

1975

The Ghost of Sears-Compco is Finally Laid to Rest (Or Is It?)

Joseph P. Zammit

Follow this and additional works at: <http://scholarlycommons.law.hofstra.edu/hlr>

 Part of the [Law Commons](#)

Recommended Citation

Zammit, Joseph P. (1975) "The Ghost of Sears-Compco is Finally Laid to Rest (Or Is It?)," *Hofstra Law Review*: Vol. 3: Iss. 1, Article 2.
Available at: <http://scholarlycommons.law.hofstra.edu/hlr/vol3/iss1/2>

This document is brought to you for free and open access by Scholarly Commons at Hofstra Law. It has been accepted for inclusion in Hofstra Law Review by an authorized administrator of Scholarly Commons at Hofstra Law. For more information, please contact lawcls@hofstra.edu.

THE GHOST OF SEARS-COMPCO IS FINALLY LAID TO REST (OR IS IT?)

by Joseph P. Zammit*

LAST term the Supreme Court ended nearly ten years of speculation concerning the potential impact on state trade secret law of its companion decisions in *Sears, Roebuck & Co. v. Stiffel Co.*¹ and *Compco Corp. v. Day-Brite Lighting, Inc.*² Those cases seemed to raise the possibility that any state law protection for scientific or technical ideas might be invalid as inconsistent with the patent system enacted by Congress.

In *Sears*, Stiffel, the patentee of a pole lamp, brought an action against Sears charging patent infringement and unfair competition. Sears, it seems, had marketed a pole lamp virtually identical to Stiffel's, but at a significantly lower price. A federal district court in Illinois held the patents invalid for want of invention, but enjoined Sears from unfairly competing by selling pole lamps identical or confusingly similar to Stiffel's lamps.³ The United States Court of Appeals for the Seventh Circuit affirmed on the ground that the likelihood of confusion as to the source of the product was sufficient to make out a case of unfair competition under Illinois law, without the necessity of showing that Sears had "palmed off" its pole lamps as those of Stiffel.⁴ In reversing, the Supreme Court held that an unpatentable article "is in the public domain and may be made and sold by whoever chooses to do so."⁵

The facts and holding in *Compco* were almost identical, except that the product in issue there was a fluorescent lighting fixture rather than a pole lamp. In explaining its decision, the Court said:⁶

[W]hen an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, § 8, cl. 8, of the Constitution and in the implementing federal

* Assistant Professor of Law, St. John's University. A.B. Fordham, 1968; J.D. Harvard, 1971; LL.M. New York University, 1974.

1. 376 U.S. 225 (1964).

2. 376 U.S. 234 (1964).

3. *Stiffel Co. v. Sears, Roebuck & Co.*, Docket No. 58-C-1067 (1962).

4. *Stiffel Co. v. Sears, Roebuck & Co.*, 313 F.2d 115 (7th Cir. 1963).

5. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964).

6. *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964).

statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.

Clearly neither *Sears* nor *Compco* involved the protection of trade secrets. The items in question were on the market and open to inspection by anyone willing to purchase them. The only matter in dispute was whether a state, through its law of unfair competition, could forbid the copying of a competitor's unpatentable product. The Supreme Court said it could not.

Nevertheless, the specter of "patent preemption" was born and continued to haunt the courts and commentators until apparently laid to rest in *Kewanee Oil Co. v. Bicron Corp.*⁷ It was thought that if federal patent policy prohibited the states from outlawing the copying of unpatentable products that had been placed on the market, perhaps it extended so far as to forbid any kind of state protection for ideas which did not rise to that level of invention required for a patent. If so, it would mean an end to state protection of trade secrets. The concept of patent preemption has been widely criticized in the journals,⁸ although some commentators have felt that at least some form of preemption might be proper.⁹

Prior to *Kewanee Oil*, four circuit courts of appeals considered the question of preemption in the light of *Sears* and *Compco*. The Second, Fourth, Fifth and Ninth Circuits all refused to extend these decisions so as to invalidate state trade secret protection.¹⁰ As for the Supreme Court, it was presented with an opportunity to speak on the preemption issue in *Lear, Inc. v. Adkins*,¹¹ but refrained on the grounds that the state courts should first be given an opportunity to determine the extent to which they would

7. ___ U.S. ___, 94 S. Ct. 1879 (1974).

