Procopio Perspectives Podcast

Patent Considerations in View of the Nearshoring Trends to the Americas

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Intro: Welcome to Procopio Perspectives, a podcast featuring award-winning corporate and litigation attorneys providing useful legal insights on the latest issues of the day. Now here's your host.

Ernest Huang: Welcome to our podcast on patent protection for the Americas in view of nearshoring trends. My name is Ernest Huang and I will be representing this discussion from the perspective of the United States. I am a partner in the Silicon Valley office of Procopio, Cory, Hargreaves & Savitch, where I specialize in building global patent portfolios for companies of all sizes. With with me are Serge Lapointe to represent Canada and Allan Jarry to represent the perspective from Central and South America, primarily from the perspectives of Mexico, Chile, Brazil, and Columbia. Serge, Allan, please give a brief introduction of yourselves.

Serge Lapointe: Thanks, Ernest. Hello everyone. My name is Serge Lapointe. I'm a patent agent and partner with the firm Fasken, the largest law firm in Canada. My background is a PhD in biochemistry and my day-to-day job is to assist companies, principally those in the life science sector, in creating value with their intellectual property, particularly in patenting their new technologies and by providing strategic advice for managing and growing their patent portfolio.

Allan Jarre: Hi, Ernest, Serge, pleasure. So my name is Allan Jarry. I am the CEO and Founding Partner of JarreIP, a IP boutique baw firm based in Chile, providing IP services in all Latin countries and the Caribbean countries as well. My background, it's business and engineering with an MBA and a Master's of Intellectual Property in Concord, New Hampshire at Franklin Pierce. With over 30 years of experience, my focus has been in creating portfolio management strategies for patents, trademarks, and intellectual property rights and R&D initiatives.

Ernest: Thanks, Allan. Thanks Serge. Now the focus of this podcast is regarding patent protection. In view of the recent developments in nearshoring to the Americas. The present nearshoring trends have been brought about primarily by the United States-Mexico-Canada Agreement or the USMCA, which encourages companies to move their production industries from locations such as China into a NAFTA country. In view of the strict trade policies by the United States outside of the USMCA, this agreement leaves Canada, Chile, and Mexico to be some of the few places to presently have a free trade agreement and bilateral tax treaties with the United States, which has otherwise started to levy tariffs on various goods on other countries outside of the USMCA. A wide variety of industries have started to onshore into one of these three countries. For example, I have seen countries start to nearshore with Canada with respect to steel,

air compressors and heavy trucks, as well as Mexico for automobiles parts, and electronic parts for which both companies have developed a fair amount of expertise.

This is done to send goods tariff-free into the United States, whether the final assembly is conducted in Canada, Mexico, or the United States. Mexico itself has risen to the number two trading partner with the United States, which has forced it to develop supply chains, not just into the United States, but to other Latin American countries as well, to keep pace with the demand. As the development of such industries continues to grow, it has become important to understand patent protection, not just in the United States, but also across the supply chain from Canada to Mexico and the rest of Latin America. There are some important nuances in each of these jurisdictions. For example, the United States has a first filing requirement to file in the United States if any part of the invention was developed in the United States. This is true even if the inventors are not U.S. residents, and even if the inventor involves foreign residents. Serge, are there any key nuances that foreign companies need to know which would require them to first file a patent application in Canada?

Serge: Fortunately, for companies, Canada does not have similar requirements. There is no obligation to file in Canada first. Furthermore, Canada works under a first to file regime such that the Canadian Patent Office will recognize priority of a foreign application filed within twelve months.

Ernest: Thank you, Serge. Allan, how about from your side?

Allan: Same here. Ernest, meaning in Latin American countries, we are all based on the first to file system and there are no regulations imposing local companies or investors to file their respective in the respective countries first. Maybe it is important to mention though that there are some small difference in the region when talking about business software-related AA patents, where in general terms, the U.S. will be a little bit more relaxed towards patentability of such patent obligations.

Ernest: Thank you, Allan. And now let's turn to incentives. In the United States, there are several incentives that are also provided for filing patent applications. For example, applications directed to green technology or otherwise towards reducing greenhouse gas emissions may be eligible for accelerated examination without any fees from the patent office. So Serge. Are there any notable government incentives that we should be aware of for procuring patents or conducting research in Canada?

Serge: Yes, yes, there are many such incentives in Canada. Regarding research, the Canadian government provide the scientific research and experimental development tax program known as SERED. This program is one of the most generous R&D tax incentive programs globally offering tax credits for expenditure on eligible R&D activity, which can include the development of patentable technologies. There is also the Strategic Innovation Fund and many additional funds, R&D program, startup-related programs and numerous governmental grants that support the overall process of innovation, including research development, commercialization and patenting programs. In the province of Quebec where I reside, there is a deduction for innovative companies. This provincial program is known in many countries as a patent box. This program offers a reduced tax rate on income derived from the commercialization of intellectual property, which has been developed through R&D activities conducted in the province of Quebec.

