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## Trade Secrets -- Federal Patent Law Preemption of State Trade Secret Law -- *Kewanee Oil Co. v. Bicron Corp.*

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affect a political campaign should not be subsidized."<sup>183</sup> The Supreme Court has yet to attach constitutional weight to this interest. And it has yet to determine what level of invidiousness is reached by tax classifications which infringe on fundamental rights. Until it does so, the First Amendment claims raised in *Americans United* remain novel and troubling, and it would seem that sufficiently substantial constitutional question exists to justify an exception to the Anti-Injunction Act.

Nonetheless, the Supreme Court's unwillingness to depart from the rigid and clumsy test enunciated in *Enochs* leaves tax-exempt organizations virtually without a remedy in the face of potentially arbitrary infringements of their First Amendment rights. Given *Enochs'* virtual foreclosure of access to a precollection remedy even where basic liberties are threatened with destruction, it is submitted that the Anti-Injunction Act should have been interpreted as permitting injunctive relief where a substantial constitutional question involving fundamental rights is coupled with a showing of irreparable injury.

RICHARD J. SHEA

**Trade Secrets—Federal Patent Law Preemption of State Trade Secret Law—*Kewanee Oil Co. v. Bicron Corp.***<sup>1</sup>—Harshaw Chemical, a subsidiary of plaintiff, Kewanee Oil Co., completed a sixteen year research program which produced the first seventeen-inch sodium iodide thallium crystal ever manufactured in the United States.<sup>2</sup> The crystal is used for the detection of ionizing radiation. The manufacture of the seventeen-inch crystal represented a significant advancement in the field.<sup>3</sup> Three years after the production of the first seventeen-inch crystal, Bicron Corporation, the defendant, was formed by three former Harshaw employees, all of whom had been involved in the research program. Within nine months, Bicron had produced its first seventeen-inch crystal.<sup>4</sup> The

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<sup>183</sup> *Christian Echoes Nat'l Ministry, Inc. v. United States*, 470 F.2d 849, 854 (10th Cir. 1972) (emphasis deleted).

<sup>1</sup> 416 U.S. 470 (1974) (5-3 majority).

<sup>2</sup> *Id.* at 473. While Harshaw was not alone in its interest in growing sodium iodide thallium crystals, no other research team had been able to grow a 17-inch crystal. See Brief for Petitioner at 5-6, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), reprinted in 7 Trade Reg. Law Reprints (no. 3a) 43 (1974) [hereinafter cited as Law Reprints]; Brief for Respondent at 5-6, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974), reprinted in Law Reprints, *supra*, at 121.

<sup>3</sup> *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1076 (6th Cir. 1973).

<sup>4</sup> 416 U.S. at 473.

plaintiffs claimed that Bicron and the individual defendants had appropriated 40 trade secrets. Both the federal district court and the United States Court of Appeals for the Sixth Circuit found that twenty of the forty trade secrets allegedly appropriated by the defendants were protected by Ohio trade secret law.<sup>5</sup> However, the Sixth Circuit reversed the lower court's decision to grant a permanent injunction against the use or disclosure of those secrets<sup>6</sup> and held Ohio's trade secret law unconstitutional as applied to those secret processes which were appropriate subjects of protection under the standards set out by section 101 of the United States Patent Code,<sup>7</sup> but were excluded from such protection by the public use of the discoveries for over one year.<sup>8</sup> The Supreme Court granted certiorari and noted a conflict among the circuits over the applicability of the doctrine of preemption.<sup>9</sup> HELD: Neither the patent clause of the Constitution nor patent laws enacted by Congress prevent the enforcement of state laws protecting trade secrets.<sup>10</sup>

<sup>5</sup> 478 F.2d at 1076-77. The record of the district court proceeding was ordered sealed in order to prevent the disclosure of Kewanee's secrets. The decision is unreported.

<sup>6</sup> Id. at 1086. See Brief for Petitioner at 4, reprinted in Law Reprints, supra note 2, at 43.

<sup>7</sup> 35 U.S.C. § 101 (1970). This section provides: "Inventions patentable: Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

<sup>8</sup> 478 F.2d at 1086. 35 U.S.C. § 102(b) (1970) provides in part: "Conditions for patentability; novelty and loss of right to patent: A person shall be entitled to a patent unless . . . (b) the invention was patented or described in a printed publication in this or in a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States . . . ."

<sup>9</sup> 414 U.S. 818 (1973). There is some doubt as to whether a conflict actually exists. It appears that no other federal court has decided the precise question confronted by the Sixth Circuit: whether trade secret protection of patentable discoveries (within the meaning of § 101) in the form of enforcement of employee secrecy obligations is consistent with federal law. The great majority of the cases decided by the other circuits which found no preemption involved unpatentable secrets or secrets easily discoverable on marketing of the product. See, e.g., *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), cert. denied, 402 U.S. 945 (1971); *Water Serv., Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Winston Research Corp. v. Minnesota Mining and Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965); *Servo Corp. of America v. General Elec. Co.*, 337 F.2d 716 (4th Cir. 1964), rehearing denied, 342 F.2d 993 (1965), cert. denied, 383 U.S. 934, rehearing denied, 384 U.S. 914 (1966). Thus, they involve less serious conflicts with patent policy, and therefore would present a much weaker case for the need to preempt state trade secret laws.

When state laws act to impede the achievement of policy goals inherent in federal laws legitimately enacted by Congress, the doctrine of preemption requires that the state laws must be struck down. As the Court said in *Hines v. Davidowitz*, 312 U.S. 52 (1941), "Our primary function is to determine whether, under the circumstances of the particular case, . . . [state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress. . . ." 312 U.S. at 67.