8. See, e.g., Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U. L. REV. 17 (1971); Comment, *The Viability of Trade Secret Protection After Lear v. Adkins*, 16 VILL. L. REV. 551 (1971); 84 HARV. L. REV. 477 (1970).

9. See Adelman, *Trade Secrets and Federal Pre-emption—The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713 (1967); Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. PAT. OFF. SOC'Y 638 (1970); Note, *Patent Preemption of Trade Secret Protection Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807 (1974).

10. *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 Service, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965); *Servo Corp. of America v. General Electric Co.*, 337 F.2d 716 (4th Cir. 1964), cert. denied, 383 U.S. 934 (1966).

11. 395 U.S. 653 (1969).

continue to enforce the contractual rights of inventors of unpatented secret ideas.¹²

Despite the uniformity among the other circuits which had ruled on the preemption question, the Sixth Circuit in *Kewanee Oil*¹³ dramatically refused to follow suit. In that case, the court held that Ohio's trade secret law, which could protect a device which would be "an appropriate subject for a patent under the United States Patent Laws,"¹⁴ but which could no longer be patented because of failure to apply for a patent within the requisite period of time,¹⁵ "is in conflict with the policies and purposes of those patent laws"¹⁶ and hence invalid.

Thus the Supreme Court was faced with a conflict in the circuits and the necessity of finally dealing with the ghost of preemption which it had conjured up in *Sears and Compco*.

The Stakes

Before proceeding to a consideration of the Court's decision in *Kewanee Oil*, it is worthwhile to pause a moment to reflect upon the serious competing interests at stake. For purposes of this discussion, we will adopt the widely accepted *Restatement* definition of a trade secret:¹⁷

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

Of course, a trade secret need not be patentable—though it may be. About all that is required is that it be a commercially useful idea that is not generally known in the industry. A patent, however, will issue only for a "process, machine, manufacture, or composition of matter",¹⁸ or an improvement thereof, which is new,¹⁹ useful,²⁰ and nonobvious.²¹ These requirements have often

12. *Id.* at 675.

13. *Kewanee Oil Co. v. Bicon Corp.*, 478 F.2d 1074 (6th Cir. 1973).

14. *Id.* at 1086.

15. A patent may not issue for an invention which has been 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." 35 U.S.C. § 102(b) (1970).

16. *Kewanee Oil Co. v. Bicon Corp.*, 478 F.2d 1074, 1086 (6th Cir. 1973).

17. RESTATEMENT OF TORTS § 757, comment *b* (1939).

18. 35 U.S.C. § 101 (1970).

19. *Id.* §§ 101-02.

20. *Id.* § 101.

21. *Id.* § 103.

been strictly construed by the courts, including the Supreme Court, leading the late Justice Jackson to complain that "the only patent that is valid is one which this Court has not been able to get its hands on."²²

In any event, if an invention is deemed sufficiently inventive to earn and retain the protection of a patent, the patentee is entitled to the exclusive right to make, use or sell that invention for a period of seventeen years.²³ In exchange for this statutory "monopoly", the inventor must file an application containing a description of how to make and use the invention.²⁴ After the expiration of the statutory period, the invention enters the public domain, and anyone may avail himself of the art set forth in the patent specification.

On the other hand, a trade secret has value only so long as it remains what it is: a secret. The law confers no right to exclusive use on the owner of a trade secret. To the extent that it becomes known to one or more competitors through accidental disclosure, independent invention or reverse engineering,²⁵ a trade secret loses its claim to legal protection vis-à-vis those competitors. And if an idea becomes generally known in an industry, it loses its protected trade secret status altogether.²⁶

Courts have accorded legal protection to trade secrets on a variety of theories: preservation of property rights, prevention of unjust enrichment, enforcement of contracts or fiduciary obligations and redress of tortious conduct.²⁷ Whatever the rationale, until *Sears and Compco*, no one in modern times²⁸ seems to have seriously suggested that there might be a conflict between federal patent policy and the states' attempt to enforce some standard of commercial morality. Nevertheless, a plausible argument for preemption can be made.