Furthermore, like in the United States, Canada also has a system where it is possible to expedite examination of patent application relating to green technologies. This actually applies to any technology helpful to resolve or mitigate environmental impacts or conserve the natural environment and resources. The eligible technologies may target various sectors such as water, air, soil, energy, fuel, etc., and may include all types of inventions, either devices, method, processes, composition, bacteria, enzymes, and the like. On top of that, the request to obtain the Green Tech Expedited Examination is free of charge. So our clients have successfully benefited from this program to obtain their Canadian patent as quickly as within a year.

Ernest: Thank you, Serge. Allan, how about in your jurisdictions?

Allan: Well, Ernest, in Mexico as in many other countries in the Latin American region, there are several incentives. For example, Chile offers a robust framework of incentives to support research, development and the protection of intellectual property. There are several programs created by different institutions in Chile that offer IP and R&D-related incentives. I will mention a few, but the list is long. Grants and co-financing for R&D projects and patent protections. Equity-free funding. Visa support. R&D projects. And visa support, office space and mentoring for startups. Financial support for technology commercialization and technology transfer. Tax incentives and deductions of up to 35% of R&D expenses from income tax could be achieved. Patent Prosecution Highway, fast track for patent examination with the three USMCA countries plus Brazil and Colombia. Reduced fees for SMEs just to mention a few of them. Sector specific programs for mining and energy sectors and a new green patent fast track prosecution examination. So in Chile there's, as you see a robust system and they're like in Chile, similar, but maybe not so abundant systems are in Mexico, Colombia, and Brazil.

Ernest: Thank you for that, Allan. So why don't we turn to software? Because this is a question that is raised quite often by clientele outside the U.S. as well as in the U.S. It may be surprising to know, but in the U.S. it is somewhat difficult to obtain patent protections directly to software. This is because software is often treated as merely an abstract idea, as in it could in theory be done with pencil and paper or in one's mind. To avoid such an issue, software-based patent applications need to have something more that makes an improvement to the physical world, such as improving memory or processing usage or automating some machine. Serge, how about Canada?

Serge: Yes, it is possible to patent software innovations in Canada. However, like in the U.S., patentability of software inventions can be complex and tricky. To avoid being considered as a mere abstract idea from a patentable subject matter point of view, a software innovation should have, start of quote, a tangible effect or change in the real world when it is executed or when it is functionally applied, end of quote. So it's not enough for the software to solely manipulate process or present data without producing a concrete tangible result. To have a tangible effect or change in the real world, the software must produce a physical effect or a change in the operation of a physical process, machinery or the computer itself. So the invention claims will also bring a solution to a technical problem. So the specific test for this can vary and are often subject to the interpretation by the patent examiners or by the courts.

Ernest: Thank you for that, Serge. Allan, how about in your jurisdictions?

Allan: Well, in Mexico, Chile and Brazil, in general terms, in Latin American countries, similar to the U.S. but a little bit more like Canada, software patents are allowed only after a deep examination prosecution process. And, as it is the case in Canada, a tangible effect or change in the real world when it is executed or when its functionality is applied will be required. Having said so, several patents has been in these countries, especially for apps and AI-related software, when using a smartphone as their means of operation, arguing that the actual physical components of the smartphone are controlled by the software. For instance, furthermore, in Chile, the key to obtain patents for algorithm is eliminating their abstraction. For example, by demonstrating in the patent application, its specific technical application such as determining concrete variables and using technical means to execute the algorithm.

Ernest: Thank you, Allan. Now let's turn to another question I often receive, which is regarding system claims. In the U.S., system claims are not really used that often for products composed from components as there is a possibility that it is not possible to infringe on the claims without a divided infringement issue. Thus, patents are normally focused on each component developed for the company or methods of manufacture. For products manufactured in your jurisdiction that require components to be shipped to your jurisdiction for assembly into a product, what are the best types of patents to obtain to protect a component manufacturer? Should we obtain patents only on the components or finished goods made with the components as well, or methods of manufacture? What are the differences? Serge, why don't you explain?

Serge: Well, in my view, and especially for most important and valuable technologies, companies should try to patent every aspect of their technology to cast a wider net for infringers. That means obtaining enforceable patent claims for the components, the finished good mixed with the components, the methods of manufacturers, the methods of use, etc. This will ensure the creation of multiple layers of patent protection around the technology or product, making it much more difficult for a competitor to circumvent the patent or attack its validity. This is generally not that difficult in Canada and not expensive either. Indeed, unlike the U.S., where the examiner will typically issue a restriction requirement dividing those particular aspects in multiple patents, a Canadian examiner will generally consider the various aspects of the invention in a single patent application, provided the inventive concept is the same.

Allan: Thank you very much, Serge. Allan, how about your jurisdictions?

