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Errico v. Immigration and Naturalization Serv.

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ADMINISTRATIVE LAW—Immigration Law—Relief from Deportation Allowed Independent of Attorney General’s Discretion—Errico v. Immigration and Naturalization Serv., 349 F.2d 541 (9th Cir. 1965).

Petitioner Errico, facing deportation, raised as his defense section 241(f)¹ of the Immigration and Nationality Act of 1952, which exempts from deportation aliens who entered the United States by fraud if they have specified familial ties to persons within the United States and are “otherwise admissible.” The Board of Immigration Appeals ruled that, since petitioner gained admission as a selected immigrant² by means of false affidavits, the denial of a discretionary waiver³ by the Attorney General precluded him from being “otherwise admissible.”⁴ On appeal to the Court of Appeals for the Ninth Circuit, held, reversed; an alien with the requisite familial ties is “otherwise admissible” and entitled to “absolute relief” under section 241(f) if his fraud is the only ground for deportation.

Congress, beginning in 1940,⁵ authorized the Attorney General to grant an increasing number of discretionary exemptions from deportation.⁶ In 1957, the Immigration and Nationality Act⁷ was amended to allow the Attorney General to admit at his discretion aliens who originally procured entry by fraud if they had specified familial ties.

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¹ The provisions of this section relating to the deportation of aliens within the United States on the ground that they were excludable at the time of entry as aliens who have sought to procure, or have procured visas or other documentation, or entry into the United States by fraud or misrepresentation shall not apply to an alien otherwise admissible at the time of entry who is the spouse, parent, or a child of a United States citizen or of an alien lawfully admitted for permanent residence.
⁴ Errico v. Immigration and Naturalization Serv., 349 F.2d 541, 544 (9th Cir. 1965).
⁵ 54 Stat. 662 (1940).
ties and were "otherwise admissible." In 1961, the act was further amended, deleting all reference to the Attorney General's discretion.

In Errico, the issue was whether section 241(f) automatically exempted a petitioner from deportation upon a showing of the requisite familial ties or whether relief was available only at the discretion of the Attorney General. This issue in turn was controlled by construction of the term "otherwise admissible." The Immigration and Naturalization Service contended that, since petitioner's fraud had made him inadmissible under section 212, deleting all reference to the Attorney General's discretion, a discretionary waiver by the Attorney General was his only means of becoming "otherwise admissible" under section 241(f). The court replied that this interpretation would limit the operation of section 241(f) to the incongruous case of an alien who was "otherwise admissible" under a different quota, but who had chosen instead to procure a visa by fraud. The court posited that section 241(f) must be read together with section 212(a), which lists classes of aliens excludable by law; section 212(a) excludes an alien who "seeks to enter the United States by fraud." Since section 241(f) exempted aliens covered by section 212(a), the court reasoned that an alien was "otherwise admissible" under section 241(f) as long as he was not covered by any of the remaining classes. The amended statute therefore grants to qualified aliens "absolute relief" independent of discretionary action by the Attorney General. The other thirty-nine classes of excludable aliens listed in section 212(a) are left unaffected by the court's interpretation. Subsection 19 will still apply to an alien who cannot qualify under section 241(f).

The importance of the decision lies in the consequences flowing from its definition of "otherwise admissible." Prior to Errico, the only form of nondiscretionary relief from deportation was a private act of Congress. By removing the Attorney General's discretion from the operation of section 241(f), the court recognized a new type of deportation relief—absolute relief. However, the decision leaves unanswered a fundamental question: What are the mechanics for qualifying for "absolute relief"?

The alien who raises section 241(f) as a defense to deportation is, in effect, asserting that section as an absolute defense. Thus, his position is analogous to a petitioner who claims citizenship as a defense because the deportation laws apply only to aliens. A petitioner who raises the defense of citizenship has the burden of producing substantial evidence of that citizenship in the administrative proceeding before he may have his claim judicially reviewed. Thus, in Ng Fung Ho v. White, where petitioners were ordered deported for entering the country by fraud, the introduction of third party testimony and reports of immigration officials was "sufficient, if be-

8. 72 Stat. 640 (1957). The only two cases construing the phrase "otherwise admissible" under this statute are in conflict. Langhammer v. Hamilton, 295 F.2d 642, 648 (1st Cir. 1961), took the position of the court in Errico, whereas Buffalino v. Holland, 277 F.2d 270, 278-79 (3d Cir. 1960), accepted the argument of the Government.
11. Errico, 349 F.2d at 544, 546.
lieved, to entitle them to a finding of citizenship,"\(^{17}\) and the petitioners were held to have presented a reviewable claim.

By analogy, if the Government produces substantial evidence\(^ {18}\) that petitioner is subject to deportation\(^ {19}\) because of fraud, its burden of proof for a favorable ruling under section 212(a) (9) is sustained.\(^ {20}\) Continuing the analogy, the burden would shift to the petitioner to come forth with evidence establishing his exemption from deportation.\(^ {21}\) To establish his exemption and raise a reviewable claim under section 241(f), the petitioner must produce substantial evidence that he has the requisite familial ties. But requiring the same standard of proof for the second statutory criteria for exemption—that is, requiring the alien to prove he is "otherwise admissible"\(^ {22}\) because he is not excluded under any of the forty different grounds enumerated in section 212(a)—would impose on the petitioner an intolerable burden. Further, one of the basic concepts of Anglo-American law is a presumption of innocence for the accused in criminal proceedings.\(^ {23}\) Although the Supreme Court has consistently held that deportation proceedings are not criminal in nature,\(^ {24}\) it has also recognized that deportation is a severe penalty,\(^ {25}\) indicating that deportation proceedings may require commensurate safeguards. These safeguards should require, at a minimum, the criminal law practice of placing upon the Government the burden of providing the alien not "otherwise admissible."\(^ {26}\) This suggested analysis may follow from Errico: neither side introduced evidence bearing on whether or not petitioner was includable in any of the other classes in section 212(a), yet the court found him "otherwise admissible."

Had the court sustained the Government's position, a claim for relief raised under section 241(f) would have been granted only at the Attorney General's discretion\(^ {28}\) in a separate proceeding; and that discretion can be judicially overruled only when

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17. Id. at 282.
19. Palmer v. Ultimo, 69 F.2d 1, 2 (7th Cir. 1934).
22. See note 1 supra.
23. 9 Wigmore, Evidence § 2511 (3d ed. 1940).
26. Cf. Sherman v. Immigration and Naturalization Serv., Civil No. 29487, 2d Cir., Sept. 22, 1965, where the government in proceedings to deport long-term resident aliens was required to bear a heavier burden of proof than normally prevails in civil proceedings.
27. Errico, 349 F.2d at 544, 546.
28. Jay v. Boyd, 353 U.S. 345, 354, 357 (1956). In United States ex rel. Kaloudis v. Shaughnessy, 280 F.2d 489 (2d Cir. 1950), where a discretionary suspension of deportation was denied solely on the basis of the deportee's membership in the International Workers Order when there was no evidence that the Order was in any way inimical to the interests of the United States and the deportee had severed all connections with the Order, the court speaking through Learned Hand said, "we cannot tell whether the Attorney General had adequate grounds for 'proscribing' [the Order]. On the other hand, we cannot say that he did not. . . . [U]nless the ground stated is on its face insufficient, [the deportee] must accept the decision, for it was made in the 'exercise of discretion' which we have again and again declared that we will not review." Id. at 490.
exercised arbitrarily.\textsuperscript{29} \textit{Errico} makes a section 241(f) claim for relief a part of the non-discretionary deportation proceedings,\textsuperscript{30} and an alien may have an adverse administrative decision judicially reviewed for compliance with the burden of proof and other due process requirements applicable to such proceedings.\textsuperscript{31}

J. Clifton Fleming, Jr.

ADMIRALTY—Maritime Lien—Materialman’s Duty of Inquiry Required of Shipper—United States v. The S. S. Lucie Schulte, 343 F.2d 897 (2d Cir. 1965).

The S. S. \textit{Lucie Schulte} was time chartered\textsuperscript{2} from her German owners by a corporation operating in Florida. The United States, as a party to a contract of affreightment\textsuperscript{2} with the charterer, was overcharged\textsuperscript{3} for shipments aboard the vessel. The government libelled the ship in rem, claiming a maritime lien for the amount overpaid.

The owners, appearing for the ship, argued that there could be no liability in rem because the charter party contained a “prohibition of lien” clause\textsuperscript{4} that denied the charterer authority to bind the vessel to liens. The district court,\textsuperscript{5} rejecting this defense, recognized that the clause would affect materialmen’s statutory liens,\textsuperscript{6} where a reasonably diligent inquiry has always been required,\textsuperscript{7} but held that it could have no effect on shippers’ common law liens for carriage of goods.\textsuperscript{8} The Court of Appeals

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29. Schieber v. Immigration and Naturalization Serv., 347 F.2d 353, 354 (9th Cir. 1965).
30. See Gordon & Rosenfield § 4,7c.
31. Id. at §§ 8,5 and 8,9Ah(2); Wasserman 130-32b.

