

U.S. Patent Applications and Export Control Regulations: Seven Habits for Highly Effective Offshore Outsourcing

INTRODUCTION

The offshore outsourcing of services in connection with the preparation of patent applications to be filed with the U.S. Patent and Trademark Office (USPTO) is a practice that has been gaining momentum in the past few years. According to one report, revenues from the Indian patent services offshoring industry are estimated at \$46m for the calendar year 2007 and are expected to reach \$206m by end 2012.¹ Although at first glance offshore outsourcing may appear to provide a means to reduce costs, this practice raises a number of legal, ethical, and practical issues that should be addressed by those considering embarking on such a venture.

Sending subject matter abroad for the preparation of patent applications is subject to U.S. government export control regulations. The regulations that govern most export activity² include: (1) the Export Administration Regulations (EAR),³ administered by the U.S. Department of Commerce, Bureau of Industry and Security (BIS), and (2) the International Traffic in Arms Regulations (ITAR),⁴ administered by the U.S. Department of State, Directorate of Defense Trade Control (DDTC). These export control regulations prohibit the unlicensed “export” or “re-export” of certain U.S. originated technology, equipment, software, or information for reasons of national security.

¹ See ValueNotes Outsourcing Practice, *Offshoring Patent Services to India* (June 2008), at <http://www.sourcingnotes.com/content/view/347/54>.

² Additional export regulations that may be relevant in this context include the Trading with the Enemy Act, the Customs Modernization Act, the Bureau of Alcohol Tobacco and Firearms Regulations, and the Atomic Energy Act. Giovanna M. Cinelli & Patton Boogs, *United States Export Laws: Unique Applications and Practical Implications Revisited*, Practising Law Institute, Corporate Law and Practice Course Handbook Series (July 2004).

³ 15 C.F.R. §§ 730-774 (2009).

⁴ 22 C.F.R. §§ 120-130 (2009).

Although both the EAR and the ITAR permit the export of unclassified technical data contained in a U.S. patent application pursuant to a USPTO foreign filing license,⁵ such transfers are limited to (i) the data contained in the patent application and (ii) only for a purpose related to the preparation, filing, or possible filing or prosecution of a foreign patent application.⁶ Indeed, the USPTO recently published a notice in the Federal Register specifying that a foreign filing license issued by the USPTO “does not authorize the exporting of subject matter abroad for the preparation of patent applications to be filed in the United States.”⁷

This article begins by giving an overview of the steps necessary to comply with the EAR and ITAR, and the criminal and civil sanctions one may face for failing to comply with these regulations. Next, the article considers the ethical implications of offshore outsourcing of patent services, with accompanying recommendations from the American Bar Association. The article then delineates a number of practical considerations for offshore outsourcing of patent services. Finally, the article presents seven suggestions for minimizing the potential liability and optimizing the potential benefits of offshore outsourcing.

⁵ 15 C.F.R. § 734.3(b)(1)(v) (2009) (specifying items not subject to the EAR, including “[r]egulations administered by PTO [that] provide for the export to a foreign country of unclassified technology in the form of a patent application or an amendment, modification, or supplement thereto or division thereof”) and 22 C.F.R. § 125.2(b) (2009) (specifying that “[t]he export of technical data to support the filing and processing of patent applications in foreign countries is subject to regulations issued by the U.S. Patent and Trademark Office ...”).

⁶ 37 C.F.R. § 5.11(b) (2009) (authorizing “the export of technical data abroad for purposes relating to the preparation, filing or possible filing and prosecution of a foreign patent application...”).

⁷ United States Patent and Trademark Office, Scope of Foreign Filing Licenses, 73 Fed. Reg. 42,781 (July 23, 2008).

COMPLIANCE IN A NUTSHELL

In a nutshell, compliance with U.S. government export control regulations requires that one address the following four questions: (1) Does the subject matter fall under the jurisdiction of the BIS or the DDTC? (2) Where is the subject matter being exported? (3) Who will receive the exported subject matter? and (4) What is the intended use of the exported subject matter?

DOES THE SUBJECT MATTER FALL UNDER THE JURISDICTION OF BIS?