Allan: Well, I think we have good news for companies in the U.S. for U.S. companies or companies having patent portfolios in the U.S. in Mexico. In Mexico, most of the times they make patent grant decisions based on the process in the U.S. This means that if a patent application within the same family has been granted in the U.S., Mexican examiners will cite that patent and request that the claims be adjusted to match what was already being granted in that country. And in that way you will have a granted patent in Mexico. Regarding Brazil, it is similar to what Serge mentioned in that they typically do not divide applications as they do in the U.S. Last but not least, regarding Colombia, the main problem we face when prosecuting patents in Colombia is that they tend to be very strict in the scope of protection they grant. Examiners usually require you to limit the claims to the examples presented in the patent specifications.

Ernest: Thank you, Allan. Now let's turn to another question that I often get, although it's a little bit silly, it's regarding language concerns. So as you may know, the U.S. requires filings

to be conducted in English. The good thing about English is that there aren't really any significant differences between the English of different jurisdictions that would cause the USPTO to reject your application, be it in British English, Canadian English, Australian English or otherwise. So how about French and Spanish? Does the language of one country work with the other countries or does it need to be retranslated to accommodate the local differences? Serge, do you want to speak about French standards with the Canadian patent office?

Serge: Sure. So Canada is officially a bilingual country. Therefore a patent application can be filed and prosecuted either in English or French. The applicant decides at filing. For both languages, I would say there aren't really significant enough differences between the English or French of different jurisdiction that would cause a serious problem with the Canadian Intellectual Property Office. No matter if the patent application originates from North America, Europe, Africa, or anywhere else. The language issue is probably more serious with translations. For instance, if the original application was drafted in Chinese, Japanese, Spanish, etc. But even for this, the Canadian patent rules provide a mechanism for correcting errors in translation.

Ernest: Thank you, Serge. So Allan, how about Spanish? I do understand that there are some concerns that Spanish may differ quite drastically across the Latin American countries, but is that sufficient enough to cause concerns?

Allan: Not really, Ernest. Leaving Brazil aside, which is Portuguese, as we all know, Spanish is the same language for all Latin American countries, including Spanish-speaking countries in Central America and the Caribbean. For example, El Salvador. What really differs, Ernest, are all the different pronunciations and slang words across Latin American countries. Where I need to say Chileans, we are the worst speaking and pronouncing the Spanish.

Ernest: [Laughs] Thanks for that, Allan. So while we are on the subject of Latin America, actually, I also understand that there are several countries that are not part of the PCT. So how does one access the PCT from Latin American countries that are not part of the PCT?

Allan: Well, Ernest, the PCT non-member countries in Latin America are Argentina, Bolivia, Uruguay, Paraguay, and Venezuela. Additionally, Guyana and Suriname are also not members of the PCT. Good news about Uruguay, though, we have seen that the Congress approved the PCT. Nevertheless, it is not clear when and how it will be implemented. Now, in order to use the PCT system, the only way to use it, it's from a non-PCT country, is via residence in A PCT-member country. Accordingly, what is generally done is these cases is that a resident of a PCT member country is included as one of the applicants. For example, an IP agent from Chile, which is a PCT country, who will process an Argentina application, be a PCT, could be included and solve the issue.

Ernest: Thank you, Allan. So finally, Serge, Allan, are there any recent or upcoming changes in your jurisdictions that you would like our listeners to know before we conclude this podcast?

Serge: Certainly. The Canadian government has just proposed modifications to the Canadian patent rules to finally introduce a patent term adjustment or PTE system. So the PTE

will provide a national term for patents for unreasonable delays caused by the Canadian Intellectual Property office. The PTE system is an obligation deriving from the United States and Mexico Canada agreement that entered into fourth on July 1st, 2020. This new PTE system will take effect on January 1st, 2025, and it will apply to Canadian patent applications filed on or after December 1st, 2020, that have been suffering unreasonable delays in their issuance. An unreasonable delay is defined as a delay in issuance of more than five years from the filing date or three years from the examination request date, whichever is later, with certain exclusions, of course. For those interested in learning more, you can consult my professional webpage on the Fasken website, since I just published a short article about this upcoming change.

Allan: Ernest, Mexico has been updating its intellectual property law to align with the international standards and enhance protection for businesses. Most important maybe is the replacement of the previous law of industrial property. In November, 2020, the new law introduced significant changes including adjustment to patent terms and definition to patentable subject matter. Also, the USMCA agreement enacted changes to IP rights such as protection for biologic pharmaceuticals and enforcement procedures for digital property infringement. With respect to Chile, PPH and fast tracks for green patents are the latest, but provisional patents ballot for twelve months, and a new and a shortened prosecution term in the supplemental protection request. It's also to mention, important to mention, however, an average prosecution in Chile has shortened, generally resulting in prosecution terms lower than five years, which means for three or three to four years. Finally, in Brazil, they have had successful plan to conduct the backlog they used to face for many, many years. So patents no longer take ten years to process as they usually lead. Most recommended approach for patent prosecution in Brazil is to use the PPH system, the fast track for green patents, and the fast track for technologies related to certain diseases among other alternatives to expedite the process.

Ernest: Thank you very much, Serge and Allan for your time. If our listeners have any questions regarding any of these jurisdictions that have been discussed, please feel free to reach us out to us at any time. Thank you and have a good day.

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