

A TALK WITH THE PATENT COMMISSIONER

by
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Commissioner Schuyler believes that industry should have well-defined ground rules for licensing inventions, that a patent's life should last 20 years from date of filing, that the Patent Office should research its functions, and that engineers should devote more thought and study to innovation.

After a year and a half in office, William E. Schuyler seems well settled in his job as the 40th Commissioner of Patents since the Patent Office was established in 1790. Originally an electrical engineer, Schuyler came to the office with 29 years' experience as a patent attorney and founder of his own firm. His engineering background has helped him keep abreast of the major advances in computer technology and information processing, and he is in the middle of applying such techniques to the Patent Office's data system. He hopes eventually to develop methods that will give a profile of the country's pace of innovation.

Currently, however, Commissioner Schuyler thinks that the most important subject for his attention is patent law. Some key issues and policies are due to come to a head in 1971. Congress is expected to begin reconsidering Sen. John McClellan's (D., Ark.) much-discussed patent policy bill; and the Senate is expected to ratify the new patent cooperation treaty that was unanimously adopted June 17, 1969, by over 50 countries.

The Administration has yet to take a position on the McClellan bill; and until it does, Congress will continue to delay passage. An important reason for the extended analysis is a group of amendments introduced last year by Sen. Hugh Scott (R., Pa.), which define the relationship between patent rights and antitrust law. The Commerce Dept., father agency to the Patent Office, is in favor of the amendments because they will remove a lot of uncertainty about licensing inventions. The Dept. of Justice, on the other hand, prefers to be vague and to deal with the issues of licensing inventions case by case. Schuyler says: "We feel business should have some certainty by way of statutory definition. This has been a big problem in the past, and it's about time it's been brought to a head. I think patent owners should go on making agreements under well-defined ground rules."

Commissioner Schuyler also describes as important the provision of the McClellan bill to increase the life of a patent from 17 years after date of issue to 20 years after date of filing, because the patent would be issued sooner and the public would therefore get the technology sooner. "Some patents are pending about 20 years, and it isn't unusual to have a patent held up 6 or 7 years through appellate procedures."

Schuyler says the major change he has instituted in Patent Office procedures is "learning how to apply research on what we want to accomplish." For the first

time, the Office has a deputy commissioner. It also has four assistant commissioners; one for patent examining, one for appeals and trademarks, one for research and development, and one for administration. Also, Schuyler brought together into one office all service functions, such as copies of patents, copies of files, and indications of application and filing dates.

Toward the future, the Commissioner is developing some definite ideas about the potential of the Patent Office's store of information. He is convinced that computer technology can do wonders for getting information out to those who need it.

"In a few years," he says, "all the 85,000 patents we issue every year will be on tape. That's a lot of tape, when you look ten years ahead. We're currently in a program to sample 25,000 patents in semiconductor technology to see how many ways the information can be used. We hope eventually that the computer can cluster inventions according to problems (rather than the current classification according to solution), so that we can give users the patent literature in terms of the problem they are interested in."

Schuyler's advice to engineers interested in furthering the country's technological development is rather unusual for a Patent Commissioner: "I would say they should try to find ways to stimulate the exchange of technology where an invention is not involved. Something may not be worthy of a patent today but may be crucial for developments tomorrow. I think that the more of the professional people becoming involved in some of the knotty issues surrounding innovation, such as computer software, the better will be the resolutions."

THE USE OF KNOW-HOW: WHEN IS COMPETITION UNFAIR?

by
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Unlike the world of patents, which is minutely detailed, know-how is a vaguer concept. Nevertheless, a body of law has developed in almost every country to protect industrial secrets from unfair competition. Henry P. de Vries of the Parker School of Foreign and Comparative Law, Columbia University, provides a worldwide perspective.

The expansion of international investment in manufacturing and extractive industries has been accompanied, if not directly propelled, by the transmission of technology. Managerial and technical know-

how have proved to be the connective tissue of the multinational enterprise. The complex network of affiliates, subsidiaries, branches, joint ventures and licensing arrangements provides channels through which pure and applied research improve the manufacturing and marketing of products in many countries. Indeed, the practical control over a foreign licensee or distributor, exercised through the ability to direct the fruits of research, often is more effective than legal control through stock ownership.