The U.S. Department of Commerce, Bureau of Industry and Security (BIS) has published a number of informative brochures to provide a general understanding of how to comply with the EAR.⁸ In addition, BIS maintains a database of the EAR that can be accessed online.⁹

Most exported goods fall under the jurisdiction of BIS. A key to determining whether the subject matter requires an export license from BIS is determining whether the subject matter has a specific Export Control Classification Number (ECCN). All ECCNs are listed in the Commerce Control List (CCL), which is divided into ten broad categories that are further subdivided into five product groups:¹⁰

Categories:

- 0 = Nuclear Materials, Facilities, and Equipment (and miscellaneous items)
- 1 = Materials, 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 = Propulsion Systems, Space Vehicles, and Related Equipment

⁸ See e.g. U.S. Dept. of Commerce, *Introduction to the Commerce Department's Export Controls*, available at http://www.bis.doc.gov/licensing/bis_exports2.pdf.

⁹ Export Control Regulations Database, available at http://www.access.gpo.gov/bis/ear/ear_data.html.

¹⁰ Suppl. No. 1 to Part 774 of the EAR, available at http://www.access.gpo.gov/bis/ear/ear_data.html#ccl.

Product Groups:

- A. Systems, Equipment and Components
- B. Test, Inspection and Production Equipment
- C. Material
- D. Software
- E. Technology

By way of example,¹¹ a low-tech medical device such as a stethoscope likely would not fall in any of the CCL categories and would not require a license. On the other hand, the technology behind creating a genetically-modified organism would likely be classified as category 1, product group E, and thus would require a license from BIS.

Although self-classification of the subject matter against the CCL is possible, one may request an official classification from BIS either by using their electronic licensing system or by submitting an application form.¹² Generally, less than 10% of items that fall under the jurisdiction of the U.S. Department of Commerce have assigned ECCNs. The remaining 90% of exported items for which an ECCN has not been assigned are designated as EAR99. Although EAR99 items typically consist of low-technology consumer goods, these items may nonetheless require a license if they are exported to a restricted destination, to an end-user of concern, or in support of a prohibited end-use.

Once the subject matter has been classified, the next step in determining whether an export license is required is to cross reference the ECCN against the “Commerce Country Chart” which indicates the reason for control of the item for each country. A license is required if a reason for control is indicated for the country of destination, unless a license exception is available. License exceptions and the conditions for their use are set forth in Part 740 of the

¹¹ These examples were shared by Larry Sullivan, an Export Licensing Counselor from the Bureau of Industry and Security, Western Regional Office, Northern California. Mr. Sullivan emphasized that these should be considered as examples only and that any actual classification would have to be determined on a case-by-case basis.

¹² See U.S. Department of Commerce, *How to Request an Export Control Classification Number (ECCN)*, available at http://www.bis.doc.gov/licensing/bis_eccn.pdf.

EAR. If there is no reason for control specified for the country of destination, then no license is required unless the item is exported to an end-user or end-use of concern.

If an export license is required, an application may be submitted to BIS either electronically through their online Simplified Network Application Process or by preparing a Multipurpose Application form. Once the application is approved, a license number and expiration date is issued for use on all export documents. A BIS-issued license is usually valid for two years.¹³

DOES THE SUBJECT MATTER FALL UNDER THE JURISDICTION OF THE DDTC?

The U.S. Department of State, Directorate of Defense Trade Control (DDTC) is charged with controlling the export and temporary import of defense articles and defense services covered by the United States Munitions List (USML). Exports (such as hardware, technical data, and/or defense services) that are covered in the USML may be found in Section 121 of the ITAR through the DDTC website.¹⁴

Although self-assessment of the subject matter against the USML is possible, one may submit a commodity jurisdiction request to the DDTC to determine whether an item or service is covered by the USML.¹⁵ Generally, any person or company who intends to export an item or service covered under the USML must obtain prior approval from DDTC. The appropriate license form must be submitted for the purpose of seeking approval. There is no need to be registered with the DTTC as a manufacturer or exporter of defense articles or services to request a commodity jurisdiction determination; however, registration with the DDTC is necessary for a

¹³ See U.S. Department of Commerce, *supra* note 8, at 8.