<sup>10</sup> 416 U.S. at 491. At least three of the eight justices sitting on the *Kewanee* case (Justice Powell did not take part) disagreed with the majority's contention that the conflict between patent law and trade secret protection was not sufficiently substantial to require preemption. In a concurring opinion, Justice Marshall contended that conflict was substantial, but that

Ohio's trade secret law, like that adopted by most states through the common law doctrine of unfair competition, protects developers of new techniques or other useful information from certain types of discoveries or disclosures of that information.<sup>11</sup> Thus, trade secret law creates a quasi-property right to secrecy of discoveries<sup>12</sup> and discourages certain types of competition deemed contrary to the public interest. Not only does state trade secret law protect the holder from improper discoveries through industrial espionage,<sup>13</sup> but it also allows the holder to exploit those secrets commercially by enforcing implied or express contracts with employees not to disclose secrets revealed in confidence.<sup>14</sup> This permits the holder to use the secret process without creating a danger of loss of the secret.

As compared with the protection afforded by state trade secret law, federal patent protection is less readily available, but more pervasive in scope. Enacted pursuant to the Article I, section 8 mandate "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . ,"<sup>15</sup> the patent laws reward and encourage invention by granting the applicant a seventeen-year monopoly on the invention, thereby excluding all others from any use whatsoever, even if arrived at by independent discovery.<sup>16</sup> However, the patent laws greatly restrict the circumstances in which patent protection is available. The discovery must amount to a "new and useful process, machine, or composition of matter"<sup>17</sup> constituting a significant advancement in the field which is not "obvious at the time the invention was made to a

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Congress had evidenced a specific intent not to preempt trade secret protection. 416 U.S. at 494 (concurring opinion). Justices Douglas and Brennan dissented, contending that the conflict was so substantial that trade secret protection in the form of an injunction against the use of any discovery was completely preempted. 416 U.S. at 499 (dissenting opinion).

<sup>11</sup> 416 U.S. at 475. Ohio defines trade secrets along the lines of 4 Restatement of Torts § 757, comment b (1939):

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's own business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating, or preserving materials, a pattern for a machine or other device, or a list of customers.

B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 498, 192 N.E.2d 99, 104 (1963); accord, W.R. Grace & Co. v. Hargadine, 392 F.2d 9, 14 (6th Cir. 1968).

<sup>12</sup> See *DuPont Powder Co. v. Masland*, 244 U.S. 100 (1917) (Holmes, J.). Considering the exclusionary rights of the holder and his ability to dispose of it in licensing contracts, the trade secret bears many of the essential characteristics of property.

<sup>13</sup> While trade secret law is for the most part a product of the common law development of the doctrine of unfair competition, industrial espionage law is often statutory. See Note, Patent Preemption of Trade Secret Protection Meeting Judicial Standards of Patentability, 87 *Harv. L. Rev.* 807, 826 (1974).

<sup>14</sup> *Curry v. Marquart*, 133 Ohio St. 77, 79, 11 N.E.2d 868, 869 (1937).

<sup>15</sup> U.S. Const. art. I, § 8, cl. 8.

<sup>16</sup> 416 U.S. at 490.

<sup>17</sup> 35 U.S.C. § 101 (1970).

person having ordinary skill in the art."<sup>18</sup> The class of innovations which are sufficiently new, useful and nonobvious to qualify for protection under the rigid standards of the patent laws would appear to be quite restricted. Thus, there exists a wide body of information which is valuable and unknown enough to constitute a trade secret, yet insufficiently new, useful and nonobvious to meet the rigorous standards of sections 101 and 103 of the federal patent laws.<sup>19</sup>

Federal patent law also sets out a number of limitations on the patentability of those inventions which meet the standards of invention and obviousness. These limitations relate to the circumstances of invention.<sup>20</sup> The applicant loses his right to a patent if he has dedicated the invention to a public use for more than one year prior to the patent application. The policy behind that provision is clear. The inventor should not be allowed to delay his application until there is a danger of invention by someone else, since that would permit an extension of the monopoly significantly past the seventeen-year statutory limit.<sup>21</sup> In *Kewanee*, both the court of appeals and the Supreme Court found that the appropriated trade secrets were clearly patentable within the guidelines of sections 101 and 103, but were ineligible for patent protection under the one year of public use exception.<sup>22</sup>

The public use exception demonstrates one significant underlying objective of both patent policy and federal commerce policy—the maximization of free competition. While invention can be encouraged through the granting of monopolies, those monopolies must be limited in scope and in duration. The patent laws restrict the protection afforded to that absolutely necessary to stimulate inventive endeavors. The patentee must completely disclose all dis-

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<sup>18</sup> 35 U.S.C. § 103 (1970) states:

Conditions for patentability; non-obvious subject matter: A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

<sup>19</sup> 416 U.S. at 482.

<sup>20</sup> See 35 U.S.C. § 102 (1970).

<sup>21</sup> *Pennock v. Dialogue*, 27 U.S. 1, 19 (1829); *Atlas v. Eastern Air Lines, Inc.*, 311 F.2d 156, 159 (1st Cir. 1962); *Minnesota Mining and Mfg. Co. v. Kent Indus.*, 274 F. Supp. 993, 997 (E.D. Mich. 1967). Section 102(b) has been interpreted as requiring that the inventor choose whether to rely on trade secret or patent protection. *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 224 (2d Cir. 1971). Section 102(b) could be viewed as a congressional determination that one year of public use amounts to a dedication to the public and an abandonment of all property rights in the invention. Such an interpretation would have allowed disposition of *Kewanee* without consideration of the issue of preemption, on the grounds that Ohio's trade secret law had mistakenly been applied to non-secrets. Neither the Supreme Court nor the lower courts adopted this interpretation, since it would have constituted a preemption of all trade secret protection lasting over one year.

