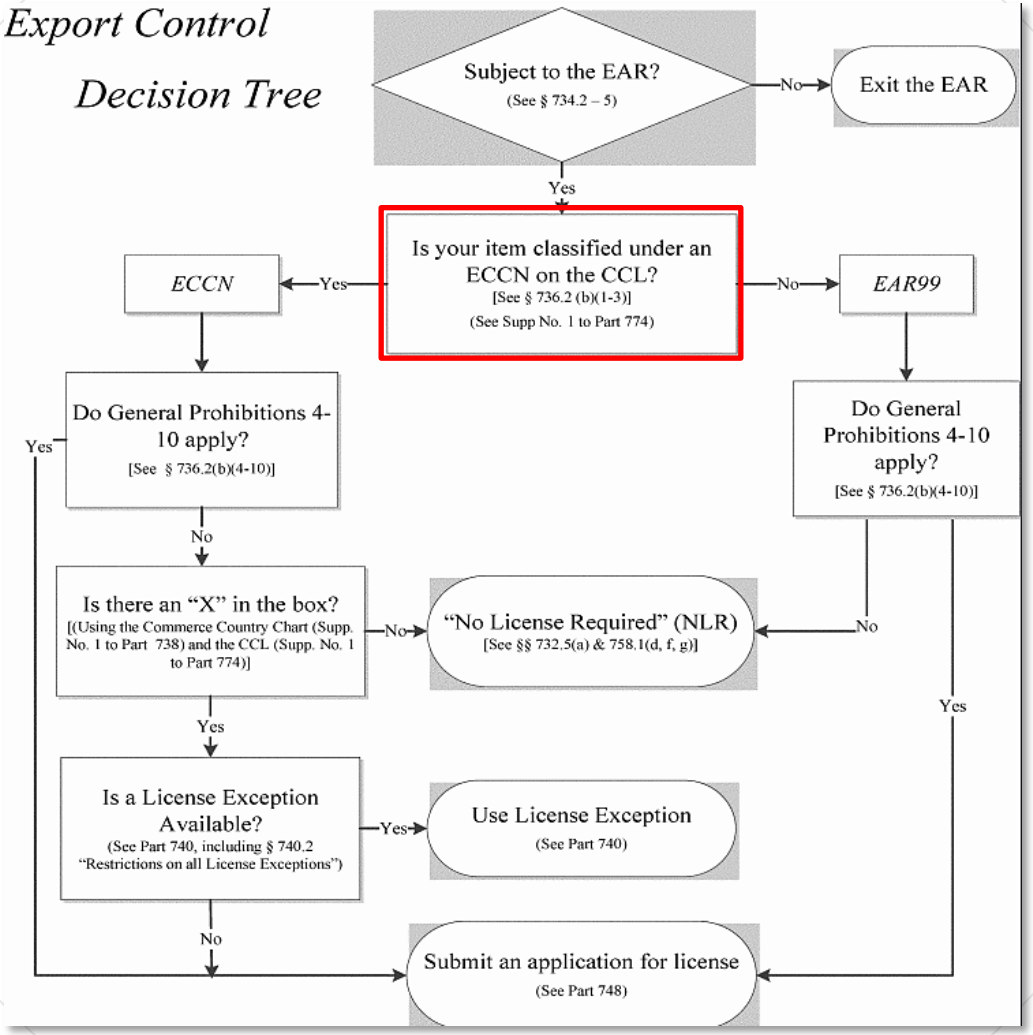
Most exports from the United States do not require a license, and may be exported under the designation "NLR." Except in those relatively few transactions, when a license is required because the destination is under embargo or because of a proliferation end use or end user, no license is required when:

1. The item to be shipped is not on the CCL (*i.e.,* it is EAR99); or

2. The item is on the CCL but there is no "X" in the box on the Country Chart under the appropriate Reason for Control for the country of destination. (See the Commerce Country Chart example on page 5.)