1. Under a time charter and a voyage charter the owner mans the vessel. The charterer mans the vessel when she is demise (bareboat) chartered.
2. A contract of affreightment is a contract for the shipment of goods or passengers. A shipper is the party possessing goods and contracting for their shipment. An owner is a person who has legal title to a ship. A furnisher is a materialman, supplier, or repairman. Unfortunately, writers often use the broad term “shipping industry” when actually referring to particular components of the industry. The industry breaks down into two major relationships: owner interests vis-à-vis furnisher interests, and owner interests vis-à-vis shipping interests. The two are materially different, and it should be remembered that, although \textit{Schulte} concerns the latter, the term “shipping industry” used in maritime lien law most often denotes the former.
3. Neither party to the contract was aware of the overcharge when it occurred. Lack of knowledge of the overcharge is no longer a bar to subsequent action. Krauss Bros. Lumber Co. v. Dimon S.S. Corp., 290 U.S. 117 (1933).
4. “Charterers will not suffer, nor permit to be continued, any lien or encumbrance incurred by them or their agents, which might have priority over the title and interest of the owners in the vessel.” 343 F.2d at 898.
8. The initial version of the Maritime Lien Act was construed to apply only to claims concerning “outfitting.” Claims involved with the “carriage of freight” were considered to be in the realm of general maritime law. The Muskegon, 275 Fed. 117 (S.D.N.Y. 1921). Congress, being dissatisfied with this narrow interpretation, based on the rule of ejusdem generis, amended the act to give it broader coverage. 36 Stat. 604 (1910), reenacted with amendments in the Merchant Marine Act § 30, 41 Stat. 1005 (1920), 46 U.S.C. §§ 971-75 (1964); Gilmore & Black, The Law of Admiralty 542 (1957) [hereinafter cited as Gilmore & Black]. See The Artemis, 53 F.2d 672 (S.D.N.Y. 1931) (lien allowed for taxi fare); The Henry S. Grove, 285 Fed. 60 (W.D. Wash. 1922) (stevedoring services as “outfitting”). However, a distinction between the two types of liens still exists, as the act does not cover all liens recognized by
for the Second Circuit held, reversed; a shipper is barred from asserting a maritime lien where a reasonably diligent inquiry would have disclosed the charterer’s lack of authority to bind the vessel to liens.9

The Admiralty proceeding in rem has its foundation in the maritime lien,10 enforceable only through legal process.11 In practical effect, this personification of ships12 is more fiction than fact, for any liability of the vessel rests ultimately with the owner; he must either satisfy the liability or suffer the ship to be attached and sold. The resulting liability, both in rem and in personam,13 is extensive and, in conjunction with the high risks of commerce at sea,14 has resulted in methods allowing owners to limit their liability.15 However, providing adequate remedies for persons injured through

general maritime law. 2 Benedict, Admiralty 269 (6th ed. 1940). The statements of the district court imply a belief that general maritime liens, recognized by the courts and free from statutory control, are unalterable through private contracts.

9. Heretofore, the distinction between liens that could or could not be prevented by a prohibition of lien clause has turned mainly on whether the lien was voluntary or involuntary. A voluntary lien arose as the result of an implied consensual pledge of the vessel for maritime services and supplies. Involuntary meant “nonconsensual,” i.e., a lien arising by operation of law. The court in Schulte cast this distinction in terms of “tort liens” and “contract liens.” This has been construed to mean that a prohibition of lien clause will prevent a charterer from binding the vessel to any liens except (a) those resulting from torts (e.g., collision, personal injury), and (b) those resulting from statutory liability imposed on the vessel (e.g., cargo damage caused by unseaworthiness when the bills of lading are subject to the Carriage of Goods by Sea Act, 49 Stat. 1207 (1936), 46 U.S.C. §§ 1300-25 (1964). The decision allows the clause to prevent any lien for breach of contract provided the claimant had actual or constructive knowledge of the clause. Letter from Healy & Baillie to Thos. R. Miller & Son, August 6, 1965.

10. In Osaka Shosen Kaisha v. Pacific Export Lumber Co., 260 U.S. 490, 497 (1923), the Supreme Court called the proceeding a “peculiarity” of admiralty law. In light of modern suits directed against the res, the Court must have been thinking historically. A maritime lien is an appropriation of the ship for a debt or claim. It is given by the law, and it gives the creditor a special property in the ship, which subsists from the moment the debt arises, and it gives him a right to have the vessel sold that his debt may be paid out of the proceeds....

The Poznan, 9 F.2d 838, 842 (2d Cir. 1925).

Maritime liens have been plagued with terminology problems through their confusion with common law dry land liens. The two have few similarities. Maritime liens are of the charging type—not based on possession—and obtain priority in inverse order of their creation. They may be lost through laches or by “execution” issued by a foreign court without notice. Gilmore & Black 480-83.


12. American theory on the personality of the ship treats the vessel as the offending thing. English theory is founded upon procedural arrest which compels the owner’s appearance. For a general discussion, see Herbert, The Origin and Nature of Maritime Liens, 4 Tul. L. Rev. 381 (1930).

13. In all suits for supplies, repairs, or other necessaries, the libellant may proceed against the ship and freight in rem or against the master and owner in personam. The Lottawanna, 88 U.S. (21 Wall.) 558, 579-81 (1875).

14. Damages often exceed the value of the vessel. See The Julia Luckenbach, 235 Fed. 388 (2d Cir. 1916). The owner’s position is worsened by his inability to exercise any degree of control over his “servants” once the ship has left port. Gilmore & Black 696.

15. American courts have always limited the owner’s liability in rem to the value of the ship. He is held liable in personam beyond the value of the ship if he is personally at fault. However, he has the statutory right to limit his liability. Poor, A Shipowner’s Right to Limit Liability in Cases of Personal Contracts, 31 Yale L.J. 505, 505-06 (1922). See Gilmore & Black 663-748.
maritime tort or contract continues to pose a problem. The complex history of maritime liens is essentially the story of this conflict of interests.16

The question of liability is more difficult to resolve when the ship is under the control of charterers who would be considered independent contractors at common law.17 A large body of law developed around this problem as it affected materialmen. The decision in Schulte applied the requirements of materialmen's liens to shippers.

Materialmen (suppliers of goods, repairs, and other necessaries) have long had an affirmative duty to question the authority of charterers to bind a vessel to liens.18 Consequently, the materialman has been charged with knowledge of the terms of the charter party if, through a reasonably diligent inquiry, he could have ascertained them.19 Reliance upon the representations of the person in possession of the ship that he is the owner, where investigation would have revealed him to be a charterer, will not suffice.20 Failure to investigate, however, will not bar action if the inquiry would have revealed that the charterer actually had the necessary authority,21 or if the inquiry would not have revealed that the charterer lacked the necessary authority.22

The Maritime Lien Acts of 1910 and 192023 codified this duty of inquiry, state legislation conflicting with this statute has subsequently fallen into disuse.24 Courts have been concerned primarily with determining the effects on the vessel's liability of particular words used in charter clauses25 intended to limit liability, and of the true in-

18. The requirement first appeared in The Kate, 164 U.S. 458 (1896), and The Valencia, 165 U.S. 264 (1897). The rule making the duty affirmative and not contingent on circumstances putting the would-be lienor on notice was laid down in United States v. Carver, 260 U.S. 482, 489 (1923).
21. The Golden Gate, 52 F.2d 397 (9th Cir. 1931).
24. Gilmore & Black 544-45. No lien was given by the general maritime law for supplies and repairs furnished in her home port unless such a lien was recognized by local state law. The General Smith, 27 U.S. (4 Wheat.) 438, 443 (1819) (dictum); accord, The Planter, 32 U.S. (7 Pet.) 324 (1833) (General Smith dictum converted to holding). For a discussion of the effects of these decisions, see Smith, The Confusion in the Law of Materialmen's Liens on Vessels, 21 Harv. L. Rev. 332 (1908). For the purpose of the home-port doctrine, the states were considered foreign to each other. The Golden Rod, 151 Fed. 6 (2d Cir. 1907). In deference to their local materialmen, each state filled the gap left by The General Smith, supra, by passing the necessary local statutes. Gilmore & Black 530. The liens they created were still enforceable only in federal courts. The J. E. Rumbell, 148 U.S. 1 (1893).
25. Clause requiring the charterer "to provide and pay for the upkeep of the vessel ... ." Sustaining a lien: The Golden Gate, 52 F.2d 397 (9th Cir. 1931), cert. denied, 283 U.S. 682 (1932). Denying a lien: The Thordis, 290 Fed. 255 (E.D.N.Y. 1923). Where the charterer could not "suffer nor permit to be continued any lien," a lien has been specifically denied. United States v. Robins Dry Dock & Repair Co., 13 F.2d 808, 809 (2d Cir. 1926). A lien was allowed when a clause read: "the charterer will save the owner harmless from liens ... ." The South Coast, 251 U.S. 529 (1920). Consequently, a lower court interpreted "the charterer shall pay for all supplies" as granting authority to invoke a lien. The Luddco, 66 F.2d 997 (9th Cir. 1933). Some have distinguished The South Coast, supra, and denied a lien. Curacao Trading Co. v. Bjorge, 263 Fed. 693 (5th Cir.), cert. denied, 253 U.S. 492 (1920). The Supreme Court, in