Role of Innovation

The "American Challenge" exists because of constant innovation in the highly competitive U.S. society and a willingness to invest in research. A major part of U.S. economic growth since 1870 can be attributed not to additional inputs of land, labor and reproducible capital, but to improved efficiency, thanks to the skills and capital applied to the search for new productive techniques and the heightened productivity of personnel.

The stress which U.S. corporations placed on research as the key to their survival in the internal mass market (extended to world markets since World War II) has ultimately contributed to the strong U.S. position abroad today. Many discoveries which originated in Europe were implemented by the distinctly American contributions of practical technology and mass production.

A Property

Whereas science is international — its knowledge freely shared, technology is essentially a national value reflected in patents and industrial secrets. Therefore, industrial research has come to be safeguarded by the property protection techniques of modern legal systems.

Legal protection of industrial secrets is closely connected with the enforcement of patent rights. Many companies surround their industrial secrets with patents on processes or formulae incidental to a key development which is purposely not patented. Others refrain from patenting the essential steps for most effective utilization of the patented process.

Although they are closely connected in company policy, the legal protection of patents and industrial secrets depends on essentially contrasting assumptions. The exclusive rights granted by patent law generally require a demonstration of the novelty of the invented product or process and that a detailed description be disclosed to the public; in short, patent rights are conditional on public access after expiration of the monopoly period. Moreover, licenses of patent rights are limited to the protected period. Patent law regards the use of a similar discovery within the patent period as an infringement.

Manufacturing know-how, on the other hand, need not constitute new knowledge and can be protected only if it is in fact a closely guarded secret. In contrast to the patent's fixed term, the protection of industrial secrets will continue as long as their content is not a matter of public knowledge. However, separate and independent organizations may easily develop similar processes of their own and use them lawfully as their own know-how.

In the United States, patent law is federal law and therefore unitary throughout the country. However, contracts regulating access to an unpatented, secret idea are subject to state law, thus raising the preliminary problem of the choice of applicable law. The Supreme Court of the United States has recently raised and left undecided the question whether such agreements are enforceable in the face of court decisions restricting the scope of patent-licensing agreements as unlawful restraints on competition.

Global Protection

In the industrialized nations of the world, a manufacturing secret is a sufficiently tangible property right to be assigned, pledged, licensed, paid in as corporate capital contribution, and even expropriated. By treaties to which the United States is a party (such as the Paris Union Convention for Protection of Industrial Property of 1883) member countries are bound to assure to nationals of other member countries effective protection against unfair competition.

Member countries' implementation has followed three different systems. The most effective is the German system, established in the Unfair Competition Law of 1909, subsequently adopted in Switzerland, Austria, Japan, Brazil, Norway and Sweden. These countries have enacted laws, separate from the Codes, which specify various acts considered "contrary to honest industrial and commercial practices." The laws provide for fine and imprisonment as well as injunctive prohibition against continued violations and compensation for damages incurred.

The French system relies on interpretations by the courts of broadly worded articles in the Civil, Commercial or Penal Codes. In the case of unauthorized disclosure of manufacturing secrets, the Penal Code provides for fine and imprisonment. In French law, the principal remedy for the unfair competition of appropriating a competitor's industrial secret is a civil action based on Articles 1382 and 1383 of the Civil Code. Unauthorized disclosure and use of industrial secrets is compensable in damages and can be restrained by court order (*astreinte*). The French system is followed in the Benelux countries, Spain, Italy, Argentina, Chile, Venezuela and Colombia.

In the Anglo-American legal systems, followed in Canada, Australia and South Africa, protection of industrial secrets is chiefly dependent on rules established by decisions of courts of equity regulating relationships of trust and confidence.

In all countries, the unauthorized taking of the physical record of industrial secrets — plans, drawings, instructions — is punishable as theft. Such taking universally gives rise to possessory actions for return of the records.

The most troublesome problems in practice arise from unauthorized use by licensees after termination of the license and unauthorized use or disclosure by employees of a licensor or licensee. As a practical matter, clearly any disclosure, whether or not authorized, is irrevocable. Once communicated, a secret cannot be returned to the genie's bottle. Unlike patent rights, industrial secrets cannot be effectively returned to the grantor in the event of default or insolvency. Though the possibility of limited trans-

fers exists in the case of both patent and industrial secret rights, the latter does not lend itself to territorial limitation as does patent licensing. Since a patent is in itself a grant limited to a national territory, a license or assignment of the exclusive right to make, use or sell the process or product solely in that territory is unquestioned. The territorial or use limitations on industrial secret transfers are not so clear. U.S. and European rules against restrictive practices may consider such limitations to be unlawful attempts to allocate markets.