¹⁴ An enumeration of articles in the USML in Part 121 of the ITAR may be obtained through the DDTC website, available at http://pmdtcc.state.gov/regulations_laws/documents/official_itar/ITAR_Part_121.pdf.

¹⁵ See U.S. Department of State, *Guidelines for Preparing Commodity Jurisdiction (CJ) Requests*, available at http://pmdtcc.state.gov/commodity_jurisdiction/index.html.

license to be considered. Details about registration and licensing may be found at the DDTC website.¹⁶

WHERE IS THE SUBJECT MATTER BEING EXPORTED?

Although a relatively small percentage of U.S. exports require a license, virtually all exports to embargoed destinations and countries designated as supporting terrorist activities require a license. Countries designated as supporting terrorist activities include Cuba, Iran, North Korea, Sudan, and Syria. Embargoed countries are listed in Part 746 of the EAR, which can be accessed through the Export Control Regulations Database.¹⁷

WHO WILL RECEIVE THE EXPORTED SUBJECT MATTER?

Certain individuals and organizations may only receive U.S. exports if they have been licensed, even if the items do not normally require a license based on the ECCN number and the Commerce Country Chart. Moreover, some individuals and organizations have been denied export privileges and any export transactions with these parties are prohibited. It is therefore important to screen any parties to the export transaction against several lists, which can be accessed from the BIS website:¹⁸

Denied Persons List

A list of individuals and entities that have been denied export privileges. Any dealings with a party on this list that would violate the terms of its denial order is prohibited.

Unverified List

A list of parties where BIS has been unable to verify the end-user in prior transactions. The presence of a party on this list in a transaction is a “Red Flag” that should be resolved before proceeding with the transaction.

¹⁶ U.S. Department of State, Directorate of Defense Trade Controls, *Licensing*, available at <http://www.pmddtc.state.gov/licensing/index.html>.

¹⁷ Export Control Regulations Database, *supra* note 9.

¹⁸ Bureau of Industry and Security, *Lists to Check*, available at <http://www.bis.doc.gov/complianceandenforcement/liststocheck.htm>.

Entity List

A list of parties whose presence in a transaction can trigger a license requirement under the Export Administration Regulations...

Specially Designated Nationals List

A list compiled by the Treasury Department, Office of Foreign Assets Control (OFAC). OFAC's regulations may prohibit a transaction if a party on this list is involved...

Debarred List

A list compiled by the State Department of parties who are barred by §127.7 of the [ITAR] from participating directly or indirectly in the export of defense articles, including technical data or in the furnishing of defense services for which a license or approval is required by the ITAR.

Nonproliferation Sanctions

Several lists compiled by the State Department of parties that have been sanctioned under various statutes...

WHAT IS THE INTENDED USE OF THE EXPORTED SUBJECT MATTER?

Certain end-uses are prohibited while others may require a license. For example, regardless of what the item is, export to certain entities involved in the proliferation of weapons of mass destruction is prohibited without specific authorization. Information about restricted and prohibited end-uses may be found in Part 744 of the EAR, which can be accessed from the Export Control Regulations Database.¹⁹

SANCTIONS FOR FAILURE TO COMPLY WITH U.S. EXPORT CONTROL LAWS

Violations of the EAR and ITAR can result in serious criminal and civil sanctions. Sanctions imposed against organizations include denial of export privileges and substantial criminal and administrative fines. Culpable individuals also are subject to sanctions, including the levying of heavy fines, exclusion from practice, and imprisonment.

¹⁹ Export Control Regulations Database, *supra* note 9.

SANCTIONS FOR VIOLATION OF THE EAR

Criminal sanctions under the EAR may be imposed against organizations as well as individuals. Knowing violations by an organization may result in a fine of up to the greater of \$50,000 or five times the value of the exports for each violation.²⁰ Knowing violations by an individual may result in a fine of up to the greater of \$50,000 or five times the value of the exports or imprisonment for up to five years, or both, for each violation.²¹ More substantial sanctions may be imposed for willful violations. Willful violations by an organization may result in a fine of up to the greater of \$1,000,000 or five times the value of the exports for each violation.²² Willful violations by an individual may result in a fine of up to \$250,000 or imprisonment for up to ten years, or both, for each violation.²³