<sup>22</sup> 416 U.S. at 474; 478 F.2d at 1078.

coveries sought to be patented by providing specifications for his invention in the patent application. The Patent Office follows a policy of requiring applications to be drawn with extreme specificity. All facets of the invention not within the narrow statutory guidelines of novelty and nonobviousness must be excluded from the patent and left unprotected.<sup>23</sup> Federal courts are even more strict in minimizing effects of patent grants on free competition.<sup>24</sup> Infringement is very rarely found, and a large percentage of all patent grants appealed are overturned.<sup>25</sup> Finally, the Supreme Court has constantly expanded the grounds on which a patent can be challenged and enlarged the class of potential challengers by striking down doctrines such as licensee estoppel.<sup>26</sup>

The statutory requirement that all aspects of the inventions patented must be carefully described and completely disclosed is designed to facilitate copying at the termination of the seventeen-year period.<sup>27</sup> In a long line of cases the Court has struck down any attempt to extend protection past that termination date, although that protection may be derived from state unfair competition law.<sup>28</sup>

In addition to facilitating copying at the expiration of the patent, disclosure works to minimize anti-competitive effects in another manner. While the patent protects the patentee from direct copying of his discoveries by competitors, it does not prevent others from utilizing the unpatented, underlying principles of the invention and applying those principles to other fields. This "cross-fertilization" process is an important element of the effort of the patent laws to maximize scientific advancement while still protecting inventors from the type of copying which would leave their original efforts unrewarded.<sup>29</sup>

While the aims of patent and trade secret law are generally complementary and not contradictory, insofar as they are both designed to encourage invention, the areas of conflict between patent policy and trade secret law may be quite significant in some instances,<sup>30</sup> as *Kewanee* demonstrates. Adopting the trichotomy ar-

<sup>23</sup> See *Lear v. Adkins*, 395 U.S. 653 (1969), for an example of the rigor of Patent Office standards. There, the applicant required six years and a number of redrawings of his application to narrow it sufficiently to satisfy the Office. *Id.* at 658. See also 35 U.S.C. § 112 (1970).

<sup>24</sup> See *Universal Oil Co. v. Globe Co.*, 322 U.S. 471, 484 (1944).

<sup>25</sup> Note, *supra* note 13, at 823.

<sup>26</sup> See *Lear v. Adkins*, 395 U.S. 653, 671 (1969). *Lear* overruled *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). Previous to *Lear* the licensee of patent rights had been estopped from claiming the invalidity of the patent as a defense to non-payment of royalties.

<sup>27</sup> Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 Harv. L. Rev. 1432, 1441 (1967).

<sup>28</sup> *Scott Paper v. Marcalus Mfg. Co.*, 326 U.S. 249, 256 (1945); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 120 (1938).

<sup>29</sup> Doerfer, *supra* note 27, at 1441.

<sup>30</sup> 416 U.S. at 474.

ticated by Judge Friendly in *Painton & Co. v. Bourns, Inc.*,<sup>31</sup> the Court examined the interaction of the two systems of law as applied to the categories of: (1) clearly patentable trade secrets, (2) questionably patentable trade secrets, and (3) clearly unpatentable trade secrets.<sup>32</sup> It is in the first category in which *Kewanee's* secrets fall, and it is in that category that the most substantial conflicts between the two bodies of law occur.<sup>33</sup>

<sup>31</sup> 442 F.2d 216, 224 (2d Cir. 1971).

<sup>32</sup> 416 U.S. at 474. "Patentable" within the meaning of *Kewanee* and *Painton* is defined as sufficient to meet the standards of §§ 101 and 103. The Court indicated that protection of unpatentable secrets should not be preempted because of the minimal effect of such protection on patent law. Although it could be argued that Congress, in setting up the standards of § 103, implicitly denied protection to all obvious discoveries and preempted trade secret protection of such discoveries, the Court rejected such arguments, mainly relying on *Goldstein v. California*, 412 U.S. 546 (1973). 416 U.S. at 483.

*Goldstein* would seem to be controlling as to matters not falling within § 101, but eligible for trade secret protection (e.g., customer lists, corporate organization). Such secrets, like the sound recordings in *Goldstein*, are in an area which Congress, by its silence, seems to have left to the states by its manifestation of a desire not to regulate.

As to secrets falling within § 101, but not meeting § 103 standards of non-obviousness, *Goldstein* seems less relevant. Section 103 can be read as an expression of an intent not to protect obvious advancements in any way because such advancements should not be encouraged and deserve no protection. Supporting that interpretation is the dictum in *Goldstein* that the patent laws, in striking a careful balance between invention and free competition interests, imply that certain advancements should be afforded no protection whatsoever, whether by patent law or by state law. 412 U.S. at 569.

As to category (2), questionably patentable inventions, the *Kewanee* Court reasoned that trade secret protection would not deter the inventor from seeking a patent because of the clear superiority of patent protection in terms of duration and breadth. 416 U.S. at 487. Whether that appraisal of the relative protections is accurate will greatly depend on the nature of the invention. If it arguably does not meet the standard of non-obviousness, the potential for monopoly through trade secret protection is minimal since independent discovery within a short time is likely. If, on the other hand, the invention meets the section 101 standard of invention and the section 103 standard of non-obviousness, yet is still questionably patentable because it arguably falls into one of the technical exceptions embodied in section 102, monopoly by secrecy seems a real possibility.

Furthermore, the public interest in dissemination of non-obvious, inventive ideas, an interest embodied in the patent laws and their disclosure requirement, would indicate that inventions fitting the standards of sections 101 and 103 should be either patented or left unprotected. That interest is far less substantial when discoveries obvious to the industry in general are involved. As to inventions not clearly meeting the standards of sections 101 and 103, Congress seems to have left some regulation available to the states by its silence. But see *Wydick, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee*, 56 J. Pat. Off. Soc'y 4 (1974).