Enforcement

In all systems, a promise of secrecy by an assignee or licensee of industrial secrets is enforceable as a matter of contract law. The German law's protection extends to designs or instructions incorporating ideas generally known in the particular industry even if the principle involved is a matter of common knowledge. So long as it is used by the party receiving the data, it makes no difference that the recipient from his own experience and knowledge could have reached the same result. In the French system, any process which affords a competitive advantage is protectible know-how, including shop practices or "tricks of the trade," even if they are only a detailed application of a process already known to the trade.

How Adequate?

In the last analysis, effective protection of industrial rights depends on the adequacy of available remedies. The modes of enforcement of such rights differ in the various legal systems and vitally affect the practical outcome. By way of example, in most countries abroad an injunction to prevent further violation of a promise not to disclose, enforced by the power to fine or imprison for violation of the court's order, is unknown as a remedy. The remedy of compensation for damages incurred raises the difficult problem of proving the losses sustained. A contractual provision which is often inserted spells out the penalties or liquidated damages payable in the event of violation of the agreement. Though a valid weapon on paper, most U.S. enterprises hesitate to incorporate a penalty clause in licensing or employment agreements.

Outside of the Anglo-American and German systems, court decisions on protection of industrial secrets are relatively rare. Even where remedies are adequate to prevent appropriation, the disclosure necessary to establish proof of value and improper use may nullify the protection.

Ultimately, protection of know-how is most effectively achieved by controlling access to the data in all stages of production. The transfer of industrial secrets, unlike the sale of goods, involves a relationship rather than a transaction. The relationship is dependent to the highest degree on mutual confidence, with the parties bound by the underlying awareness of the possibility of cutting off the licensee from access to future innovations and developments.

TRADE SECRETS: PROTECTING A VERY SPECIAL "PROPERTY"

by
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I really had intended for this presentation to have a subtitle "A Pigeon in the Hand is Worth Two in the Bramble Bush." New Jersey has two strange laws which coincidentally are printed on the same page of the New Jersey Civil Statutes. One law makes it a crime to steal a trade secret,¹ the other makes it a crime to detain a homing pigeon.² The first provides me with a subject matter to discuss, but the second, more importantly, provides an insight into the difficulties of formulating any rational thought on how to protect trade secrets under the law as it has developed.

My personal experience as the grandson of a Western Illinois homing pigeon racer tells me that the only way to detain a homing pigeon is to detain the owner thereof, to bribe him not to release his pigeon, or to open the pigeon coop and scatter the birds. It is so evident that "detaining the pigeon" itself is impossible. The owner owns the pigeon coop, but once in flight the pigeon cannot be detained (by man, anyway) and may fly anywhere. A U.S. Supreme Court Justice has said that once out of the pigeon coop, pigeons are really non-existent and cannot be the subject of betting or the subject of bargaining. I refer to Black's dissent in *Lear v. Adkins* and to the decision of the female non-pigeon raising judge of the Supreme Court of New York.³

As a conclusion prior to discussion, I would like to state that trade secret law must begin to recognize the *acts* of the pigeon detainer and the *event* of the open pigeon coop before we of the Bar can put the oddities of this strange law to rest. In other words, the law must begin to act on conduct, not on property concepts alone. Or stated conversely should homing pigeon law act in equity, property, contract or conduct?⁴

There exists, in this day and age, as the result of ancient and restless thinking of many of the bar and bench, a body of confused thinking which sets up strange vibrations in the stereophonic sound of precedent. This confused thinking is exemplified in six areas: (1) property law concepts, (2) antitrust enforcement, both private and public, (3) patents, (4) computer programs, (5) United States security interests, and (6) the marketplace itself.

First, let's consider the property concept. While twenty states have recently enacted larceny statutes to cover theft of trade secrets,⁵ the trend of civil cases is definitely not to recognize trade secrets as property.⁶ The trend toward larceny statutes started with the New Jersey statute and since then the number has increased rapidly.

Secondly, we see the laws of antitrust and unfair competition being vigorously enforced these days, even against international license agreements.⁷ Mergers are