Civil penalties may include a fine of up to \$10,000 for each violation, but could be increased to \$100,000 for each violation involving items controlled for national security reasons.²⁴ Additionally, violations of the EAR may result in denial of export privileges²⁵ and exclusion from practice.²⁶

SANCTIONS FOR VIOLATION OF THE ITAR

Under the ITAR, criminal sanctions include a fine of up to \$1,000,000 for each violation by an organization, and a fine of up to \$1,000,000 or up to ten years in prison, or both, for each violation by culpable individuals.²⁷ Civil sanctions include a fine of up to \$500,000 for each

²⁰ 15 C.F.R. § 764.3(b)(1) (2009).

²¹ *Id.*

²² 15 C.F.R. § 764.3(b)(2) (2009).

²³ *Id.*

²⁴ 15 C.F.R. § 764.3 (2009).

²⁵ 15 C.F.R. § 764.3(a)(2) (2009).

²⁶ 15 C.F.R. § 764.3(a)(3) (2009) (“Any person acting as an attorney, accountant, consultant, freight forwarder, or in any other representative capacity for any license application or other matter before BIS may be excluded by order from any or all such activities before BIS.”).

²⁷ 22 U.S.C. § 2778(c) (2006).

violation by an organization, and fine of up to \$500,000 for each violation by culpable individuals.²⁸

ETHICAL CONSIDERATIONS

Relatively few major bar associations have issued formal ethics opinions on the topic of offshore outsourcing of legal services, and those that have have based their analysis on rules originally written for outsourcing of locally-provided legal services.²⁹ In California, formal ethics opinions addressing the issue of offshore outsourcing of legal services have been issued by the Los Angeles County Bar Association³⁰ and the San Diego County Bar Association.³¹ However, no formal opinion on the topic has yet been rendered by the State Bar of California.³²

The American Bar Association (ABA) has issued a formal opinion on the outsourcing of legal services, which specifically addresses “the engagement of a group of foreign lawyers to draft patent applications.”³³ Consistent with earlier opinions, the ABA opinion concludes that U.S. lawyers may outsource legal work to lawyers or nonlawyers outside the country, so long as they adhere to ethics rules requiring competence, supervision, protection of confidential

²⁸ 22 U.S.C. § 2278(e) (2006).

²⁹ James I. Ham, *Ethical Considerations Relating to Outsourcing of Legal Services by Law Firms to Foreign Service Providers: Perspectives from the United States*, 27 PENN ST. INT’L L. REV. 323, 323 (2008).

³⁰ Los Angeles County Bar Association, Professional Responsibility and Ethics Committee, Formal Opinion 518 (2006), available at <http://www.lacba.org/showpage.cfm?pageid=427>.

³¹ San Diego County Bar Association, Legal Ethics Committee, Ethics Opinion 2007-1, available at <https://www.sdcbba.org/index.cfm?pg=EthicsOpinion07-1>.

³² Related ethics opinions issued by the State Bar of California Commission on Professional Responsibility and Conduct include Formal Op. 1971-25 (analyzing the ethical propriety of the use by a law firm of the services of an outside data processing center in view of lawyer-client privilege and lawyer’s duty to preserve the secrets of his client) and Formal Op. 1992-126 (examining whether it is ethically proper for a group of attorneys and/or non-attorneys to form an employment agency which contracts out attorneys to law offices on a temporary basis), available at http://www.calbar.ca.gov/state/calbar/calbar_generic.jsp?cid=10133&id=1129.

³³ ABA Standing Commission on Ethics and Professional Responsibility, *Lawyer’s Obligations When Outsourcing Legal and Nonlegal Support Services*, Formal Opinion 08-451 (2008), available at <https://www.abanet.org/cpr/pubs/ethicopinions.html>.

information, reasonable fees, and not assisting in the unauthorized practice of law.³⁴ Some of the specific recommendations from the ABA opinion are listed below:

- When engaging lawyers trained in a foreign country, the outsourcing lawyer first should assess whether the system of legal education under which the lawyers were trained is comparable to that in the United States;
- The professional regulatory system should be evaluated to determine whether members of the nation's legal profession have been inculcated with core ethical principles similar to those in the United States, and whether the nation's disciplinary enforcement system is effective in policing;
- The judicial system of the country in question should be evaluated to assess the risk of loss of client information or disruption of the project in the event that a dispute arises between the service provider and the lawyer and the courts do not provide prompt and effective remedies to avert prejudice to the client;
- At the outset, it may be necessary for the lawyer to provide information concerning the outsourcing relationship to the client, and perhaps to obtain the client's informed consent to the engagement of lawyers or nonlawyers who are not directly associated with the lawyer or law firm that the client retained;
- The outsourcing lawyer must recognize and minimize the risk that any outside service provider may inadvertently – or perhaps even advertently – reveal client confidential information to adverse parties or to others who are not entitled to access. Written confidentiality agreements are strongly advisable;
- To minimize the risk of potentially wrongful disclosure, the outsourcing lawyer should verify that the outside service provider does not also do work for adversaries of their clients on the same or substantially related matters;
- The fees charged by the outsourcing lawyer must be reasonable and otherwise comply with the requirements of Rule 1.5;
- Finally, the outsourcing lawyer must be mindful of the admonition of Rule 5.5(a) to avoid assisting others to “practice law in a jurisdiction in violation of the regulation of the legal profession in that jurisdiction....”

³⁴ *Id.*

ADDITIONAL CONSIDERATIONS

In addition to the legal and ethical issues discussed above, there are numerous practical considerations that should be addressed before engaging the services of an offshore provider for services related to the preparation of U.S. patent applications. Some of these considerations are discussed below:

EXPORT/IMPORT REGULATIONS OF FOREIGN COUNTRIES

The offshore location where the subject matter is to be transferred may have its own set of import/export regulations that must be followed. For example, China imposes some onerous restrictions on the import and export of technology, and failure to comply with these restrictions could potentially jeopardize the client's interests.³⁵

MALPRACTICE INSURANCE COVERAGE

It is important to review the provisions of any malpractice insurance agreement to determine whether the policy contains any restrictions against offshore outsourcing imposed by the insurance provider.

COPYRIGHT OWNERSHIP IN DELIVERABLES

Under U.S. copyright law, the "work-for-hire" doctrine governing copyright ownership in deliverables is extended to copyrightable works created by employees and, under certain circumstances, by independent contractors.³⁶ The ownership of such works vests by default to the employer for whom the work was prepared, unless the parties have expressly agreed otherwise in a signed written instrument. However, the copyright laws of other countries may

³⁵ See Sonia Baldia, *Intellectual Property in Global Sourcing: The Art of the Transfer*, 38 GEO. J. INT'L L. 499, 510 (2007).

³⁶ See U.S. Copyright Act, 17 U.S.C. § 101 (2006) for the definition of "work made for hire" and 17 U.S.C. § 201(b) (2006) for ownership of work made for hire.

differ. Because intellectual property rights are territorial in nature, the copyright in work produced by offshore service providers may hinge on the laws of the country in which the work is created. Therefore, it is important that any copyrights and rights of ownership are appropriately assigned and are valid and enforceable under the laws of the foreign country.

CONFIDENTIALITY: U.S. CONSTITUTIONAL PROTECTIONS

The importance of protecting client confidential information cannot be underestimated. Breach of confidentiality not only violates the rules of professional conduct, but also may be the basis for tort liability. It is therefore important to consider the unique risks posed to client confidentiality by offshore outsourcing of legal services.

One of the risks when communicating with offshore service providers is a diminished level of U.S. Constitutional and statutory protections. For example, U.S.-based attorneys are better protected against governmental intrusions and other threats when communications are within U.S. borders than when communications are directed to an offshore location. Consider the following:³⁷

When a U.S.-based attorney places a call within the United States, that attorney has a reasonable expectation of privacy in the call. This expectation of privacy is protected by the Fourth Amendment and bolstered by statute enacted by Congress through 18 U.S.C. § 2511(1)(a).³⁸ However, the moment a U.S.-based attorney dials a foreign national who resides overseas, Fourth Amendment and statutory expectations of privacy are nullified.³⁹ When a U.S.-based attorney accesses the international telephone system by dialing “011,” or when a U.S.-based attorney clicks “send” on an electronic transmission destined for a foreign terminus, that attorney’s communications have left the U.S. and its constitutional and statutory protections.