The United States Constitution provides:²⁹

The Congress shall have Power To promote the Progress
of Science and useful Arts, by securing for limited Times to . . .
Inventors the exclusive Right to their . . . Discoveries

22. *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949) (dissenting opinion).

23. 35 U.S.C. § 154 (1970).

24. *Id.* § 112.

25. Reverse engineering refers to the process of analyzing a product in order to discover the manner of its manufacture.

26. See generally R. MILGRIM, *TRADE SECRETS* § 2.03 (1973).

27. *Id.* § 7.03.

28. See *Gibbons v. Ogden*, 22 U.S. (9 Wheat.) 1 (1824), wherein federal patent preemption was argued to the Court but not ruled on.

29. Art. I, § 8, cl. 8.

The First Congress almost immediately exercised the power conferred on it by the Constitution by enacting the Patent Act of 1790.³⁰ There has been a patent statute ever since.³¹

Implicit in the constitutional grant of power and the implementing statutes is the concept that a patent, i.e. a federally guaranteed right to exclusive use for a limited term of years, is an incentive for invention. Thomas Jefferson, one of the three original patent commissioners, ably enunciated the philosophy behind the patent system:³²

Stable ownership is the gift of social law, and is given late in the progress of society. It would be curious then, if an idea, the fugitive fermentation of an individual brain, could, of natural right, be claimed in exclusive and stable property. If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possesses the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lights his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density in any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property. Society may give an exclusive right to the profits arising from them, as an encouragement to men to pursue ideas which may produce utility, but this may or may not be done, according to the will and convenience of the society, without claim or complaint from anybody.

In accordance with the foregoing philosophy, Congress, in exercising its constitutional power, has conditioned bestowal of the patent incentive upon full disclosure of how to make and use the invention. Although an idea may not be the subject of a natural property right, Congress may grant temporary exclusive

30. Act of April 10, 1790, ch. 7, 1 Stat. 109.

31. The current patent statute is the Patent Act of 1952, Title 35 of the *United States Code*.

32. VI WRITINGS OF THOMAS JEFFERSON 180-81 (H.A. Washington ed. 1857).

enjoyment of its fruits as a concession to human avarice in order to secure a greater public good: the stimulation of invention. Having achieved that object, however, Congress mandates that the idea be returned to the public domain and assures that result by requiring full disclosure in the patent application. This exchange of secrecy for temporary exclusivity has become a cornerstone of the patent system.

It would appear that any scheme which casts the mantle of legal protection over ideas without requiring any *quid pro quo* tends to defeat the disclosure policy of the patent laws. To what extent the policy is defeated is debatable. It may be argued that, though limited in duration, patent protection is so far superior to trade secret protection that almost all inventors would opt for the former rather than the latter, if possible. Yet the hope of indefinite protection, plus the expense of prosecuting a patent application, may sometimes deter an inventor from seeking a patent, especially if his invention is of doubtful patentability.³³ Moreover, even in those instances where a patent is clearly unavailable, it might be maintained that trade secret protection defeats the purpose of the patent system because Congress intended that there be no protection for inventions which do not measure up to the statutory prerequisites of novelty, utility and nonobviousness.

The proponents of common law protection, however, argue that trade secret law is not only not inconsistent with the patent laws, but is essential to the continued vitality of our technological society. According to this school, the unpatentable invention is often the most important:

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on the R & D [research and development] budget or to reduce the losses being suffered by an R & D budget. They are very important. But they are worth much too little to support the economic requirements of new technology which includes many many more failures than successes.

