May 22, 2023

Via Electronic Mail and Regulations.gov

Mr. Sam Marullo
Director, CHIPS Policy
U.S. Department of Commerce
1401 Constitution Ave NW
Washington, DC 20230
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RE: Public Comments of Innovation Alliance, U.S. Startups and Inventors for Jobs (USIJ), and Licensing Executives Society (USA & Canada), Inc. for Notice of Proposed Rulemaking on Preventing the Improper Use of CHIPS Act Funding (RIN 0693–AB70)

Dear Mr. Marullo:

We appreciate the opportunity to provide comments in response to the Commerce Department's Notice of Proposed Rulemaking on Preventing the Improper Use of CHIPS Act Funding ("Proposed Rule").[1] We applaud the passage of the CHIPS Act and appreciate the Administration's efforts to ensure CHIPS Act funding does not inadvertently benefit the United States' adversaries or otherwise put our national security at risk.[2] At the same time, we have serious concerns that the breadth of the restrictions contained in the Proposed Rule—particularly those restricting certain technology licensing agreements—will harm rather than protect U.S. economic and national security interests.

Patent licensing is a critical component of the U.S. economy. According to the Department of Commerce, in 2022 intellectual property (IP) licensing ("charges for the use of intellectual property") accounted for over $126.8 *billion* in U.S. exports. In 2022, according to the most recent data available from the Bureau of Economic Analysis, China accounted for over $8.8 billion in U.S. exports of IP. This was the third largest category of U.S. services exports. In 2022, the U.S. experienced a $15.7 billion trade surplus overall with China with respect to services exports, which includes IP licensing.

In addition to driving revenue for U.S. businesses, IP licensing Innovative U.S. research and development (R&D) companies (including companies working on 5G, 6G and next generation wireless cellular standards, artificial intelligence, cloud computing, big data compression and processing, and other fields) rely on strong patent protections to recoup their investment in R&D. The ability to freely transfer their technology to other companies that are better able to commercialize that technology also enables and accelerates the kind of follow-on innovation that benefits American industry and consumers. Prohibiting U.S. companies from licensing patents

[1] Preventing the Improper Use of CHIPS Act Funds, Dep't of Commerce, Nat'l Inst. of Standards & Tech., Docket No. NIST–2023–0001, 88 Fed. Reg. 17439 (March 23, 2023).
[2] *See id.* (explaining that the Act contains limitations on funding recipients "[t]o ensure that funding provided through this program does not directly or indirectly benefit foreign countries of concern").

to companies in China and elsewhere would primarily disadvantage U.S. innovators, limiting their access to overseas markets, including massive markets like China.

The Proposed Rule would disrupt this essential feature of the global innovation ecosystem, to the detriment of innovative U.S. businesses. In particular, the Proposed Rule's expansive definitions of "technology licensing" and "foreign entities of concern" would sweep in the patent licensing activities of U.S. companies doing business in China and prevent them from recouping their investments in technology R&D, without meaningfully preventing non-U.S. companies or governments—including in China—from accessing or developing these technologies, or products derived from them.

The CHIPS Act's "technology clawback" provision requires the Secretary to recover an award to any funding recipient that "knowingly engages in any joint research or technology licensing effort" with foreign entities of concern and that relate to a technology or product that raises national security concerns.[3] The Proposed Rule provides that "neither a funding recipient nor its affiliates may knowingly engage in any joint research or technology licensing with a foreign entity of concern that relates to a technology or product that raises national security concerns."[4] The Proposed Rule defines "technology licensing" as any "contractual agreement in which one party's patents, trade secrets, or know-how are sold or made available to another party."[5] This language broadly restricts the ability of funding recipients to license patents to certain third parties, even if the patent license does not result in any transfer of know-how or other capability.