³⁷ Excerpt from Joseph A. Hennessey, *Outsource Your IP Legal Work at Your Client’s – and Your – Peril*, 1 No. 3 LANDSLIDE 46, 48 (2009).

³⁸ 18 U.S.C. § 2511(1)(a) (2006) (“Except as otherwise specifically provided in this chapter any person who intentionally intercepts, endeavors to intercept, or procures any other person to intercept or endeavor to intercept, any wire, oral, or electronic communication; ... shall be punished as provided in subsection (4) or shall be subject to suit as provided in subsection (5).”).

³⁹ See 18 U.S.C. § 2511(f) (2006) (“Nothing contained in this chapter ... shall be deemed to affect the acquisition by the United States Government of foreign intelligence information from international or foreign communications ...”).

International telecommunications can be intercepted by the National Security Agency (NSA)⁴⁰ and any information seized by the NSA can be freely shared with other federal government agencies.⁴¹ Hence, any time a U.S.-based attorney makes a phone call or sends an email to an offshore vendor, there is a risk that the information will be lawfully intercepted by the NSA and transferred to the other agencies of the federal government to the detriment of their clients.

SEVEN HABITS FOR HIGHLY EFFECTIVE OFFSHORE OUTSOURCING

Though clearly not for the faint of heart, offshore outsourcing can potentially offer a viable alternative for preparing U.S. patent applications at reduced cost. Delineated below are seven suggestions for minimizing the potential liability and optimizing the potential benefits of offshore outsourcing:

1. OBTAIN THE CLIENT'S WRITTEN INFORMED CONSENT.

Offshore outsourcing exposes the client (and the attorney) to increased risks, including the potential for breach of confidentiality, conflicts of interest, and criminal and civil sanctions for breach of export regulations. The client should be made aware of these risks and provide written informed consent that explicitly gives permission to allow materials to be sent abroad for the purpose of patent preparation.

⁴⁰ The National Security Agency intercepts communications through an automated global satellite-based interception and relay system known as ECHELON. It has been estimated that ECHELON intercepts as many as three billion communications every day, which are then searched by the intelligence agencies of the U.S., Britain, New Zealand, Australia, and Canada. See Erin L. Brown, *Echelon: The National Security Agency's Compliance with Applicable Legal Guidelines in Light of the Need for Tighter National Security*, 11 COMMLAW CONSPECTUS 185 (2003).

⁴¹ The legal authority for the National Security Agency to share information with other federal agencies was affirmed in *Jabara v. Webster*, 691 F.2d 272 (6th Cir. 1982), cert. denied, 464 U.S. 863 (1983) (“We do not believe that an expectation that information lawfully in the possession of a government agency will not be disseminated, without a warrant, to another government agency is an expectation that society is prepared to recognize as reasonable.”).

2. BE SELECTIVE IN CHOOSING THE OFFSHORE SERVICE PROVIDER.

As with any business decision, it is important to consider the capabilities and limitations of the people and organizations to which services will be outsourced. This can become significantly more complex when the people and organizations are located outside the U.S.

Below is a non-exhaustive list of questions to consider in evaluating an offshore service provider:

- Is the offshore service provider well established and stable?
- Does the offshore service provider have adequate systems in place to avoid conflicts of interest?
- Does the offshore service provider have adequate systems in place to protect confidentiality?
- Are there any language or cultural barriers that would hinder effective communications with the offshore service provider?
- Does the country have its own import/export regulations that must be followed?
- Does the country have a legal framework that protects confidential information?
- Does the country have a legal framework that allows assignment of copyrights to the employer or contracting organization?
- Is the judicial system of the country likely to honor a choice of law designation in contracts?