<sup>33</sup> There is little doubt that the Constitution leaves some room for state regulation of intellectual "property" in the form of trade secret protection. In *Goldstein*, 412 U.S. 546 (1973), where a statute punishing the piracy or re-recording of sound recordings was challenged, the Supreme Court recognized that the powers enumerated in the Patent and Copyright Clause are clearly non-exclusive: while states may be precluded from regulating subject matter which by its nature does not allow a diversity of treatment, *id.* at 553, trade secret law, like copyright regulation of recordings, is not such an area. *Id.* at 558-59. Matters of peculiarly local concern in which diversity of regulatory standards has a minimal effect on commercial intercourse fall within the concurrent powers of state and federal governments. *Cooley v. Board of Wardens*, 53 U.S. (12 How.) 318 (1851). In point of fact, trade secret protection is rather uniform. At any rate, it is difficult to imagine how non-conformity could really have any prejudicial or detrimental effects.

The court of appeals in *Kewanee* found Ohio's trade secret law unconstitutional not because of any inherent conflict between that body of law and the Patent Clause, but because of conflict with the patent laws enacted by Congress in pursuit of its constitutional power.<sup>34</sup> In order to obtain the seventeen-year monopoly which accompanies a patent, the inventor must completely forego secrecy and reveal all specifications to the public.<sup>35</sup> Disclosure is the quid pro quo of the grant of the patent monopoly. The public benefit of disclosure of the invention during as well as after expiration of the seventeen-year period, justifies this monopoly as an exception to the federal policy of free competition in ideas.<sup>36</sup>

However, in refusing to find preemption of trade secret protection of patentable discoveries, the Supreme Court and other federal courts have recognized that the federal policy favoring disclosure is not absolute.<sup>37</sup> Several prior Supreme Court decisions have indicated that patent law affords the inventor two alternatives: (1) maintain secrecy and attempt to prevent copying of the invention under the protection of state trade secret law; or (2) disclose the discoveries and obtain a statutory monopoly of seventeen years on the invention.<sup>38</sup> Trade secret protection aids the inventor in his choice of the first alternative by allowing him to disclose the secret to a few persons in a confidential (employees) or contractual (licensees) relationship with him. It permits commercial exploitation of the discovery without the creation of a danger of disclosure and copying by competitors.

The encouragement of the secrecy alternative embodied in state trade secret law may prove detrimental to the public policy objectives set out by patent law. Generally, the choice of trade secret protection will bar the process of cross-fertilization encouraged by

<sup>34</sup> 478 F.2d at 1086.

<sup>35</sup> 35 U.S.C. § 154 (1970). See, Doerfer, *supra* note 27, at 1440-41.

<sup>36</sup> *Universal Oil Co. v. Globe Co.*, 322 U.S. 471, 484 (1944); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933). At least one view of the disclosure policy of patent law is that it is a reflection of the general federal antitrust policy embodied in the Sherman Antitrust Act, 15 U.S.C. §§ 1 et seq. (1970). That interpretation has led one commentator to view those Supreme Court cases finding preemption of state law by patent law as essentially antitrust cases. See Adelman, *An Antitrust Decision: Lear v. Adkins*, 16 *Wayne L. Rev.* 77 (1969); Adelman, *Trade Secrets and Federal Preemption: The Aftermath of Sears and Compco*, 49 *J. Pat. Off. Soc'y* 713 (1967).

In their recognition of patent law as drawing a balance between public interests in competition and research and development, Adelman's theories have a great deal of merit. Procompetitive policies do not arise only out of the Sherman Act. Those policies are inherent in the Patent Code itself. For an expression of patent policy favoring competition predating the Sherman Act, see *Kendall v. Winsor*, 62 U.S. (21 How.) 322 (1858).

<sup>37</sup> Doerfer, *supra* note 27, at 1444. See also cases cited in note 9 *supra*.

<sup>38</sup> See *Universal Oil Co. v. Globe Co.*, 322 U.S. 471, 484 (1944); *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186, 187 (1933); *Becher v. Contoure Laboratories*, 279 U.S. 388, 391 (1929); *DuPont Powder Co. v. Masland*, 244 U.S. 100, 102 (1917); *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 402-03 (1911); *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236, 250-51 (1905).



the patent system's disclosure requirement.<sup>39</sup> While protection of secrecy may encourage invention of the particular device involved by giving the inventor the economic advantage of a "headstart,"<sup>40</sup> it will discourage advances in parallel fields by preventing the "experimentation by analogy" fostered by federal patent disclosure.<sup>41</sup>

Furthermore, there is some danger that encouragement of the secrecy alternative will upset the balance between the promotion of invention and the preservation of competition, which is the aim of the seventeen-year limit on patent monopoly protection. While a number of secrets can be discovered through reverse engineering in a matter of months or years, there exists the possibility that the subject matter will be of a nature that it reveals nothing relative to its production methods, even after appearance on the open market.<sup>42</sup> Since the injunctive relief granted by the district court carried no termination date, Bicron could make use of the technology necessary to grow seventeen-inch crystals only when that technology became public knowledge. Whether that date would come in thirty days or thirty years could be merely a matter of speculation.<sup>43</sup> Thus, trade secret protection may aid the inventor in perpetuating a monopoly longer than under patent protection. For that reason the court of appeals found the need to apply the doctrine of preemption in *Kewanee*.<sup>44</sup>

Although the possibility of a perpetual monopoly is inherent in the unassailable right of an inventor to keep the invention secret, only trade secret protection can make that alternative profitable to the inventor. Without it, the inventor usually could maintain secrecy only at a prohibitive expense, since he would be required to pay exorbitant salaries in order to maintain employee loyalty, unless he was able to market the invention unaided by employees. Only rarely could the holder of the undiscoverable trade secret be able to withhold public knowledge of his methods without the

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<sup>39</sup> Doerfer, *supra* note 27, at 1441.