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tent of the parties evidenced by particular practices used in the course of their business. 26

Section 972 of the act lists the persons "presumed to have authority" 27 to bind the vessel to liens: "managing owner, ship's husband, master, or any person to whom management of the vessel at the port of supply is intrusted." 28 Section 973 provides that "officers and agents of a vessel specified in section 972 . . . shall be taken to include such officers and agents when appointed by a charterer . . ." 29 The last part of section 973, that which most directly affects charterers, has been given overriding emphasis by the courts:

but nothing in this chapter shall be construed to confer a lien when the furnish- er knew, or by exercise of reasonable diligence could have ascertained, that because of the terms of a charter party, . . . the person ordering the repairs, supplies, or other necessaries was without authority to bind the vessel therefor. 30

The act was hailed as being in line with "modern shipping" practices because on the "larger lines the master now has very little to do with the furnishings of the vessel . . . this duty being attended to by an agent on shore . . ." 31 The owner, of course, wanted to deny all others power to bind the ship; the latter part of section 973 afforded this opportunity. Materialmen were assisted by the requirement of The Valencia 32 that circumstances put the materialman on notice of such a denial of authority. This delicate balance of protections was tipped overwhelmingly in favor of the owners when the Supreme Court discarded the notice requirement of The Valencia without citation of authority in United States v. Carver. 33

It has been urged that the section 972 term "person . . . intrusted" 34 be interpreted to mean person "intrusted by the owner as his agent." 35 This narrow approach supposedly would protect the materialman when dealing with the "owner's man," but would place him under a duty of inquiry when dealing with others, such as charterers. 36 This reasoning would appear sound if the materialman could rely on the statements of the person in possession of the vessel or other "owner's man" that he is the owner's agent; but the P. H. Gill & Sons Forge & Mach. Works v. United States 37 de-

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28. Ibid.
32. 165 U.S. 264 (1897).
33. 260 U.S. 482 (1923).
35. Gilmore & Black 555.
36. Ibid.
37. 1 F.2d 964 (4th Cir. 1924).
cision says that he cannot do so. He must make further inquiry at all times to confirm these statements.

A broad interpretation of the act, such as that suggested in *Dampskibsselskabet Dannebrog v. Signal Oil & Gas Co.*, would allow the statutory presumption of authority always to be controlled by a contractual "provision to the contrary." This eliminates any advantage materialmen might have gained through the act by allowing section 973 to cancel section 972.

It appears that either a broad or narrow interpretation of the act affords the materialman no relief. He must always inquire; if he discovers a prohibition of lien clause, he cannot hold the vessel liable in rem. At present nothing prevents an owner from circumventing liability in rem by chartering all his ships to a puppet company which, of course, would not have lien-binding authority. This possibility hardly could have been the result intended by Congress.

The conclusion that the act is ambiguous or self-contradictory can be avoided by reading the act in its logical sequence and by adopting a theory somewhere between these extremes. Thus, the "presumption of authority" would control persons having possession or control over the vessel in the port of supply; "provisions to the contrary" would control all others. This would be reasonable, at least with respect to time charters, since those responsible, with the exception of the charterer himself, are the original employees of the owner who are entrusted with possession of the vessel for purposes of tort liability and should be presumed to have his trust to contract for the vessel. This would not necessarily defy modern shipping practices because large lines maintaining local agents could make this fact known to materialmen as allowed in section 973. This restriction affecting larger lines, as distinguished from restrictions imposed in charter parties, does not deny everyone authority to bind the vessel. Problems seem to arise only when complete denial is attempted.

The Lien Act has rarely been mentioned with reference to contracts of affreightment, such as the one in *Schulte*. But the court in *Schulte*, justifying its extension of the act, said that "we perceive no tenable ground for narrowing the broad language [of the act] to materialmen's liens." This statement not only refutes the intention of Congress, but also disagrees with leading authority on the subject. A narrow application of the act seems to follow logically from analysis of the act itself and of the intention of Congress. Accordingly, the act generally has been construed as controlling only those liens to which it refers.

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38. 310 U.S. 268 (1940).
39. Id. at 280.
40. Gilmore & Black 557. However, *Signal Oil* has been confined to its particular facts. Gilmore & Black, *supra*. *Signal Oil*, upholding a lien, would appear to be a materialman's victory, but, in fact, was not. It firmly avowed Justice Holmes' view that materialmen were always charged with knowledge of the contents of a charter. United States v. Carver, 260 U.S. 482 (1923); Gilmore & Black 566.
41. Price, *supra* note 17, at 119x.
42. Piedmont & Georges Creek Coal Co. v. Seaboard Fisheries Co., 254 U.S. 1, 11-12 (1920).
43. Gilmore & Black 544.
44. 343 F.2d at 901.
45. Piedmont & Georges Creek Coal Co. v. Seaboard Fisheries Co., 254 U.S. 1, 11-12 (1920).
46. Robinson, Admiralty 373-76 (1939); 1 Benedict, Admiralty 267-81 (6th ed. 1940); Gilmore & Black 539-68.
47. See authorities cited at note 46 *supra*. For instance, the act fails to mention shippers by name. Such a reference would have been simple had Congress intended the act to apply to them.
49. Griffin, *The Federal Maritime Lien Act*, 37 Harv. L. Rev. 15, 18 (1924); Atlantic
The inapplicability of the act to the shipper's situation can also be shown upon analysis of the fundamental differences between the shipping and supply industries. The shipper, dealing individually or through brokerage firms far in advance of the arrival of the vessel, often bargains over great distances by telephone, wireless, or cable. He is denied easy access to information about the vessel's circumstances before or even after the contract is made since he is not always present when ship and cargo are joined. The supplier's position is different. He not only is bound by traditional rules to question the circumstances of those to whom he extends credit, but also is located in the port and probably near the piers where he furnishes his services. His opportunities to board the vessel to investigate the charterer's authority far exceed those of the shipper.

The possibility is apparent that the decision in Schulte could unduly burden the shipping industry. Had the court carefully investigated this possibility and then decided that the burden would be tolerable, the decision would have been on safer grounds. Instead, the court summarily dismissed the issue by saying that "this goes to the factual question of what diligence reasonable under the circumstances would have disclosed. . . ." This statement threatens a multitude of judicial definitions of "reasonable diligence" and other requirements to be met; it forces the shipper either to conduct a pervasive inquiry or to risk litigation based on his failure to be reasonably diligent.

An attractive alternative to the problem of charterers binding a vessel to liens is offered by The Ripon City. Under this decision the owner's transfer of possession of the vessel is considered voluntary. He has the opportunity to demand details about the financial and business responsibility of the transferee. This would bring to life the principle of The China making the vessel a pledge to all with whom its lawful possessor deals. In support of the pledge theory, it could be argued that contracts for

Steamer Supply Co. v. The Tradewind, 144 F. Supp. 408 (D. Md. 1956) (notice provisions held not to apply to mortgages).


51. Kendall, Tramp Shipping, Polaris 37 (Summer 1952).

52. The situation becomes more difficult for the shipper when he removes himself further from contact with the vessel by using "freight forwarders." See Horn & Gomez, International Trade, Principles and Practices, 519-21 (4th ed. 1959); McDowell & Gibbs, Ocean Transportation 145-55 (1954).

53. There is no question of credit in the cargo to ship relationship. Gilmore & Black 544.

54. It could also be argued that the owner could require, and realistically expect, the charterer to pay suppliers in cash, thereby avoiding any liability for which the ship might be attached as security. This is not true for a shipper. The contract of affreightment involves liabilities which cannot be immediately discharged by cash payment, but only by the ship's performance. Brief for Appellee, p. 14, United States v. The S.S. Lucie Schulte, 343 F.2d 897 (2d Cir. 1965).

55. 343 F.2d at 901.

56. This was the result with materialmen's liens. Gilmore & Black 546.

57. [1897] P. 226, 244.

58. Price, supra note 37, at 1192.

59. 74 U.S. (7 Wall.) 53 (1868).

60. Robinson, Admiralty 364 (1939).
supply and repair are for the benefit of the ship in that they speed her on her way. Contracts of affreightment make her existence profitable to her owner and therefore make her existence possible. To induce materialmen and shippers to confer these benefits on her, the vessel pledges herself as security for performance. 61

The court in Schulte paid lip service to this theory by first acknowledging it:

[It is] a just and reasonable implication of law that the general owner assents to the creation of liens binding upon his interest in the vessel, as security for the performance of contracts of affreightment made in the course of the lawful employment of the vessel, 62

and then dismantling it by observing it was limited to parties without notice of any restriction upon the apparent authority. 63 If the court in Schulte had accepted this doctrine, without the restriction, the shipping industry would have been relieved of the burden of making a difficult inquiry. Materialmen would be ensured their much debated yet virtually nonexistent "presumption of authority." 64 The question of whether or not the initial scope of the act included shippers becomes moot; they would be safe when dealing with persons having legal possession or control of the ship. The owner's inability to prevent in rem liability with a simple contractual clause should generally improve the responsibility of charterers and reduce the number of insolvencies and breaches of duty in tort or contract.