3. BE SELECTIVE IN CHOOSING THE SUBJECT MATTER TO BE SENT ABROAD.

Because offshore outsourcing exposes the client (and the attorney) to increased risks, it is important to mitigate these risks by carefully considering whether specific subject matter is

suitable for offshore outsourcing. Subject matter that may not be suitable for offshore outsourcing includes the following:

- Highly fact-intensive subject matter that would require the offshore service provider to become familiar with every minute detail of the client's project. This is an area of concern because it may not be feasible to spend the time on apprising the offshore service provider of the salient facts in light of the time it would take to complete the project locally.
- Highly sensitive matters that may involve U.S. national security interests. This is an area of concern because the risk of exposure to criminal and civil sanctions in the event of a breach of compliance with U.S. export control regulations may outweigh the potential benefits of offshore outsourcing
- Matters that would involve shifting decision-making roles, such as rendering legal opinion or advice, to the offshore service provider. This is an area of concern because offshore service providers are not engaged in the practice of law but instead work in a subordinate capacity for the hiring attorney.

4. REQUEST OFFICIAL CLASSIFICATION OF THE SUBJECT MATTER FROM BIS.

When determining whether the subject matter falls under the jurisdiction of the U.S. Department of Commerce, Bureau of Industry and Security (BIS), do not self-classify the subject matter. Instead, request an official classification from BIS either by using their electronic application system (SNAP-R, Simplified Network Application Process Redesign) or by

submitting the Multipurpose Application Form BIS-748P.⁴² A detailed guide on how to request an official classification may be accessed through the BIS website.⁴³

5. REQUEST OFFICIAL CLASSIFICATION OF THE SUBJECT MATTER FROM DDTC.

When determining whether the subject matter falls under the jurisdiction of the U.S. Department of State, Directorate of Defense Trade Control (DDTC), do not self-classify the subject matter. Instead, request a commodity jurisdiction review for an official determination by the DDTC as to whether the subject matter is covered by the U.S. Munitions List. Guidelines for preparing commodity jurisdiction requests may be found through the DDTC website.⁴⁴

6. CHECK YOUR MALPRACTICE INSURANCE POLICY.

Before outsourcing patent preparation services to an offshore provider, review your malpractice insurance policy to be sure that it does not include any restrictions against offshore outsourcing. For greater certainty, discuss the matter with your insurance provider.

7. CONSIDER HIRING AN EXPORT COMPLIANCE SPECIALIST.

Developing and maintaining an effective program for compliance with U.S. export control regulations can be daunting. Indeed, there has even been a U.S. Patent Application filed for a computer-based method for performing export compliance review of electronic documents.⁴⁵ In light of the complexity of U.S. export control regulations, it may be wise to retain the services of an experienced export compliance specialist. A brief internet search

⁴² An official Multipurpose Application Form BIS-748P may be obtained by ordering online at <https://www.bis.doc.gov/forms/orderingformsonline.html> or by contacting BIS's Form Request Service at (202) 482-3332.

⁴³ U.S. Department of Commerce, Bureau of Security and Industry, *How to Request an Export Control Classification Number (ECCN)*, available at http://www.bis.doc.gov/licensing/bis_eccn.pdf.

⁴⁴ U.S. Department of State, Directorate of Defense Trade Control, *Guidelines for Preparing Commodity Jurisdiction (CJ) Requests*, available at http://pmdtcc.state.gov/commodity_jurisdiction/documents/cj_guidelines.pdf.

⁴⁵ Export Compliance Sys. & Method, U.S. Patent Application 10/317,541 (filed Dec. 11, 2002).

revealed that export compliance specialists are available to assist firms wishing to retain offshore vendors to assist with patent prosecution.⁴⁶ Investing in the services of a specialist beforehand may well save time and trouble in the future.

CONCLUSION

The offshore outsourcing of services in connection with the preparation of U.S. patent applications is not a venture to be undertaken lightly. Given the complexity of the U.S. export control regulations, the potential consequences for violations, the increased risk of confidentiality breaches, etc., one would be well advised to conduct a full risk-benefit analysis before engaging in offshore outsourcing practices. Only after the potential benefits are weighed against the possible liabilities can it be known whether offshore vendors offer a realistic and cost-effective alternative to providers of patent preparation services located within the borders of the U.S.

⁴⁶ See The Middle Office, *A Conversation on Export Controls*, available at <http://themiddleoffice.wordpress.com/2009/05/05/a-conversation-on-export-controls/>.