<sup>40</sup> The headstart afforded by trade secret law is essentially the period required by competitors to discover the secret through reverse engineering once the product is placed on the market. Without trade secret protection, the secret would be immediately subject to discovery by competitors. With trade secret protection, the holder enjoys the advantage of being the sole marketer of a product between the time of marketing and the time of discovery through reverse engineering.

<sup>41</sup> Doerfer, *supra* note 27, at 1441.

<sup>42</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. at 497 n.2. The Court recognized the possible effects of trade secrecy relative to inventions that could be placed on the market without revealing those secrets in *Kendall v. Winsor*, 62 U.S. (21 How.) 322, 329, 330 (1858).

<sup>43</sup> Citing a number of scientific authorities for the principle that inventions are usually the product of multiple independent discoveries, Chief Justice Burger contended that only in very rare circumstances would a discovery not be duplicated within a very short time by independent development. 416 U.S. at 490. Such an assumption is of questionable validity, both scientifically and legally. It is certainly not reliable enough to preclude the possibility that some inventors might be able to maintain a monopoly of over seventeen years through reliance on trade secret protection.

<sup>44</sup> 478 F.2d at 1086.

enforcement of confidential or contractual secrecy. Trade secrecy protection adds to the right of secrecy the right to exploit the invention without the public disclosure required to obtain a patent.

The majority of the Supreme Court in *Kewanee* recognized the effects of trade secret protection on the disclosure objective inherent in patent law: "If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist."<sup>45</sup> Nevertheless, Chief Justice Burger rejected preemption on the grounds that there is "no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents . . . ."<sup>46</sup> He reasoned that patent protection was so superior to trade secret protection that few inventors would choose the latter.<sup>47</sup>

Justice Marshall's concurring opinion points out the weaknesses inherent in the majority's determination that deterrence from a patent application was not a likely consequence of the existence of trade secret protection. "State trade secret law provides substantial protection to the inventor who intends to use or sell the invention himself rather than license it to others, protection which in its unlimited duration is clearly superior to the 17-year monopoly afforded by the patent laws."<sup>48</sup> For those inventions which do not reveal the underlying trade secrets upon appearance on the market, the possibility of reliance upon state trade secret law rather than federal patent protection is substantial. In *Kewanee*, the appearance of the seventeen-inch crystal on the market did nothing to aid other companies or researchers in their so-far fruitless efforts. Thus, it seems unlikely that competitors would have discovered independently *Kewanee's* secrets either within the few years which Chief Justice Burger predicted<sup>49</sup> or within the seventeen-year patent period during which economic protection for the inventor would be assured and disclosure of the secrets compelled. Since *Kewanee* abandoned a pending patent application during the course of litigation against *Bicron*,<sup>50</sup> it apparently expected a long period of monopoly-by-secrecy.

The possibility of protection beyond the seventeen-year patent period may not be the sole reason for an inventor's decision to rely upon trade secret protection rather than to seek a patent. Since the patent applicant requires significant legal and technical aid, the patent system is quite expensive. Thus, the inventor may forego a

<sup>45</sup> 416 U.S. at 489.

<sup>46</sup> *Id.*

<sup>47</sup> *Id.* at 490.

<sup>48</sup> *Id.* at 494 (concurring opinion).

<sup>49</sup> See note 43 *supra*.

<sup>50</sup> Brief for Respondents in Opposition to Certiorari at 8, n.10, reprinted in 7 Trade Reg. Law Reprints (no. 3a) 19 (1974) [hereinafter cited as Law Reprints].

patent application and rely on the headstart presented to him by secrecy protection. By immediately initiating production and hoping that the process of reverse engineering takes at least a few years, the inventor may monopolize that market for a few years and then exploit the advantage arising from being first on the market.<sup>51</sup> Without trade secret protection, such a headstart is likely to be so brief that a patent will be sought. Thus, trade secret protection may be sufficient in duration to provide economic benefits substantial enough to deter patent application.

The majority also reasoned that the scope of trade secret protection is so narrow in comparison with that of patent protection that reliance on it by a holder of patentable secrets is extremely unlikely.<sup>52</sup> While a patent bars competition in the product or method patented, according to the *Kewanee* majority trade secret protection of the sort found in *Kewanee* takes the form of a single injunction against competition by a single company. That injunction merely resulted from wrongful breaches of confidence by *Kewanee* employees. However, the real protection afforded *Kewanee*, or any other holder of a patentable trade secret which can be placed in public use without being disclosed, is not merely an injunction against one competitor. The availability of injunctive relief under state trade secret law operates as a prohibition against all competitors from use of the only available means of competition—the offer of greater salaries to the holder's employees to induce disclosure. Allowing such competition, which might be illegal under state law, serves the interest in free competition reflected by the federal Patent Code's policies of disclosure and monopoly of limited duration.

The concept that pro-competitive patent policy may require states to permit some forms of competition generally deemed socially undesirable is not completely foreign to the Supreme Court. In *Lear*

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<sup>51</sup> The loss of that headstart value was a key reason for industry uproar in the wake of the court of appeals decision in *Kewanee*. The Sixth Circuit's finding evoked an apparent outbreak of concern by business interests throughout the nation. Amicus Curiae briefs urging reversal were filed by the American Bar Association, the Bar Association of the District of Columbia, the Ohio State Bar Association, the American Patent Law Association, the New York Patent Law Association, the American Chemical Society, the Manufacturing Chemists Association, the Association for the Advancement of Invention and Innovation, the Licensing Executive Society, the Electronic Industries Association, and the Chamber of Commerce. See Law Reprints, supra note 50, passim. Most predicted disastrous economic effects from preemption of trade secret protection. One group estimated economic losses of over \$1 billion should the Supreme Court affirm the Sixth Circuit's *Kewanee* decision. Brief for Licensing Executives Society as Amicus Curiae at 91-92, *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470 (1974), reprinted in Law Reprints (no. 3a), supra note 50, at 123. See note 2 supra.