These considerations indicate that the decision in Schulte is an improper extension of a misinterpreted act.

James N. Penrod


In 1953, the taxpayer and other members of his family transferred to the California Cancer Institute, a non-profit, tax-exempt organization, all their stock in Brown and Co., a lumber mill. The purchase price was $1,300,000, payable $5,000 in cash, and promissory notes for the remainder to be paid solely from the proceeds of operating the mill; also included was a default clause should less than $250,000 be paid in any two year period in the ten years allowed for payment. With the transfer of stock, Institute liquidated the company and leased its assets for five years to a new corporation, Fortuna Sawmills, Inc., formed and wholly owned by the attorneys for the sellers. Fortuna agreed to pay Institute eighty per cent of its profits from operations without allowance for depreciation or taxes; ninety per cent of such payments would be paid by Institute to the selling stockholders to apply on the promissory note. If

61. Although the concept of mutuality was dismissed by the court in Schulte, it does not seem patently just that the owner, under certain circumstances, can assert a lien for underpayment of freight, In re North Atl. & Gulf S.S. Co., 204 F. Supp. 899 (S.D.N.Y. 1962), aff'd sub nom. Schilling v. A/S D/S Dannebrog, 320 F.2d 628 (2d Cir. 1963), while the shipper cannot assert one for overpayment.

62. 343 F.2d at 900, quoting from Hickox v. Buckingham (The Schooner Freeman), 59 U.S. (18 How.) 182, 190 (1856).

63. Ibid.

any of these agreements were violated, the stockholders had the right to foreclose on the business assets securing the note. Taxpayer retained a salaried position as general manager with the right to appoint his successor; he also continued to be personally liable for some of the indebtedness incurred by Fortuna. The Commissioner disallowed capital gains treatment of the proceeds to taxpayer from the Institute, arguing that the entire transaction was a sham designed to avoid payment of ordinary income tax. The Tax Court found to the contrary, holding that there had been a bona-fide arms-length bargaining for the sale at a reasonable price. The Court of Appeals for the Ninth Circuit affirmed. On certiorari to the Supreme Court, the Commissioner shifted his argument, stressing that, without shifting the business risks from the seller to the purchaser, the transaction was not a sale under the capital gains provision of the Code. The Supreme Court held, affirmed; the term sale, as used in the capital gains provisions, has only its ordinary meaning, not a narrow tax construction requiring a shifting of economic risks from seller to purchaser in a sale and leaseback.

*Brown* is representative of a number of cases in which the Commissioner has sought to check apparent abuses of the exempt status of charitable institution's income in cases of a "boot-strap" sale and leaseback. Abuses of the tax exempt status of charities prompted Congress to reform the Code in 1950 by addition of sections now contained in the 1954 Code as sections 511, 512, 513, and 514; these sections tax income of an otherwise exempt institution when it operates an "unrelated trade or business."
constituting the basis for its exemption under section 501 . . . .” Section 502 is also important in that it removes exempt status of income earned by a corporation operated solely for the benefit of a charitable institution. Prior to 1950 reforms, the exempt status of the charitable institution was “imputed” to the corporation operating for the institution’s benefit, under the doctrines of Trinidad v. Sagrada Orden de Predicadores, 265 U.S. 578 (1924), and Roche’s Beach, Inc. v. Commissioner, 96 F.2d 776 (2d Cir. 1938). Such imputation is now prohibited by § 502.

The significance of this section is that the denial of exempt status to the “feeder” corporation forces the charitable institution either to operate the business itself, a disadvantage to the charity since its assets are exposed to business losses, or to operate the business through a dummy corporation, which activity might prove risky from the tax point of view. It could reasonably be argued that the corporations like Fortuna, notwithstanding their ownership by shareholders other than the exempt institution, are, in fact, “feeder” corporations operated for the benefit of the exempt institution by virtue of the high percentage of their profits being paid over as “rent” (80% in Brown). If so, their income would be subject to tax by the provisions of § 502. However, such an approach requires, in addition to an examination of the status of dummy corporation, a concurrent examination of the nature of the “rent” discussed in note 9 infra. Since taxation of any of the three entities (the seller, the exempt institution, or dummy corporation, such as Fortuna) will obviate the attractiveness of the charitable sale and leaseback, the Commissioner could still defeat the continued abuse of the exempt income status through the use of existing provisions of the Code without need for continued or additional legislation.

A valuable exception to the provisions taxing unrelated business income is found in the case of churches, or associations of churches, to which these provisions do not apply by specific exclusion. Section 512 (a)(2)(A) provides that the tax on unrelated taxable income shall “apply in the case of any organization (other than a church or a convention of churches . . . ).” Thus, a businessperson may still sell his business directly to a church, which may operate it, but not through a “feeder” corporation. This proposition might not be attractive to the church, for by operating the business, it would become liable for operating losses the business might incur. The church, however, can still carry the transaction, as can its fellow tax exempt institutions, through the loophole discussed above.

7. Section 512 (b)(5) excludes from the definition of “unrelated business taxable income” income derived from the rental of real property and personal property rented with the real. If the rental income is used to reduce indebtedness incurred in the acquisition of the real property, as in Brown, it is included by § 514 (a)(1) as an item of “unrelated business taxable income.” However, subsection (b) provides that the rental income of a lease not exceeding five years with the same lessee is not subject to § 514 inclusion. It should be noted that the rules set out in § 514 (b)(2)(A)-(B) treat as a lease in excess of five years any lease with a renewable option that might extend the lease for more than five years, or any lease renewed by the same tenant for more than the permissible five year period.


9. Most of the bootstrap cases, except Emanuel N. Kolkey, 27 T.C. 37 (1956), aff’d, 254 F.2d 51 (7th Cir. 1958) frame the issue as “sale” or “no sale.” In Kolkey, the court held that the purchase price was unreasonable. In Brown, the line of attack might have pursued the reasonableness of the rental deductions claimed by Fortuna under the doctrine that “ordinary and necessary” expenses of § 162(5) are, in addition to these prerequisites, required to be “reasonable” in amount. Limericks, Inc. v. Commissioner, 165 F.2d 483 (5th Cir. 1948). If these deductions are disallowed as unreasonable the attractiveness of the sale and leaseback is substantially reduced. In the attacks directed at the rental deductions the courts have not yet considered the reasonable aspect of the rents, but only whether what was termed rent was, as a matter of law, rent, rather than payment for some other purpose. See Anderson Dairy,
mediate or future liability under the sales contract, and taxpayer's economic position remained unchanged by the contract since his receipt of payments on the purchase price depended entirely on the continued success of the business. Since the economic position of both parties remained unchanged, no "sale" could have occurred.

Change in economic position is one of three factors generally considered in determining whether a sale exists for tax purposes. The other two are transfer of legal title and shift of legal and actual control from seller to purchaser of the sold assets and income derived from them. Since legal title passed in Brown, only the other two factors need consideration.

Authority exists for the other two considerations in analogous situations. For example, capital loss deductions have been disallowed where taxpayers who sold assets to controlled corporations were found to have suffered no economic detriment through the transaction since control of the assets remained with the sellers. In a sale and immediate leaseback for ninety-nine years, the entire transaction was deemed to have created only a mortgage where the leaseback was for more than thirty years, capital loss was disallowed and the transaction deemed an exchange of property for like kind upon which no capital loss or gain could be realized.

All these cases lacked risk-shifting; but that element alone was not determinative of the result. More important was the retention of control or use or both of the sold assets. Although the taxpayer retained control over the sold assets and income in Brown, the Commissioner did not stress these elements as an independent line of attack; rather the control and use were argued to indicate an absence of risk-shifting.

The oil cases relied upon by the Commissioner in Brown offer apparent authority

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Inc., 39 T.C. 1027 (1963) where the rent was held fully deductible relying on the doctrine set forth in Stanley Imerman, 7 T.C. 1030 (1946). Cf. Royal Farms Dairy Co., 40 T.C. 172 (1963) where the rent was reduced from 90% to 50% on the grounds that the parties (lessor and lessee) intended the rental payments to enable the charitable foundation to pay off its indebtedness, relying principally upon the fact that at the end of the payments on indebtedness the rent would be reduced from 90% to 60%.

This line of attack would be less desirable from the revenue gathering standpoint than one based upon the "feeder" theory suggested in note 6 supra, since this method would gain revenues only from that part of the rent found to be "unreasonable," rather than from all the rent regarded as payments of income by a "feeder" corporation.