This restriction amounts to unilateral U.S. disarmament in the global race for technology leadership. By restricting CHIPS Act funding recipients from licensing patents to businesses in China—including subsidiaries or affiliates of other U.S. companies operating in China—the Proposed Rule effectively prevents U.S. funding recipients from receiving payment for their patented technologies, while doing nothing to prevent those third parties from accessing the underlying patents. The research and development capabilities for such technologies is already available in many countries, including China, including on open source information, or is already subject to global university research, existing collaboration and testing ventures, or are publicly disclosed to facilitate standardization and other license agreements.

Moreover, patents themselves—unlike trade secrets or technical "know-how"—are public documents, searchable worldwide on the U.S. Patent and Trademark Office's (USPTO) website. Prohibiting U.S. businesses from licensing to foreign companies would thus do nothing to prevent businesses in China or elsewhere from accessing patented technology. Rather, the restriction further disadvantages U.S. companies by ensuring that foreign entities can use U.S. technology without paying licensing fees and depriving U.S. innovators of revenue for their IP. Without licensing contracts enforceable in U.S. courts, U.S. innovators will have no recourse to prevent this free infringement or recover lost licensing royalties.

In addition to forcing U.S. innovators to choose between their constitutionally protected patent rights and access to CHIPS Act funding that will bolster their competitiveness in the

[3] 15 U.S.C. § 4652(a)(5).
[4] Proposed Rule, 88 Fed. Reg. 17449.
[5] Proposed Rule, 88 Fed. Reg. at 17448.

semiconductor industry, the Proposed Rule would reach conduct by U.S. companies that do not even choose to apply for CHIPS Act funds. Under the Act, "foreign entity of concern" includes, among others, an entity that is "owned by, controlled by, or subject to the jurisdiction or direction of" China, Russia, North Korea, and Iran. This expansive definition would extend to U.S. companies' subsidiaries in China, as well as employees who may be Chinese nationals—or even U.S. or non-Chinese nationals working for the company but located in China—who may seek to enter licensing agreements with CHIPS Act recipient companies. The prohibition on a funding recipient's "affiliates" from engaging in a licensing transaction only magnifies the impact of this broad definition of "foreign entity of concern."

We also note that the Proposed Rule also does not specify whether licensing transactions that occur pursuant to an existing export license from the Commerce Department would be carved out from the technology clawback requirement, or whether such licensed transactions would nevertheless be disqualified from CHIPS Act funding. We urge the Department to clarify in the Proposed Rule that companies holding a U.S. export license would not be prohibited or disqualified from applying for or receiving CHIPS Act funding, and would not be subject to the technology clawback provision, for engaging in technology licensing transactions that would be otherwise permitted by the export license.

U.S. companies depend on access to foreign markets to remain competitive in the global innovation economy. Federal law already recognizes this necessity: "The national security of the United States requires that the United States maintain its leadership in the science, technology, engineering, and manufacturing sectors, including foundational technology that is essential to innovation. Such leadership requires that United States persons are competitive in global markets."[6] Limitations on U.S. companies doing business in China would reduce revenues and significantly impact the ability of U.S. innovators to compete in critical technology areas, including 5G and Artificial Intelligence.

Similarly, by forcing companies to choose between CHIPS Act funding and market competitiveness, the Proposed Rule would—at least with respect to patented technologies—undercut the very purpose of the Act to "strengthen[] the leadership of the United States in semiconductor technology."[7]

We urge the Commerce Department to ensure that the Proposed Rule fulfills the purpose of the CHIPS Act and allows U.S. innovators to continue licensing their patented technologies—without any trade secrets or know-how—to protect U.S. competitiveness in the semiconductor industry and secure U.S. economic and national security by ensuring U.S. leadership in innovation of these critical technologies.

Sincerely,

Innovation Alliance
U.S. Startups and Inventors for Jobs (USIJ)
Licensing Executives Society (USA & Canada), Inc.

[6] Export Control Reform Act of 2018 § 1752(3), *codified at* 50 U.S.C. § 4811(3).
[7] CHIPS Act § 103(b)(6), *codified at* 15 U.S.C. § 4652(d)(3).