. . . Patents by their nature cannot and do not disclose all new technology: the patent is not a carrot that *can* fetch disclo-

33. The expense of prosecuting a patent application may ultimately prove to be for naught if a patent is refused or is subsequently invalidated by the courts. In addition, if a patent issues but is subsequently invalidated, the inventor loses even the protection of secrecy.

asures of the mass of technology within 35 U.S.C. § 101.³⁴

* * * *

Trade secret and patent law are like two horses hitched to the same public-interest-carriage—competition in innovation, competition in R & D, competition in bringing to public enjoyment things which are not yet there. And no pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology cannot ride.³⁵

Thus the patent laws are seen as one, but not the exclusive, incentive to technological innovation.

The dollar significance of unpatented technology can certainly not be doubted. Though precise figures are unavailable,³⁶ one commentator has estimated the present capitalized asset value of American trade secret know-how to be on the order of several billion dollars.³⁷ But even beyond the destructive effect preemption might have on the value of present trade secret technology, there is the fear that there would be a chilling effect on future technological innovation should the theory of preemption be adopted. Clearly the economic stakes involved in the preemption question are enormous.

Aside from purely economic implications, the advocates of trade secret protection argue that public policy favors commercial morality and that the law should encourage honesty among businessmen and loyalty by employees. "The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world."³⁸ Preemption, it is argued, would in effect be a license to steal unpatented technology which it may have taken thousands or even millions of dollars to create. Such a result would be abhorrent to the equitable spirit of the law.

34. Arnold, *Shadows Do Not Fight*, reprinted in PROTECTING TRADE SECRETS TODAY 37, 75 (Practising Law Institute 1973).

35. *Id.* at 83.

36. See generally E. Lovell, APPRAISING FOREIGN LICENSING PERFORMANCE, STUDIES IN BUSINESS POLICY, No. 128 (Nat'l. Ind. Conf. Bd. 1969); U.S. DEP'T OF COMMERCE, TECHNOLOGICAL INNOVATION: ITS ENVIRONMENT AND MANAGEMENT (1967); Lightman, *Comparative Income Roles of U.S. Industrial Property Rights Abroad*, 14 IDEA 352 (1970); 51 SURVEY OF CURRENT BUSINESS (March, 1971).

37. Arnold, *supra* note 34, at 100.

38. *National Tube Co. v. Eastern Tube Co.*, 3 Ohio Cir. Ct. (N.S.) 459, 462 (1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903).

These then were the conflicting considerations facing the Supreme Court as it proceeded to decide *Kewanee Oil Co. v. Bicon Corp.*

The Court Speaks

The facts in *Kewanee Oil* were typical of the "peripatatic employee" variety of trade secret litigation. Harshaw Chemical Company, an unincorporated division of the plaintiff, Kewanee Oil Company, was a leading manufacturer of a synthetic crystal useful in the detection of ionizing radiation. Research had begun in 1949 and by 1966, as a result of a great expenditure of time and money, Harshaw succeeded in growing a 17-inch crystal—something no one else had previously done. Harshaw deemed some of the processes which it had developed to accomplish this feat to be trade secrets. Concededly these secrets were appropriate subjects for patent protection, but could no longer be patented because they had been in commercial use for more than a year.³⁹

The individual defendants were former employees of Harshaw who formed or later joined the defendant Bicon Corporation. While at Harshaw, all the individual defendants had executed confidentiality agreements pursuant to which they promised not to disclose trade secrets learned as employees there. Bicon had been formed in August, 1969 to compete with Harshaw in the production of crystals, and by April, 1970 had also grown a 17-inch crystal.⁴⁰

Kewanee Oil brought suit in the Northern District of Ohio seeking injunctive relief and damages for the misappropriation of its trade secrets. The district court held for the plaintiff, but the Sixth Circuit reversed on the ground that Ohio's trade secret law conflicted with the federal patent laws.⁴¹

Relying upon *Goldstein v. California*,⁴² the Supreme Court first rejected the contention that the states are totally precluded by the Constitution itself from acting to protect trade secrets. The Court in *Goldstein* had held that the grant of power to Congress contained in Article I, § 8, cl. 8 of the Constitution was not exclusive, and that, at least in the case of writings, the states had not relinquished all power to legislate with respect to intellectual

39. See note 15 *supra*.

40. *Kewanee Oil Co. v. Bicon Corp.*, ___ U.S. at ___, 94 S. Ct. 1879, 1882 (1974).