The Internal Revenue Service has indicated its intention in a recent release to continue attacking the sale and leaseback on the grounds of the reasonableness of the purchase price. "The Revenue Service stated that, in its view, the Clay Brown decision does not extend to cases where the amount payable to the sellers for their stock is in excess of the fair market value of the stock." Litigation in this area will continue as rapidly as possible. Internal Revenue Service, Technical Information Release, TIR 768, Oct. 5, 1965. This is essentially the Kolkey basis of attack.

11. Ibid.
12. E.g., Schoenberg v. Commissioner, 77 F.2d 446 (8th Cir. 1935); Chicago Title & Trust Co., 32 B.T.A. 249 (1935).
16. Burton-Sutton Oil Co. v. Commissioner, 328 U.S. 25 (1946); Kirby Petroleum Co. v.
for his construction. There the courts examined the basic entrepreneurial attributes of economic risk to determine whether the tax label of sale should be attached. That a particular transaction is called a sale by the parties or under state law is irrelevant. In these cases and in the Court’s discussion of them in *Brown*, however, the nature of the assets sold was deemed more important than the extent of risk-shifting under the transfer.\(^{17}\) The process of oil extraction was viewed as a production process; the item of production was oil and the income from its sale ordinary, rather than capital gain from the conversion of a capital asset.

Since the Commissioner pitched his arguments solely on a construction of the word sale that would require a shifting of risks, the Court dealt only with that narrow issue. It concluded that a sale is a common transaction with an ordinary, everyday meaning well understood to be the transfer of property for a consideration paid or promised to be paid.\(^ {18}\)

An alternative approach, ignored by the Court, is to determine whether the transfer shifts the incidence of taxation on the income of the mill from the taxpayer to the Institute. The third element considered in questioning a tax sale—retained control over the assets and income—becomes paramount here, for it is the control of income and its sources that determines the party to be taxed on the income.\(^ {19}\) The classic authority on the effect of retained control is *Helvering v. Clifford*,\(^ {20}\) in which the Court concluded that the broad control and incidents of ownership retained by the settlor of a trust made the trust income taxable to him rather than the beneficiary. As stated in *Commissioner v. Sunnen*, “the crucial question remains whether the assignor retains sufficient power and control over the assigned property or over receipt of the income to make it reasonable to treat him as the recipient of the income for tax purposes.”\(^ {21}\) Furthermore, “it makes no difference that such ‘command’ may be exercised through specific retention of legal title or the creation of a new equitable but controlled inter-

\(^{17}\) This observation is supported by *Anderson v. Helvering*, 310 U.S. 404, 412-13 (1940), in which the Court recognized that, when oil rights and fee were sold together, capital gains treatment would be given the entire proceeds. The proceeds in that sale could be realized from the conversion of the fee, whereas the proceeds in the other oil and gas cases could be viewed only as a share in production and sale of a non-capital item. See the majority opinion in *Brown*, 380 U.S. at 575-76.

\(^{18}\) The Court here relied upon the doctrines set forth in *Hanover Bank v. Commissioner*, 369 U.S. 672 (1962); *Commissioner v. Korell*, 339 U.S. 649, 627-29 (1950); *Helvering v. William Flaccus Oak Leather Co.*, 313 U.S. 247, 249 (1941). “Sale” is to be given its ordinary meaning in these cases, so far as it is consonant with the general purposes and structure of the taxing law. That ordinary meaning is a transfer of property for a consideration paid or promised to be paid, according to Iowa v. McFarland, 110 U.S. 471, 478 (1884), and *Williamson v. Berry*, 49 U.S. (8 How.) 495, 544 (1849). The Court relied heavily on the definition of “sale” found in state laws and in the Uniform Commercial Code. The weight of judicial authority indicates that federal courts are not bound by the definition of sale employed by the state and that the state definition will control only when the federal taxing act, by express language or necessary implication, makes its own operation dependent upon state law. See *Burnet v. Harmel*, 287 U.S. 103, 110 (1932).


\(^{20}\) 309 U.S. 331 (1940).

\(^{21}\) 333 U.S. 591, 604 (1948).
est, or the maintenance of effective benefit through the interposition of a subservient agency," for taxation "is not so much concerned with refinements of title as it is with actual command over the property."

In *Brown*, taxpayer retained seventy-two per cent of the income from the business, actual control over the employees, assets, and operations of the business in his position as manager, the right to appoint his successor, and the right to control disposition of the business's assets. As the Tax Court concluded, his powers, both actual and legal, after the sale were essentially the same as before, when he was president of the business. Consequently, it seems reasonable to treat the taxpayer as the continued owner of the sold assets and recipient of the business income for tax purposes.

The difficulty with this proposed treatment is that, in those cases where the elements of control govern the characterization of income, the factual situations generally involve closer relationship between the parties than found in *Brown*, and the cases are not concerned with the capital gains tax provisions. The principle seems applica-

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23. Id. at 357, quoting from Corliss v. Bowers, 281 U.S. 376, 378 (1930). Justice Goldberg in dissent reasoned that the doctrines of Corliss v. Bowers should be applied to the *Brown* transaction. 380 U.S. at 584-86 (dissenting opinion).
24. It should be noted that the purchase agreement, payment agreement, rental agreement, and obligation to lease to Fortuna were not merely contemporaneous agreements, but rather were drawn up simultaneously and were interdependent upon each other. Breach of any of the agreements gave the seller the power to default the mortgage. 380 U.S. at 567.
25. Cases in which retention of control governs the characterization of income generally involve related parties, that is, transfers either among members of a family or between the taxpayer and a controlled corporation. See, e.g., Helvering v. Clifford, 309 U.S. 331 (1940) (controlled trust with husband as settlor and wife as beneficiary); Higgins v. Smith, 308 U.S. 473 (1940) (sale by taxpayer to corporation wholly owned by him); Griffiths v. Commissioner, 308 U.S. 355 (1939) (transfer of stock to wholly owned corporation, which sold the stock and agreed to pay proceeds over to taxpayer on installment basis); White v. Fitzpatrick, 193 F.2d 398 (2d Cir. 1952), cert. denied, 345 U.S. 928 (1952) (sale and leaseback of certain patents and land between husband and wife). Another difficulty is that the cases concern disallowance of rental deductions paid by the seller to the related party. See, e.g., Stearns Magnetic Mfg. Co.
ble though: control of assets and income should determine the taxable person even though the taxpayer seeks capital gains treatment and the relationship of the parties in the transaction is informal but not familial. But courts have been unwilling to cut through form to the substance of economic realities in sale and leaseback transactions, insisting rather that the transaction be analyzed solely from the standpoint of the initial transfer. If, as in Brown, the transaction is characterized as a sale, all subsequent receipts are treated as income from the sale, despite the seller’s continuing relationship to the business and its income.

A better approach might be, as the dissent suggests, to analyze the purpose of the capital gains provisions:

"to relieve the taxpayer from . . . excessive tax burdens on gains resulting from a conversion of capital investments, and to remove the deterrent effect of those burdens on such conversions . . . ." And this exception has always been narrowly construed so as to protect the revenue against artful devices.

The sale and leaseback, rather than preventing tax on bunched income from a conversion of capital investment, permits, in part, favorable tax rates on otherwise normal business income from operations. Further, as one commentator has observed, sale and leaseback transactions have been upheld though they violate the object of favorable treatment of charitable income and contravene several public policies.

In addition to conflicting with the purposes of the capital gains and charitable exemption provisions, the sale and leaseback transaction of Brown conflicts with the purpose of section 514, which contains the loophole permitting the transaction. Section 514 and the congressional reports accompanying it indicate that the five-year exception for business leases was designed to allow for genuine short term business leases not usually associated with the sale and leaseback. The Court in Brown was reluctant to close the loophole of section 514 (b)(x) because Congress had recently reconsidered the abuse of exempt income status and the sale and leaseback transaction and had refused to alter the Code in accordance with the Commissioner’s suggestions. It thus appears that legislative action is the only solution to the loss of tax revenues of the sale and leaseback transaction; the problem could be solved most simply by eliminating section 514 (b)(x).

G. James Frick

v. Commissioner, 208 F.2d 849 (7th Cir. 1954); Brown v. Commissioner, 280 F.2d 926 (3d Cir.), cert. denied, 340 U.S. 814 (1950); Skemp v. Commissioner, 168 F.2d 598 (7th Cir. 1948); Albert T. Felix, 21 T.C. 794 (1954). Brown differs from these cases in that the Commissioner sought to deny the seller capital gains treatment of the sale proceeds.

26. There was a period when the courts looked through the form of the transactions to the substance, as indicated in White v. Fitzpatrick, 193 F.2d 398 (2d Cir. 1951), cert. denied, 343 U.S. 928 (1952); W. H. Armston v. Commissioner, 188 F.2d 531 (5th Cir. 1951); Ingle Coal Corp. v. Commissioner, 174 F.2d 569 (7th Cir. 1949); Shaffer Terminals, Inc., 16 T.C. 356 (1951), aff’d per curiam, 194 F.2d 539 (9th Cir. 1952). Other cases during this period, however, such as Skemp and Brown, supra note 25, relied upon more formalistic approaches, and after 1950 the trend seemed more and more toward formalism as indicated by Felix and Stearns Magnetic, supra note 25.