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/142-eccn-pdf/file

EXPORT CONTROL DECISION TREE



Source

Commerce Control List Categories

0 = Nuclear materials, facilities, and equipment (and miscellaneous items)
1 = Special Materials and Related Equipment, Chemicals, "Microorganisms," and "Toxins"
2 = Materials Processing
3 = Electronics
4 = Computers
5 = Telecommunications and "Information Security"
6 = Sensors and Lasers
7 = Navigation and Avionics
8 = Marine
9 = Aerospace and Propulsion

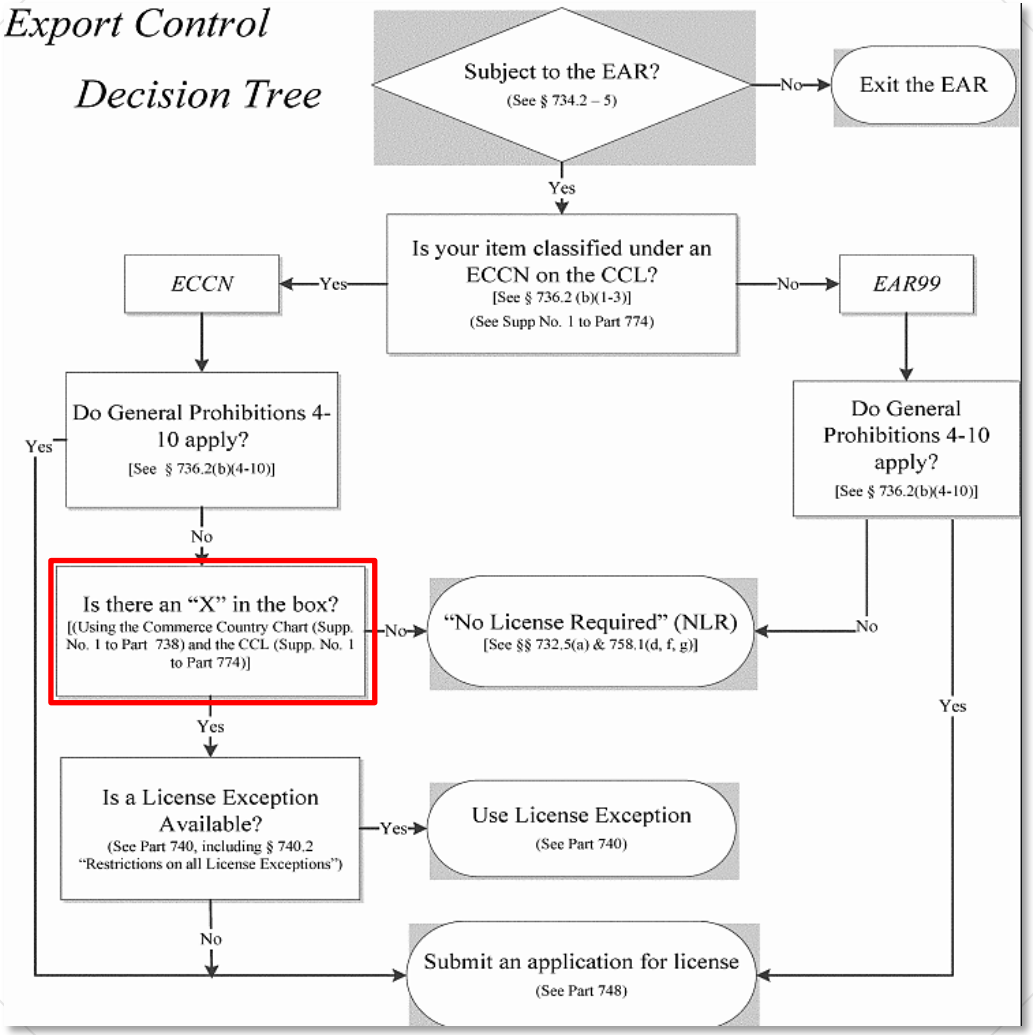
Product Groups

A. "End items," "Equipment," "Accessories," "Attachments," "Parts," "Components," and "Systems"
B. "Test", "Inspection" and "Production Equipment"
C. "Materials"
D. "Software"
E. "Technology"

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/142-eccn-pdf/file

Identifying Export Control Classification Number (ECCN)