One amicus brief, filed by the National Patent Council, Inc. and the National Small Business Association, Inc., urged that the Court affirm the Sixth Circuit. Reprinted in Law Reprints (no. 3b), supra note 50, at 1.

<sup>52</sup> *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 490 (1974). "Where patent law acts as a barrier, trade secret law functions relatively as a sieve." *Id.*

*v. Adkins*,<sup>53</sup> the Court struck down a principle of state contract law aimed at preventing irresponsible commercial behavior because of the conflict between that principle and anti-monopolistic patent policy.<sup>54</sup> The principle that a contracting party cannot deny the value of what he has contracted for when seeking rescission<sup>55</sup> was rejected as the Court overruled the long-standing doctrine of licensee estoppel.<sup>56</sup> The Court held that a licensee of patent rights would no longer be estopped from claiming the invalidity of the patent.<sup>57</sup> The federal policy of encouraging competition by limiting patent grants to those absolutely necessary to promote development was viewed as requiring an exception to state doctrine of contract estoppel in order to maximize the number of potential challengers to any patent.<sup>58</sup> In both *Lear* and *Kewanee* state laws prevented a single competitor from using a discovery not protected by a valid patent because of the manner in which that competitor obtained the use of the discovery. Thus, *Lear* indicates that the federal policy favoring free competition which underlies the patent laws should override state law prohibiting certain forms of competition, even when that competition comes from a single source.

In *Sears, Roebuck & Co. v. Stiffel*,<sup>59</sup> and its companion case,

<sup>53</sup> 395 U.S. 653 (1969).

<sup>54</sup> *Id.* at 671.

<sup>55</sup> *Id.* at 656.

<sup>56</sup> *Id.* at 671. The doctrine of licensee estoppel had been gradually eroded since its formulation. *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950). See *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257, 258 (1945) (allowing licensor to argue that the patent had expired); *Westinghouse Elec. & Mfg. Co. v. Formica Insulation Co.*, 266 U.S. 342, 353 (1924) (allowing licensor or assignor to narrow the scope of the patent grant).

<sup>57</sup> *Lear v. Adkins*, 395 U.S. at 671.

<sup>58</sup> *Id.* at 670. The *Lear* Court was also indirectly faced with the issue of trade secret protection and its conflict with patent policy. *Lear* sought to avoid the payment of royalties on the grounds that the possible failure of *Adkins*' patent would release them from any contractual obligations. *Adkins* argued that his release of trade secrets would provide sufficient consideration for the licensing contract. Stating that no royalties could be required after the patent grant because that grant terminated secrecy, the majority sidestepped the issue by remanding to the state court for consideration of the question of the enforceability of royalties requirements in the pre-patent period. *Id.* at 675. This would imply that a patent application will terminate any agreement under which royalties are paid for the right to utilize trade secrets. Whether the agreement should be enforceable at all if the secret had not been patented was left unresolved by the *Lear* majority.

Three dissenting justices (Black, Douglas, and Warren) would have made any enforcement of royalties dependent on the patentability decision. "[P]rivate arrangements under which self-styled 'inventors' do not keep their discoveries secret but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws . . ." *Id.* at 677 (dissenting opinion). At least those three justices seemed willing to apply the doctrine of preemption of trade secret protection by refusing to enforce licensing agreements. One interpretation of *Lear* is that the contract required patentability and not that a contract providing for the licensing of trade secrets would be unenforceable. Congressional and industry reaction to *Lear* indicates a rejection of that interpretation.

<sup>59</sup> 376 U.S. 225 (1964).

*Compco Corp. v. Day-Brite Lighting, Inc.*,<sup>60</sup> the Court also struck down state unfair competition law because of its conflict with federal patent policy.<sup>61</sup> There, the conflict was more direct than in *Kewanee* since the injunction granted under state law effectively precluded all competitors from copying the design of the articles involved. The defendants had been permanently enjoined from copying the design of certain articles because of possible consumer confusion as to the identity of the manufacturer. Although the plaintiffs did not possess a valid design patent, the lower court had issued an injunction which effectively gave the original manufacturer a patent-type monopoly on sales of the item.<sup>62</sup> The rationale of the *Sears* decision was that state law regulating the use of ideas or products not protected by a valid patent conflict with the patent policy that a limited statutory monopoly should act as the sole exception to the general policy favoring free competition in ideas.

On its face, the protection provided by state unfair competition law in *Sears* and *Compco* was broader and more similar to a patent than that provided by Ohio's trade secret law in *Kewanee*. Bicon was not enjoined from producing a seventeen-inch crystal, but merely from using *Kewanee's* secrets in doing so.<sup>63</sup> The majority in *Kewanee* found that distinction compelling, and refused to apply the doctrine of preemption in *Kewanee*, notwithstanding its application in *Sears* and *Compco*.<sup>64</sup>

Despite that apparent distinction, the practical difference between the anti-competitive effects of the *Sears* or *Compco* injunction and the *Kewanee* injunction is minimal. In all three cases, a state's interest in preventing forms of competition deemed contrary to public policy was used to justify the grant of an effective monopoly over a product. The monopoly in *Sears* was a result of a judicial decree that a certain design could not be copied; the monopoly in *Kewanee* was the product of a decree that the only realistically available means of copying, that is, use of trade secrets acquired through *Kewanee* employees, was closed to any competitor until *Kewanee* chose to reopen it. The major difference between the two cases is that the alleged secret in *Sears* was revealed by marketing while it was not in *Kewanee*. In *Kewanee*, trade secret protection was sufficient to provide a monopoly on production while in *Sears* additional protection had to be sought because the invention lost its secrecy once placed in commercial use. In each case, the type of discovery for which patent protection is normally available<sup>65</sup> was so well-protected by state law that the inventor did not need to submit

<sup>60</sup> 376 U.S. 234 (1964).