29. Lanning, supra note 27, at 697.


The Garwin Corporation secretly discontinued its New York operations and resumed business in Florida under its alter ego, S'Agaro, Inc. Charges were brought before the National Labor Relations Board by Local 57, International Ladies' Garment Workers' Union, AFL-CIO, as representative of the majority of Garwin employees. The trial examiner found that the company had violated the National Labor Relations Act by discriminatorily discharging its employees, failing to notify the union of its intent to relocate, and refusing to bargain about the relocation and its effects upon the employees. The trial examiner recommended that the company bargain with the union on the condition that the union acquire a representative status at the new plant. The company and the union filed exceptions with the National Labor Relations Board. Upon review, the Board held, affirmed with modifications; an employer who relocates his plant to avoid bargaining with the union must, upon request by the union, bargain with the union at the new location without requiring it to establish representative status.

In 1939, the Board declared that relocation to escape bargaining was an unfair labor practice. The remedy ordered in such cases became standard: the company must

Brown in a joint statement by Chairman Wilbur D. Mills and the Honorable John W. Byrnes. Rep. Mills & Rep. Byrnes, Press Release, Aug. 27, 1965. The statement advised the congressional staff to work with members of the Internal Revenue staff to draw up measures which would correct the apparent abuses of the Code found in Brown. The staff was advised that there may be a syphoning off of corporate earnings at capital gains tax rates to the shareholders and the avoidance of taxes at the corporate level. The staff was instructed to devise legislative proposals aimed at blocking this syphoning process either through the use of a charitable organization or through a dummy corporation in conjunction with a charitable organization. The product of these conferences will do much to shape inevitable legislation in this area.

1. An NLRB order is effective against an alter ego of or successor to the original respondent. Southport Petroleum Co. v. NLRB, 315 U.S. 100 (1942) (by implication).
2. 49 Stat. 452, as amended, 29 U.S.C. §§ 158(a)(1), (3), and (5) (1964). Violations of §§ 8(a)(1), (3), and (5) of the NLRA were specifically charged and found to be violated.
3. The workers returned to their jobs after a seasonal layoff to discover that the company had closed and moved to Florida.
4. It is firmly established that an employer must bargain with the union about the effects of relocation. Sidele Fashions, Inc., 133 N.L.R.B. 547 (1963), enforced per curiam, 305 F.2d 825 (3d Cir. 1962); Industrial Fabricating, Inc., 119 N.L.R.B. 162 (1957), enforced per curiam sub nom. NLRB v. Mackneish, 272 F.2d 184 (6th Cir. 1959). Recent NLRB decisions suggest that any decision to eliminate jobs is a mandatory subject for bargaining. See American Mfg. Co., 139 N.L.R.B. 815 (1963), enforced, 60 L.R.R.M. 2122 (5th Cir. 1965) (subcontracting). See also Note, Labor Law Problems in Plant Relocation, 77 Harv. L. Rev. 1200 (1964).
5. The trial examiner also recommended that if the respondent remained in Florida it must offer its employees reinstatement and reimburse them for expenses if they chose to move and make them whole for any loss of pay from the date of relocation until they find substantially equivalent employment. Garwin Corp., 59 L.R.R.M. 1405, 1408 n.3 (1965).
6. The union suggested as an alternative remedy that the company be ordered to return to New York, but this was rejected by the NLRB as punitive. Garwin Corp., supra note 5, at 1408.
7. Schieber Millinery Co., 26 N.L.R.B. 937, modified per curiam sub nom. NLRB v. Schieber,
offer reinstatement in its new plant to all employees unlawfully discharged, provide back pay from the date of discharge to the date of offer of reinstatement at the new plant, pay moving expenses of employees choosing to move, and bargain with the union only if it re-establishes a majority at the new plant.\(^8\)

Imposition of the standard order depended on the presence or absence of anti-union animus or on the feasibility of employee transfer. When the great distance between the original and the relocated plants minimized employee transfer, under the most favorable circumstances, the Board refused to issue bargaining orders.\(^9\) But the Board issued orders when the new plant was located within commuting distance of the old and the relocation was motivated by a desire to avoid bargaining with the union.\(^10\) The Court of Appeals for the Second Circuit, however, reversed such an order in *Rapid Bindery, Inc.*\(^11\) stating that the order "is not proper inasmuch as the union does not appear to represent any of the employees at the [relocated] plant."\(^12\)

Prior to *Garwin*, the only departure from the standard remedy occurred in *Bonnie Lass Knitting Mills, Inc.*\(^13\) in which the Board increased the back pay liability for an employer who refused to bargain about relocation. This liability terminated only when the employer offered reinstatement at the old plant or the employee found substantially equivalent employment.\(^14\) Thus, the power to terminate the back pay liability can no longer be exercised unilaterally by the employer through an offer of reinstatement at the new plant.\(^15\)

Despite attempts to formulate an effective policy, the Board's inability to create an adequate remedy for "runaway shops" became increasingly apparent.\(^16\) Even after *Bonnie Lass*, the standard order placed employers who refused to bargain in only a slightly worse position than those who bargained in good faith. In both cases, employers would have to offer reinstatement to employees in the new plant and reimburse them for moving expenses. Except for the back pay provisions under *Bonnie Lass*, the liability of employers in both would be equal; neither would have to bargain with the union in the new location unless the union could re-establish its ma-

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\(^8\) F.2d 281 (8th Cir. 1940). See also Jacob H. Klotz, 13 N.L.R.B. 746 (1939), modified, 29 N.L.R.B. 14 (1941).


\(^11\) 127 N.L.R.B. 212 (1960), enforcement denied, 293 F.2d 170 (2d Cir. 1961). The NLRB found union animus to be the motivation for the company's relocation, but the court rejected this finding and refused to enforce the NLRB's order as it found that the company relocated for economic and, therefore, lawful reasons.

\(^12\) 293 F.2d at 177.

\(^13\) 126 N.L.R.B. 1396 (1960).

\(^14\) Id. at 1398. See also Town & Country Mfg. Co., 136 N.L.R.B. 1022 (1962), enforced, 316 F.2d 846 (5th Cir. 1963).

\(^15\) As in the standard back pay order, the employees are under a duty to mitigate damages. For an example of the standard discriminatory discharge back pay liability in a nonrelocation case, see Phelps Dodge Corp. v. NLRB, 323 U.S. 177, 197-98 (1944).

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Majority. Thus, an employer who relocated his plant to avoid bargaining with the union, although not assured his goal, could take a fairly well-calculated risk. Most of his employees would not be willing to accept reinstatement at a plant located distant from their homes; the union would be unable to command a majority in the new plant; and the back pay liability would not be excessive in a tight labor market because the employee can be expected to find suitable alternative work.

In response to the inefficiency of the standard order, the Board in Garwin altered its remedial policy. Although previous orders had been concerned primarily with compensating injured employees, the Board in Garwin focused on the problem of deterring employers from relocating to avoid bargaining with the union. The Board directed the company to bargain with the union on behalf of all employees at the new plant. If the union re-establishes its majority, normal contract bar rules would apply to any collective bargaining contract. But if the union could not command a majority of the employees, any contract resulting from the bargaining order would be effective for only one year. After this one-year period, the union would be subject to a decertification petition brought under the act.17

In the cases relied on in Garwin, broad bargaining orders were issued in response to the employer’s tactics undermining the union. The cases fall into three categories: (1) after the union has proved its majority status, it is undermined by the employer;18 (2) after the union has proved its majority status, employer delay and normal plant turnover remove the union's majority status;19 (3) expansion of the unit after it has elected the union destroys the union's majority status.20 If relocation is viewed as an attempt to undermine the union majority by a geographical change, these cases support the result reached in Garwin.

In formulating the new order, the Board attempted to balance the interests of the parties. On one hand, under the standard order the company would escape its statutory duty to bargain and thus enjoy the fruits of its unfair labor practice. On the other, the Board was concerned with the statutory rights of workers employed at the relocated plant to participate in or refrain from union activity.21 The standard remedy requires new employees to yield their positions in favor of those unlawfully discharged.22 In Garwin, the Florida employees owed the continuance of their jobs, and thus their protection under the act, to the failure of the New York employees to exercise their right of reinstatement.23 Consequently, the Board gave less weight to the


rights of the Florida employees in its attempt to deter employer conduct inimical to the act.

If the union works to gain support of a majority of employees, the employees will probably benefit from union representation by better wages and working conditions. Had the Board not issued the order, the employees may have been reluctant to organize because of the company's past anti-union animus and relocation. Working under union protection for one year will provide the employees the opportunity to observe unionization. Even if they later reject the union, employees will have been apprised of their right of self-organization.