41. *Kewanee Oil Co. v. Bicon Corp.*, 478 F.2d 1074 (6th Cir. 1973).

42. 412 U.S. 546 (1973).

property within their borders.⁴³ Finding no reason to distinguish between writings and discoveries insofar as the question of “constitutional preemption” is concerned, the Court in *Kewanee Oil* held that “[t]he only limitation on the States is that in regulating the area of patents and copyrights they do not conflict with the operation of the laws in this area passed by Congress”⁴⁴

After reviewing the objectives of the patent laws and state trade secret laws, the Supreme Court held that the patent laws enacted by Congress do not preempt trade secret law.⁴⁵ Since both systems encourage invention, the Court felt that there could be no conflict in that respect.⁴⁶ As to the patent policy of disclosure, the Court considered the four categories of discovery protected by trade secret law—nonpatentable subject matter, matter clearly not meeting the statutory prerequisites for a patent,⁴⁷ matter of doubtful patentability and clearly patentable matter—and found no significant conflict in any instance between federal disclosure policy and such protection.⁴⁸

With respect to the first two categories, the Court reasoned that there could be no legitimate expectation of a patent application, and hence no possibility of conflict with the patent policy of disclosure. Moreover, trade secret protection in these areas has the positive benefit of encouraging invention and know-how licensing, despite the lack of patent protection.⁴⁹

With respect to matter of doubtful patentability, the Court conceded that abolition of trade secret protection might encourage some inventors to apply for a patent when they otherwise would not have done so. However, the Court saw a serious problem in such a result: those who might be encouraged to apply for a patent by the absence of trade secret protection would “include inventors possessing the chaff as well as the wheat.”⁵⁰ While some of the chaff (that is, nonpatentable discoveries) might be thrown out by the Patent Office, in the meantime society would be deprived of the benefit of such discoveries through trade secret-protected licensing.⁵¹ Even worse, some of the chaff might slip by, and society would then be burdened with an unwarranted monop-

43. *Id.* at 560.

44. *Kewanee Oil Co. v. Bicon Corp.*, ___ U.S. at ___, 94 S. Ct. 1879, 1885 (1974).

45. *Id.* at ___, 94 S. Ct. at 1891.

46. *Id.* at ___, 94 S. Ct. at 1887.

47. That is, novelty, utility and nonobviousness. 35 U.S.C. §§ 101-03 (1970).

48. *Kewanee Oil Co. v. Bicon Corp.*, ___ U.S. ___, 94 S. Ct. 1879, 1887-91 (1974).

49. *Id.* at ___, 94 S. Ct. at 1888.

50. *Id.* at ___, 94 S. Ct. at 1889.

51. *Id.*

oly.⁵² The Court concluded that “[e]liminating trade secret law for the doubtfully patentable invention is thus likely to have deleterious effects on society and patent policy which we cannot say are balanced out by the speculative gain which might result from the encouragement of some inventors with doubtfully patentable inventions which deserve protection to come forward and apply for patents.”⁵³

Finally, as regards clearly patentable inventions, the Court felt that the protection afforded by a patent is so far superior to that offered by trade secret law that inventors would almost always opt for a patent. Moreover, the occasional inventor who might not would pose no threat to technological progress because it is likely that if something is to be discovered at all it will be discovered by more than one person; thus society would not long be deprived of the benefits of his invention.⁵⁴

The Court also rejected two intermediate solutions to the preemption problem, one explicitly and the other implicitly. The first was a suggestion that, since trade secret law does not produce any positive benefits not attainable through the patent laws in the area of clearly patentable inventions (as opposed to the beneficial effects of trade secret protection in other areas), partial preemption might be appropriate.⁵⁵ The Court dismissed this possibility for two reasons. Since there is no real conflict between trade secret law and the federal policy of disclosure even in the case of clearly patentable inventions, partial preemption would be inappropriate. In addition, partial preemption would create serious problems for state courts in administering their trade secret law because they would be faced as a preliminary matter, with the nearly impossible task of distinguishing between what an inventor could and could not reasonably consider to be “clearly patentable.”⁵⁶