<sup>61</sup> 376 U.S. at 231; 376 U.S. at 236-37.

<sup>62</sup> *Id.*

<sup>63</sup> *Kewanee Oil Co. v. Bicon Corp.*, 478 F.2d 1074, 1077 (6th Cir. 1973).

<sup>64</sup> 416 U.S. at 482-83.

<sup>65</sup> That is, an invention satisfying § 101; see note 7 *supra*.

to the rigors and public safeguards of the patent system in order to protect his exploitation of the invention.<sup>66</sup>

*Lear*, *Sears*, *Compco*, and a number of earlier cases finding preemption of state unfair competition law<sup>67</sup> seem to point to a consistent interpretation of patent law. These cases indicate that any limitation of free competition in technology must fall within the careful balance set out by the standards adopted by the Patent Office. However, the *Kewanee* Court noted that each of these cases involved free competition in ideas "in the public domain" and reasoned that they should not be read as prohibiting secrecy altogether or precluding an inventor's decision not to place his ideas "in the public domain."<sup>68</sup> Nonetheless, it would appear that where the protection of state law permits commercial exploitation with little danger of a loss of secrecy, as in the *Kewanee* situation, the disincentive to seek a patent seems so great that every avenue of competition should be left open. *Sears* and *Lear* indicated that federal interest in free competition can override any state interest in prohibiting unfair competition, even where the unfair competition is in the form of the inducement to a breach of a contractual or fiduciary duty.<sup>69</sup> As Justice Stone stated in *Scott Paper Co. v.*

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<sup>66</sup> The fact that the inventors in *Sears* and *Compco* sought to obtain patents is not significant. The key question is whether state law provides the inventor protection not authorized by the patent laws.

<sup>67</sup> E.g., *Scott Paper v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111 (1938); *Singer Mfg. Co. v. June Mfg. Co.*, 163 U.S. 169 (1896).

<sup>68</sup> 416 U.S. at 484. The distinction made by the *Kewanee* majority between unpatented information placed in the public domain and information not in the public domain seems grounded on the notion that the patent laws should not be interpreted as absolutely requiring disclosure of all secret information. Indeed, it is clear that the Court has always been unwilling to prohibit an inventor's decision to merely keep his invention secret if he so desires. At the same time, it is also clear that the inventor's right to secrecy should not extend to a right to protected secrecy once he has placed the invention in public use and has begun commercial exploitation of the product of his discoveries. Once the invention is placed on the market, the public's interest in competition in the invention would seem to take precedence over the right to protection of secrecy. The real distinction insofar as the patent policy of disclosure is concerned is between invention in and out of public use and not between inventions in and out of the public domain.

<sup>69</sup> 376 U.S. at 231; 395 U.S. at 670-71. Whether patent law prevents a state from prohibiting industrial espionage is another matter. Where the discovery of trade secrets comes through an invasion of privacy, a trespass, or some other tort, the state's interest goes beyond a mere desire to regulate competition. Furthermore, protection against industrial espionage is consistent with the recognition that a trade secret holder has a right to completely preserve secrecy by keeping the product off the market. Since the real conflict between state trade secrecy protection and patent law arises from the influence of the state protection in allowing commercial exploitation of secrets, industrial espionage law can stand consistently with patent law.

On the other hand, the preemption of state enforcement of secrecy covenants should not be restricted to mere prohibition of state court injunctive relief, as Justice Douglas's dissent appears to imply. 416 U.S. at 499 (dissenting opinion). Assessing damages for such a breach would most likely have the same prohibitive effect on competition in employees that injunctive relief would have.

*Marcalus Manufacturing Co.*:<sup>70</sup> "The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power."<sup>71</sup> At least in the narrow category of patentable trade secrets undiscoverable upon marketing, the conflicts between patent law and trade secret protection seem substantial.<sup>72</sup> The distinctions found between the level of conflict between state and federal law in *Sears* and *Lear* and the level in *Kewanee* seem inadequate to support the Court's determination that preemption was required in the former cases but not in the latter. Thus, it is submitted that the body of preemption law developed in *Sears* and *Lear* required preemption of state trade law protecting patentable discoveries in *Kewanee*.

A possible reason for the Court's rejection of a limited preemption of trade secret protection of those patentable secrets undiscoverable upon marketing was the potential enforcement quagmire that such a holding would have created.<sup>73</sup> Federal courts have exclusive jurisdiction over interpretation of the patent laws, and also have exclusive jurisdiction over Patent Office decisions attacked in infringement suits.<sup>74</sup> Thus, state courts are presumably inexperienced in questions of patentability<sup>75</sup> and would be less capable of making the preliminary determination necessary to decide whether trade secret protection should be available. Furthermore, if a distinction were drawn between secrets readily discoverable upon marketing and those unlikely to be discovered, the state court would be confronted with an added scientific determination.<sup>76</sup>

In *Lear*, the Court was faced with similar enforcement problems. There, the Court recognized that in order to implement the decision that the payment of royalties after a patent grant was dependent on the validity of the patent, the court deciding enforceability, often a state court, initially would have to resolve the question of patentability.<sup>77</sup> The *Lear* Court refused to discard the traditional interpretation of the clause which grants exclusive jurisdiction to federal courts as still preserving state court jurisdiction

<sup>70</sup> 326 U.S. 249 (1945).

<sup>71</sup> *Id.* at 257.

<sup>72</sup> See note 32 *supra*.

<sup>73</sup> Chief Justice Burger did allude to enforcement problems of partial preemption in some brief dicta. 416 U.S. 492.

<sup>74</sup> *Lear v. Adkins*, 395 U.S. 653, 675 (1969).

<sup>75</sup> 28 U.S.C. § 1338 (1970).