EXPORT CONTROL DECISION TREE



Source

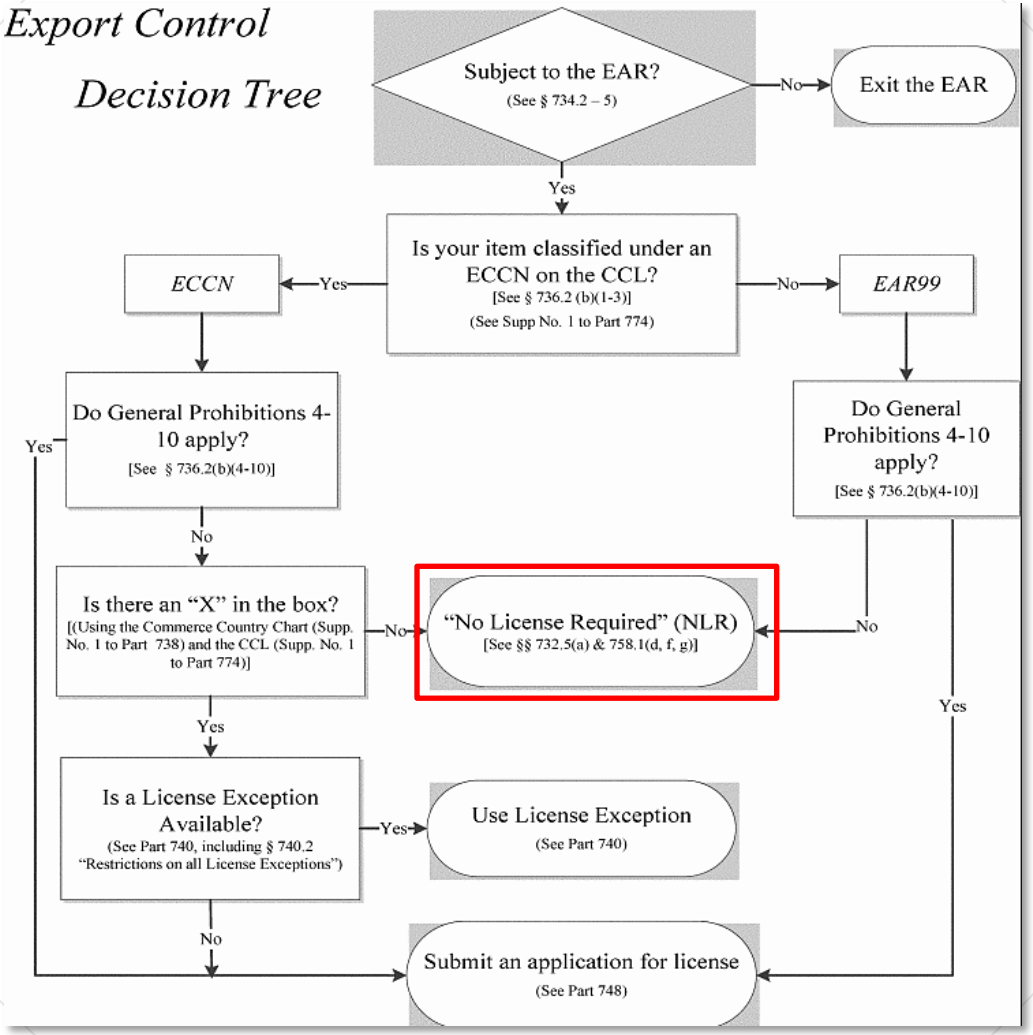
Commerce Country Chart
Reason for Control

Countries	Chemical & Biological Weapons			Nuclear Nonproliferation		National Security		Missile Technology	Regional Stability		Firearms Convention	Crime Control			Anti-Terrorism	
	CB 1	CB 2	CB 3	NP 1	NP 2	NS 1	NS 2	MT 1	RS 1	RS 2	FC 1	CC 1	CC 2	CC 3	AT 1	AT 2
Guyana	X	X		X		X	X	X	X	X	X	X		X		
Haiti	X	X		X		X	X	X	X	X	X	X		X		
Honduras	X	X		X		X	X	X	X	X	X	X		X		
Hong Kong	X	X		X		X	X	X	X	X		X		X		
Hungary	X					X		X	X							
Iceland	X					X		X	X							
India	X			X		X		X	X							
Indonesia	X	X		X		X	X	X	X	X		X		X		

Source: https://www.bis.doc.gov/index.php/documents/regulations-docs/142-eccn-pdf/file

How to cross-reference the ECCN with the Commerce Country Chart?