Unions, however, by virtue of their delegated authority, have the power to contract away many employee rights. A collective bargaining contract frequently contains provisions limiting opportunities for employee organizational activity.24 As the exclusive bargaining agent for all employees, the union will be able to restrict employee action without the authority that ensues from majority support. The Board attempted to minimize these dangers by limiting any contract that might result from its bargaining order to one year instead of the normal three-year contract bar period.

The problem of a union representing employees who have not chosen it is further complicated when another union is competing for the support of these employees. Although this was not a factor in Garwin, it should be considered to determine the appropriateness of this remedy in subsequent relocation cases. An award of bargaining rights in such a case would seem a denial of the employees' statutory right to self-organize and to bargain collectively through representatives of their own choosing. The Board should refrain from using the bargaining order when the statutory purposes of employee representation have already been accomplished.

On balance, the Board’s decision appears correct. Assuming that the relocation was primarily motivated by a desire to avoid bargaining with the union, the interests of the Florida employees must yield to the Board’s choice of an effective remedy. However, in other cases in which stronger economic motivations for relocation are present, the bargaining order issued in Garwin would appear to be unduly harsh.

Margery Waxman Smith


Rausser filed a parent application1 disclosing only the hydrogen species of a chemical compound. Thereafter, appellant Taub filed an application2 disclosing a genus comprising the hydrogen species and four halo species of the same compound. Rausser subsequently filed a continuation application3 disclosing the genus, and an interference4 was declared between Rausser’s continued application and appellant’s applica-


tion, the pertinent count reciting the genus. Rausser was awarded priority based on the filing date of his parent application. In subsequent *ex parte* prosecution, appellant presented a claim reciting the fluoro species of the compound. The Board of Appeals assumed all species embraced by the generic count awarded to Rausser to be prior art and affirmed the Examiner's rejection on the ground that the count reads on the claimed species. On appeal to the Court of Customs and Patent Appeals, held, reversed and remanded; where a party is awarded a generic count based on priority of a single species, every species of the genus is not prior art to be considered in determining the unobviousness of other species of the genus.

An interference proceeding determines the priority of invention between parties having applications that appear to contain common patentable subject matter. The common subject matter is defined by an interference count, which is an identical claim in each application. In applications claiming a chemical compound, such as those of Rausser and Taub, a number of chemical species may be claimed by reciting them in a genus. Since chemical genera do not in fact exist, however, a problem is encountered in determining priority of a generic invention where the parties have reduced to practice different species. The Patent Office has followed the procedure of declaring the interference on the genus and awarding the genus to the party who shows priority of a single species within the genus.

5. 35 U.S.C. § 102(g) (1964). Invention is a two step process: conception and reduction to practice. Reduction to practice may be actual or constructive. In the case of chemical compounds, actual reduction to practice is the production of the compound in the laboratory; constructive reduction to practice is the filing of a legally sufficient patent application. He who is first to conceive and first to reduce to practice will always be awarded priority. However, he who conceives first but reduces to practice second may still get an award of priority if he is able to show diligence from a time prior to the other's conception. *Ibid.*

6. Taub v. Rausser, 145 U.S.P.Q. 497 (Bd. Pat. Inf. 1964). Taub unsuccessfully attempted to show actual reduction to practice prior to the filing date of Rausser's parent application, which was relied on for constructive reduction to practice.


8. In U.S. Patent Application S.N. 831688, Taub, filed Aug. 5, 1959, a division of U.S. Patent Application S.N. 722390, Taub, filed March 19, 1958. However, since it is uncontested that appellant adequately disclosed the claimed fluoro species in his earlier filed application, the two Taub applications will hereinafter be treated as one.


11. Only species compounds exist because a particular position on any given molecule is always occupied by some species. See Fieser & Fieser, *Steroids* 694 (1959).

12. M.P.E.P. § 1102.01(f) provides that "the broadest patentable claim which is allowable in each case should be used as the interference count . . . ."

13. Kyrides v. Andersen, 121 F.2d 574, 50 U.S.P.Q. 132 (C.C.P.A. 1942). Kyrides filed a parent application disclosing the ethyl species of a chemical compound. Subsequently, Andersen filed an application claiming the genus (alkyl). Kyrides filed a continuation application disclosing only the ethyl species and claiming the alkyl genus. An interference was declared between the Andersen application and the Kyrides continuation, the pertinent count reciting the genus. Kyrides was awarded priority of the genus, the court stating that he was the first to reduce to practice the invention defined in the count.

The court in *Taub* stated, "The problem arises from the fact that one may establish priority
In *Taub*, the court stated that under section 102(g)\(^4\) the genus defined by the interference count is not the prior invention of another applicable against appellant’s claimed fluoro species.\(^5\) Since only the hydrogen species is prior art, the case was remanded to determine whether or not the fluoro species is obvious in view of the hydrogen species.

*Taub* reached a result both logical and just to appellant, but the possible injustice that may occur on remand illustrates the fallacy of the interference procedure of awarding the genus to the party who shows priority of a single species within the genus.

If the Patent Office determines the fluoro species to be unobvious in view of the hydrogen species, appellant will be awarded a claim to the fluoro species.\(^6\) However, whether appellant or Rausser is entitled to an award of priority of the fluoro species has never been determined.\(^7\) Although Rausser may be entitled to the fluoro species, appellant may be granted a claim to that species in *ex parte* prosecution in which Rausser is not a party.\(^8\)

An alternative procedure for determining priority when parties have reduced to practice different species is to declare the interference only on species counts. If one party be awarded priority of all species within a genus, that party would be free to claim the entire genus. If each party won several species, each might recite them in different genera.

Had the suggested procedure been followed, the interference that preceded *Taub* would have contained five counts: hydrogen, fluoro, chloro, bromo, and iodo. Assuming both parties relied on their filing dates to prove constructive reduction to practice, Rausser would have been awarded priority of the count reciting the hydrogen species, and appellant the remaining four species. The hydrogen species would then be prior art with respect to the remaining species. If the remaining species be found unobvious in view of the hydrogen species, then the counts reciting the remaining species would be patentable to the appellant.

This is almost the result in *Taub*, the important difference being that both appel-

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\(^4\) The court dismissed 35 U.S.C. § 102(a) (1964) as possible grounds for the Board of Appeals decision since the invention defined by the count was not *publicly known* or used.

\(^5\) The court reasoned that, within the term prior art, prior means before, and since the fluoro species of Rausser (embraced by the generic count) was not reduced to practice before appellant’s, it is not prior.

\(^6\) Rausser by showing priority of one species (hydrogen), was awarded in the interference count reciting the genus, another species (fluoro), even though on remand that species be found unobvious to one of ordinary skill in the art, which presumably includes Rausser himself.

\(^7\) Appellant moved to have a new interference declared on a count reciting the fluoro species. The motion was denied, the Examiner stating that the fluoro species of the count of the proposed interference is within the scope of the generic count awarded to Rausser in the terminated interference. Presentation of this motion foreclosed any argument of estoppel by the Patent Office. See *In re Yale*, 347 F.2d 955, 146 U.S.P.Q. 400 (C.C.P.A. 1965); and *In re Bandel*, 348 F.2d 563, 146 U.S.P.Q. 389 (C.C.P.A. 1965), both decided concurrently with the principal case.

\(^8\) If the Patent Office determines appellant’s fluoro species to be unobvious, a patent will issue to appellant with a claim to that species. Then either appellant or Rausser might bring a civil suit for interference under 35 U.S.C. § 291 (1964).

Another course of action the Patent Office might follow is to declare a second interference pursuant to 35 U.S.C. § 135 (1964) to determine priority of the fluoro species.
lant and Rausser have a claim to the fluoro species\textsuperscript{19} when in all probability only one of them is entitled to that species.

David R. Murphy


Plaintiff\textsuperscript{1} filed a series of three continuing applications,\textsuperscript{2} the last of which matured into the patent in suit.\textsuperscript{3} Three months after filing the second application, plaintiff requested from the Patent Office a license to file foreign applications\textsuperscript{4} on the disclosed invention. Before the license was granted, plaintiff filed abroad.\textsuperscript{5} A non-retroactive license was later granted by the Commissioner. In a subsequent infringement suit,\textsuperscript{6} defendant successfully moved for summary judgment on the ground that plaintiff’s foreign filing\textsuperscript{7} without a license prior to the expiration of the statutory six-month period\textsuperscript{8} after domestic filing invalidated the patent.\textsuperscript{9} Plaintiff then obtained a retroactive license and moved for reconsideration, alleging the new license cured the statu-

\begin{itemize}
  \item Rausser’s claim to fluoro is in the fluoro species of the Markush genus; appellant’s is the fluoro species per se. The patentee is entitled to exclude others from making, using, or selling the invention under 35 U.S.C. § 271 (1964). Thus, appellant and Rausser would be entitled to exclude each other and would have to cross license to be able to practice the invention. Third parties would be obliged to get licenses from both. 35 U.S.C. § 271(a) (1964).
  \item Plaintiff, Minnesota Mining \& Mfg. Co., is the assignee of the applicant.
  \item U.S. Patent 2958593, Hoover, issued Nov. 1, 1960.
  \item Licenses to file applications abroad are required by 35 U.S.C. § 184 (1964) which provides in pertinent part:
    
    Except when authorized by a license obtained from the Commissioner a person shall not file or cause or authorize to be filed in any foreign country prior to six months after filing in the United States an application for patent . . . . The license may be granted retroactively where an application has been inadvertently filed abroad and the application does not disclose an invention within the scope of section 181 of this title.
  \item Although the patent in suit matured from a continuation-in-part of the second filed application, the penalty attached to the patent, which was granted on the third application. The defect in the second application carried over to the third application, thus preventing avoidance of the penalty.
  \item 35 U.S.C. § 185 (1964) provides in pertinent part:
    
    \textit{[A]ny person . . . shall not receive a United States patent for an invention if that person . . . shall, without procuring the license prescribed in section 184 of this title, have made . . . application in foreign countries for a patent . . . .} A United States patent issued to such person . . . shall be invalid.
\end{itemize}
tory defect. The District Court for the Northern District of Ohio held, motion for reconsideration denied; a retroactive license obtained after the issuance of a patent is ineffective to cure a defect in the patent caused by unlicensed foreign filing prior to the expiration of the statutory six-month period.