The other alternative, which the Court rejected *sub silentio*, was that of recognizing preemption of the injunctive remedy only, thus permitting the recovery of damages for trade secret violations. This possibility was set forth by Justice Douglas in his

52. See *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

53. *Kewanee Oil Co. v. Bicron Corp.*, ___ U.S. at ___, 94 S. Ct. 1879, 1889-90 (1974).

54. *Id.* at ___, 94 S. Ct. at 1890-91.

55. See Note, *Patent Preemption of Trade Secret Protection Meeting Judicial Standards of Patentability*, *supra* note 9.

56. *Kewanee Oil Co. v. Bicron Corp.*, ___ U.S. at ___, 94 S. Ct. 1879, 1891 (1974).

dissent.⁵⁷ Presumably because it found no conceptual difficulty in the parallel existence of two different forms of protection, the Court apparently did not feel it necessary to comment on Justice Douglas' proposal.

The Ghost Remains

The Supreme Court obviously wished to put an end to the patent preemption arguments once and for all. Such arguments were distracting courts from the central issue of liability in too many trade secret cases.

It must be said to its credit that the Court appears to have reached the only realistic solution possible. The financial results of a holding of preemption could well have been catastrophic for American industry. Moreover, common law protection of trade secrets is too well-established to be easily discarded by a single stroke of the pen.⁵⁸ Congress itself has recognized the special status of trade secrets in a number of pieces of legislation.⁵⁹ As to the possibility of opting for partial preemption, such a doctrine, as the Court indicated, would clearly be unworkable, whatever its appeal may be for theoreticians.⁶⁰

Nevertheless, having said that, one is still left with the feeling that all is not as it should be. There remains, if not a conflict, at least an inconsistency between what seems to have been the constitutional and Congressional aim of encouraging disclosure of technological innovations and the existence of a state law system of protection for such innovations which, rather than demand disclosure, compels secrecy. This inconsistency is all the more disturbing when one considers that patent protection for the highest levels of invention lasts only seventeen years, while state protection for lesser degrees of creativity is potentially permanent.

Moreover, despite the Supreme Court's rationalization, it is possible that some inventors of patentable discoveries may choose not to apply for a patent in the hope of retaining exclusive use of their inventions for more than seventeen years. While the relative weakness of trade secret protection and the "ripeness of time" theory of invention may tend to dissipate this possibility, it does not eliminate it. Thus we have, in the formula for Coca-Cola, the

57. *Id.* at ____, 94 S. Ct. at 1894.

58. Legal protection for trade secrets was first recognized in the United States in *Peabody v. Norfolk*, 98 (2 Browne) Mass. 452 (1868).

59. See generally R. MILGRIM, *TRADE SECRETS* ch. 6 (1973).

60. The federal courts themselves cannot agree on what is and is not patentable. See I. KAYTON, *PATENT PROPERTY* 224-25 (1973).

standard illustration of a patentable item whose owners have opted for trade secret, rather than patent, protection. That formula, which has supposedly never been duplicated, continues to be a trade secret after more than half a century.

In addition, there is something rather arbitrary about the difference in result mandated by *Sears-Compco* on the one hand, and that permitted by *Kewanee Oil* on the other. Under the former, states may not protect discoveries embodied in products that can be reverse-engineered, while under the latter they may protect discoveries if they cannot be discerned from an examination of the product itself. This difference in result has nothing to do with the intrinsic value of the discovery itself. Thus the same blatant copying which is uniformly condemned as industrial espionage if committed inside a competitor's plant may be perfectly legal when done once the competitor's product has been marketed. The factor of lead time may diminish the harm to the copying victim, but it cannot eliminate such harm.