<sup>76</sup> The scientific determination would probably be no more difficult than the decision which the courts are now required to make relative to the status of the prior art. In such questions, as with most determinations involving patents, the courts are forced to rely on the expertise and on the persuasiveness of the opposing counsel. See, e.g., *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966).

<sup>77</sup> 395 U.S. at 675.

over questions of state law involving patented items.<sup>78</sup> Instead it viewed the state courts as capable of determining patentability.<sup>79</sup>

The *Kewanee* Court noted the key distinction between *Lear* and *Kewanee* enforcement problems: the state court in *Lear* possessed a Patent Office decision to review, while in *Kewanee* (if partial preemption was applied) the state court would need to make the determination of patentability in the first instance.<sup>80</sup> No prior expert review of a patent application would be available to aid the state court in consideration of patentability questions.<sup>81</sup> Thus, a question which an experienced judge normally has some difficulty understanding with the aid of expert analysis below would be placed before the inexperienced state jurist without the disinterested assistance of the Patent Office decision.

In many ways, *Kewanee* presented the strongest possible case for preemption. Trade secret law provided protection nearly as broad in scope, and possibly longer in duration, than that provided by a patent. The disincentive to seek a patent would seem to have been powerful. Indeed, there is evidence that the decision not to seek a patent was the product of a well-calculated consideration of the available protections.<sup>82</sup> Thus, *Kewanee* would seem to stand for the principle that the entire body of state law known as trade secret protection can stand consistently with patent policy.

The Court's failure to find at least limited preemption of state protection of patentable trade secrets seems a diversion from the *Lear-Sears-Compco* line of cases prohibiting state use of contract principles to provide protection eliminating the need to seek a patent. The body of preemption law developed by those cases would seem to require a far more penetrating analysis of the relationship between trade secret and patent law than that exhibited by the *Kewanee* Court. The policy favoring free competition in patentable inventions not submitted to the rigors and public safeguards of the patent system, as articulated by the Court in *Sears, Compco*, and *Lear*, warranted more serious consideration than that given by the *Kewanee* Court.

Nevertheless, *Kewanee* may be viewed as a pragmatic decision, despite the tenuous nature of the Court's rationale. Despite the clear conflict between state and federal policies, there would be little public benefit from the application of the doctrine of preemption. Acquisition of patent protection is expensive, uncertain, and too narrow to serve fully the public interest in encouraging research and

<sup>78</sup> *Id.* For the traditional interpretation, see *Patterson v. Kentucky*, 97 U.S. 501, 508 (1878).

<sup>79</sup> 395 U.S. at 675.

<sup>80</sup> 416 U.S. at 492.

<sup>81</sup> *Id.*

<sup>82</sup> Brief for Respondents in Opposition to Certiorari at 8, n.10, reprinted in *Law Reprints*, supra note 50, at 19.



development. It should be supplemented by some system of state protection of technological advances.

It is at least arguable that a public interest in technology should not be sacrificed for a public interest in competition simply because one is implemented by state law while the other is a policy implicitly underlying federal law. Thus, *Kewanee* is as consistent with sound economic policy as it is inconsistent with broad concepts of federalism. An alternative would be to disallow trade secret protection entirely, eliminating the problems caused by partial preemption. Such a course was clearly too drastic for the *Kewanee* Court, both in terms of precedent<sup>83</sup> and economic consequences.<sup>84</sup> The refusal to apply preemption on the grounds that conflict between trade secret and patent law is de minimis appears difficult to dispute in terms of policy. In terms of the path which previous Courts had set, however, *Kewanee* seems a diversion, if not an outright anomaly.

W. THOMAS HAYNES

**Labor Law—Union Security Provisions and First Amendment Rights—*Buckley v. American Federation of Television and Radio Artists*.**<sup>1</sup>—The American Federation of Television and Radio Artists (AFTRA)<sup>2</sup> appealed from a declaratory judgment issued by a federal district court<sup>3</sup> exempting broadcasting commentators<sup>4</sup> William F. Buckley, Jr. and M. Stanton Evans from formal membership, dues payments, and other incidents of membership in the appellant union. Appellees Buckley and Evans are nationally recognized journalists, authors, and “exponents” of “conservative” political philosophy.<sup>5</sup> Mr. Buckley is host and commentator on the serious

<sup>83</sup> *Goldstein v. California*, 412 U.S. 546 (1973), would seem to preclude preemption of unpatentable trade secret protection. See note 32 *supra*.

<sup>84</sup> Undoubtedly preemption of trade secret protection would result in some loss to industries which have relied on trade secret protection and neglected to seek patents within the first year of public use of their inventions. The economic benefits to the consumer of opened competition in such secrets could well be overridden by the increased costs caused by increased security precautions and employee salaries. As such, it is difficult to see how anyone would benefit in either the short or the long run from either partial or full preemption. The relative costliness of patent to trade secret protection would also act to destroy any consumer benefits from free competition in all patentable but unpatented trade secrets.

<sup>1</sup> 496 F.2d 305, 86 L.R.R.M. 2103 (2d Cir. 1974), cert. denied, 43 U.S.L.W. 3355 (U.S. Dec. 24, 1974).

<sup>2</sup> AFTRA is a “labor organization” as defined by the National Labor Relations Act, 29 U.S.C. § 152(5) (1970); it is the collective bargaining agent for most employees in radio and television broadcasting.

<sup>3</sup> *Evans v. American Fed’n of Television and Radio Artists*, 354 F. Supp. 823, 82 L.R.R.M. 2289 (S.D.N.Y. 1973).

<sup>4</sup> The district court defined a commentator as a person hired to express his own sincere opinion and analysis from his viewpoint or bias. *Id.* at 842, 82 L.R.R.M. at 2301-02.

<sup>5</sup> 496 F.2d at 308, 86 L.R.R.M. at 2104.