EXPORT CONTROL DECISION TREE



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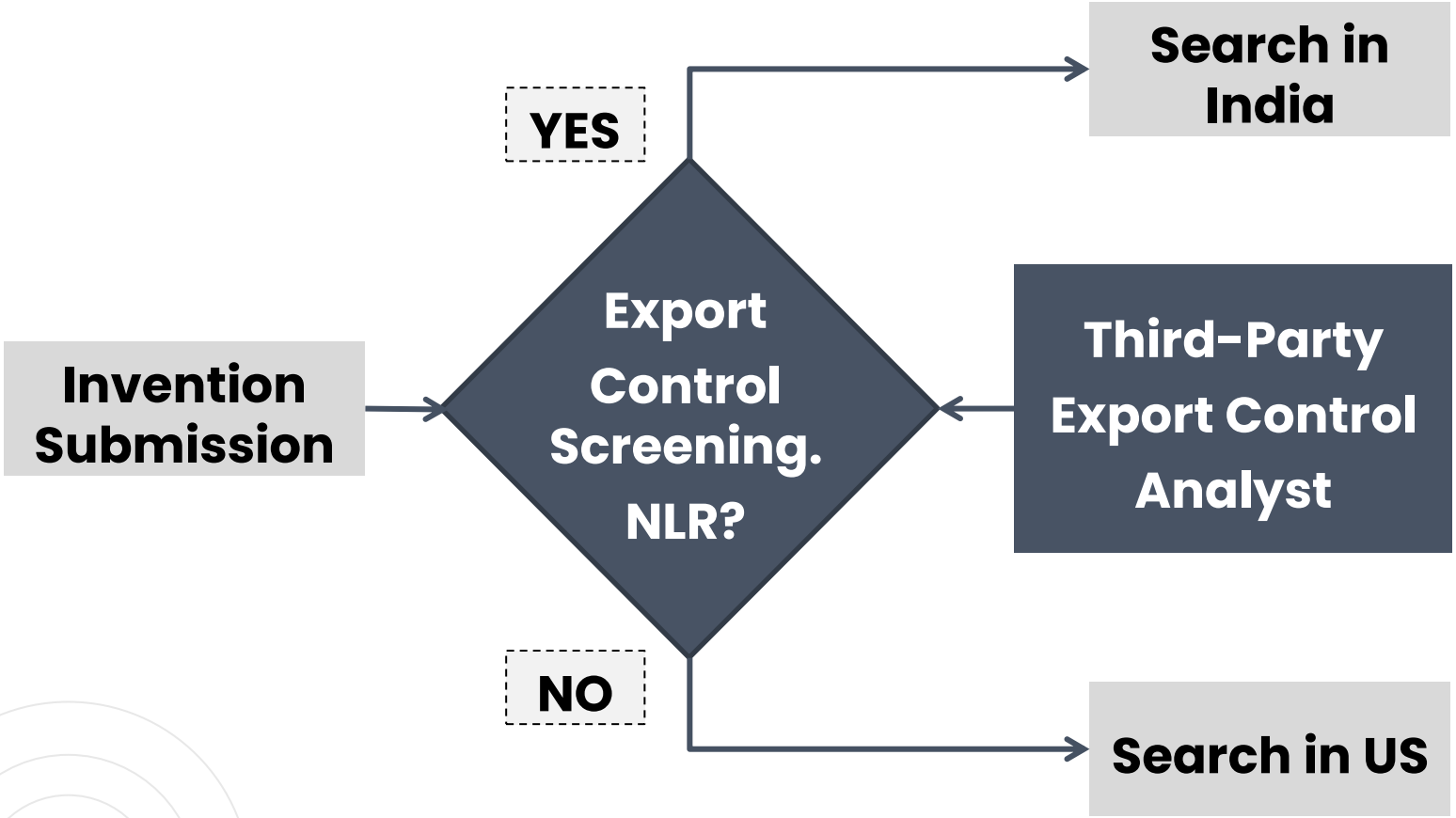
No License Required (NLR)

How to comply with export control regulations while outsourcing patentability searches?



No License Required (NLR) Screening

Cost Benefit Analysis

- **<u>Scenario</u>: A company needing 500 searches a year**

500 Searches a year	No Export Control Screening 500 in US : 0 in India	Export Control Screening 250 in US : 250 in India	Export Control Screening 120 in US : 380 in India
Cost of searches done in US (@$1,200 per search)	$600,000	$300,000	$144,000
Cost of searches done in India (@$600 per search)	-NA-	$150,000	$228,000
Export Control Screening Cost (@$75 per disclosure)	-NA-	$37,500	$37,500
Total Cost	$600,000	$487,500	$409,500
Savings	**-NA-**	**$112,500 (18.75%)**	**$190,500 (31.25%)**

Thanks!

Any questions?

Write to us at
webinar@sagaciousresearch.com

> **The important thing about outsourcing or global sourcing is that it becomes a very powerful tool to leverage talent, improve productivity and reduce work cycles.**

Azim Premji, Chairman of Wipro Limited