To resolve these problems, and to secure a uniform system of trade secret protection as well, legislation by Congress is necessary.

A Legislative Solution

Suggestions for national trade secret legislation are not new,⁶¹ but the call for such legislation takes on added significance in the light of *Kewanee Oil*. It seems clear now that the problems inherent in the parallel existence of the federal patent system and the state trade secret system cannot be fully resolved by judicial interpretation.

These problems could, however, be solved by adopting a procedure for federal registration of trade secrets and the specific abolition of separate state protection for such secrets. This presents no conceptual difficulty because even the Supreme Court in *Kewanee Oil* recognized that Congress has the power to preempt if it wishes to exercise it.⁶²

For convenience, the registering body could be the Patent Office. Unlike the situation with patent applications, however, the Patent Office would make no attempt to screen the registra-

61. See Stédman, *Trade Secrets*, 23 OHIO ST. L.J. 4, 32-34 (1962).

62. *Kewanee Oil Co. v. Bicron Corp.*, ___ U.S. at ___, 94 S. Ct. 1879, 1885 (1974). While it may be argued that Article I, § 8, cl. 8 of the Constitution does not grant Congress the authority to enact the sort of non-exclusive registration system being proposed here, such authority could certainly be found in the power to regulate interstate and foreign commerce contained in Article I, § 8, cl. 3.

tion of trade secrets except to make sure that the subject matter of the proposed registration is within the statutory definition of a trade secret and that there is a sufficient disclosure of how to practice the invention. Once the secret is registered, the registrant would be entitled to a limited form of protection for a specified period of years to ensure recovery of his investment—perhaps five or seven. In the absence of registration, there would be no legal protection at all. After the expiration of the statutory period, the trade secret would be deemed to be in the public domain and equally accessible to all.

Unlike a patent, registration should not constitute a right to exclusive use. Rather, registration should be *prima facie* evidence of discovery or invention. The *copying* of registered trade secrets would be prohibited during the statutory term and the registrant would have the full range of remedies—including injunctions and damages—available to him to enforce his rights.⁶³ Independent discovery, however, would not be prohibited, although the burden of proof on the question of independent discovery should be on the party claiming it.⁶⁴ Moreover, the registrant would also be subject to the other traditional trade secret defenses including laches and unclean hands.

Multiple registrations would pose no problem since the trade secret would enter the public domain five years after the first registration. Thereafter anyone could make use of the technology set forth in the registration without fear of liability for infringement.

A statutory scheme like the one proposed would promote the public interest in disclosure of nonpatentable technological advances without decreasing the incentive for invention. Inventions meeting the more stringent prerequisites of novelty, utility and nonobviousness would still qualify for a patent, and there would be no incentive not to patent if possible since trade secret protection is strictly limited to a period of less than seventeen years. Furthermore, such a scheme would eliminate the arbitrary distinction between products which can and cannot be reverse-

63. Enforcement of registration rights would be by suit in federal district court. In order to avoid overburdening the federal courts, however, it might be wise to provide for concurrent jurisdiction of the state courts.

64. Because of the difficult problems of proof involved in the question of independent discovery, it would probably be advisable to keep the details of registrations secret during the statutory period. In that way, at least, a defendant could not be accused of copying from the registration material itself.

engineered because all copying of registered secrets would be prohibited.

The limited form of protection described above should be required only for matters of technological interest. Although things like customer lists and business plans have traditionally been encompassed within the concept of a trade secret, they should probably be excluded from the statutory definition of that term. There does not appear to be any significant public interest in disclosure of such matters to justify their inclusion in the statutory scheme.

Conclusion

Although *Kewanee Oil* ostensibly reconciles the patent laws with state trade secret laws, the public interest demands that something be done to assure that future scientific discoveries ultimately be made available for the benefit of society-at-large. In the words of Thomas Jefferson: "If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea . . ."⁶⁵ These demands of the public interest can only be met through appropriate legislation.

65. See VI WRITINGS OF THOMAS JEFFERSON, *supra* note 32, at 180.