An applicant is required under section 184 of Title 35 of the United States Code to obtain a license in order to file a foreign application within six months after domestic filing on an invention made in the United States. The six-month period allows the Patent Office time to determine whether or not foreign disclosure adversely affects national security. The subject matter is presumed cleared for foreign filing if no secrecy order issues within that period. Failure to comply with section 184 results under section 185 in a bar to obtaining, or an invalidation of, the corresponding patent. However, the Commissioner of Patents may grant a retroactive license when the foreign disclosure was both inadvertent and harmless to national security.

Statutes requiring permission by license to file abroad were first enacted before World War II, but lacked the six-month and retroactive licensing provisions. Nevertheless, to remedy problems caused by war-time failures in communication, the Commissioner issued post-patenting retroactive licenses. The Boykin Act exempted patents from invalidation where “the Commissioner subsequently authorized filing of the application…” Although the savings provision was phrased in the past tense, In re Lee held that the Commissioner had power to continue granting post-patenting retroactive licenses. The Invention Secrecy Act of 1952 repealed the World War II foreign filing statutes and substituted section 184, which is silent on the Commissioner’s power to grant such licenses.

The Commissioner, however, continued to grant post-patenting retroactive licenses under section 184, but recently in In re Rinker cautioned that whether or not such a license validates an already issued but defective patent is a matter for judicial determination. In a subsequent suit involving the Rinker patent, the District Court for the District of New Jersey relied on the license obtained from the Patent Office to deny invalidation of the patent. Similarly, the district courts for the District of Columbia and the Northern District of Illinois upheld the Commissioner’s power to grant such licenses.

15. This requirement is satisfied by a sworn allegation to this effect. See, e.g., papers nos. 42, 43 in plaintiff’s file wrapper, U.S. Patent Application S.N. 777167, filed Oct. 8, 1958.
to validate a patent by granting the patentee a retroactive license under section 184.

The court in the 3M cases analyzed the language of sections 184 and 185 in the light of the legislative history. Under the power granted it by the patent clause in the Constitution,27 Congress conferred on federal courts jurisdiction over patents, except for interferences,28 reissue patents,29 statutory disclaimers,30 and certificates of correction.31 The court recognized the Boykin Act as a further exception to federal court jurisdiction, but found in the language and legislative history of the present provisions an intent to deny the Commissioner jurisdiction to issue post-patenting retroactive licenses.32 The court reasoned that, since section 184 refers only to applications and not to patents,33 Congress did not extend to the Commissioner authority to issue licenses to cure a defect in a patent; had such authority been intended, section 184 would have referred to “application or patent.” Finally, the court saw section 18534 as an ab initio invalidation of the patent, which remains invalid since the Commissioner is without jurisdiction over patents.

Not only is the court’s statutory construction doubtful, but it begs the central question whether or not the Commissioner has authority to issue such licenses. The word “application” in section 184 is modified by “filed abroad”;35 thus, the term refers to the foreign and not the domestic application. Since it would be meaningless for that portion of section 184 to refer to “patents...filed abroad,” the omission of the word “patents” does not lead to a conclusion that Congress intended to deny the Commissioner power to cure defective patents by issuing retroactive licenses.

To resolve the ambiguities in sections 184 and 185, which are complicated by the lack of legislative history, requires an examination of the purpose of the statute: to prevent inadvertent disclosure of information detrimental to national security.36 A foreign disclosure that breaches security is irretrievable; but any reasonable, preventive statute should not impose a penalty for inadvertent disclosure of non-security material.

The World War II statute did not distinguish between inadvertently filed foreign applications where security was breached and those where there was no breach of security; a license to file abroad was required in all cases, and no retroactive savings clause was available. However, Congress provided for such breach-versus-no-breach distinction by ratifying in the Boykin Act the Commissioner’s practice of granting licenses where no breach of security occurred. The breach-no-breach distinction ap-

33. 240 F. Supp. at 253 n.4 [sic]; 145 U.S.P.Q. at 84 n.3.
34. 35 U.S.C. § 185 (1964) in pertinent part states, “A United States patent issued to such person...shall be invalid.”
plying under the Boykin Act to both patents and applications was expanded from mere ratification of the past grant by the Commissioner to a continuing authority in *In re Lee*. Although in the Invention Secrecy Act the absolute necessity for a license was rejected in favor of the six-month presumption provision, either type of provision indicates a continuance of the basic policy distinction. Upon the implied termination of the Boykin Act, the statutory reference to patents was dropped without any change in rationale or basic policy. The omission of the reference to patents apparently did not reflect an intention to change prior statutory or case law. Thus, the authority granted the Commissioner under the Boykin Act and made continuous by *In re Lee* should be considered to still exist.

Invalidating the patent in the 3M case is particularly harsh since the patentee did not violate the purpose of the statute. Validating such a patent would not conflict with the purpose of the statute to preserve national security and would be more equitable than invalidation on a technical ground unrelated to the substantive quid pro quo of the patent grant.

Stanley Green


Claims in appellant's patent application were rejected by the Patent Office as unpatentable because a printed publication partially describing the invention appeared more than one year prior to the filing date of the application. The Patent Office Board of Appeals affirmed the rejection. On appeal to the Court of Customs and Patent Appeals, appellant questioned the availability of the publication as a reference, relying for its removal on a previously submitted affidavit that showed a date of invention prior to the date of publication. The Patent Office contended that appellant was barred from challenging the availability of the publication by the statutory time bar provisions of section 102(b) of the 1952 Patent Act. Relying on *In re Palmquist*, ap-

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37. The World War II statutes, by their own terms were to expire at the war's end; the Invention Secrecy Act of 1951, passed before the war was technically over, necessitated express repeal. 35 U.S.C. §§ 181-88 (1964). Section 6 of the Boykin Act, 60 Stat. 940 (1946), being an exception to the World War II statutes, 54 Stat. 710 (1940), 55 Stat. 657 (1943), thereby ceased being effective although never expressly repealed.

38. The grant of a license by the Commissioner positively establishes the lack of breach of security.

2. Patent Office Rules of Practice, Rule 131, 37 C.F.R. § 1.131 (1964), states in pertinent part:
   When any claim of an application is rejected on reference . . . to a printed publication, and the applicant shall make oath to facts showing a completion of the invention in this country . . . before the date of the printed publication, then the . . . publication cited shall not bar the grant of a patent to the applicant, unless the date of such . . . printed publication be more than one year prior to the date on which the application was filed in this country.
   [Emphasis added.]
3. 35 U.S.C. § 102(b) (1964) states in pertinent part that a person shall be entitled to a patent unless—
   the invention was patented or described in a printed publication in this or 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.
pellant argued that the statutory time bar applies only to references that describe completely the invention, and not to references that merely render an invention obvious. Held, affirmed; a publication appearing more than one year before the filing date of an application for patent is available to support a rejection for obviousness under section 102(b).

Since 1839, an applicant has been required by the patent statutes to file for patent within a limited time after the invention becomes public. The Patent Act of 1839 provided that public use or sale of the invention two years prior to application barred the patent. The statutes were amended in 1897 to include disclosure in a publication. Section 102(b) requires that the patent application be filed within one year after this publication. This limitation is designed to promote prompt filing so that the grant of the patent monopoly does not remove that which has long been in the public domain.

Prior to the enactment of section 103, there was no statutory distinction between references in publications showing all or only part of an invention. Any publication that rendered an invention unpatentable—either because it completely described the invention or partially described it so that the invention became obvious to a man of ordinary skill in the art—if available to the public for the prescribed period would be a statutory time bar. Under section 102 (a), a reference that completely describes the invention is a basis for rejection; section 103 authorizes rejections based on references that only render the claimed invention "obvious" at the time it was made. Notwithstanding the statutory distinction between complete and partially disclosing references, courts have recognized that section 103 was not enacted to modify that

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8. 35 U.S.C. § 103 (1964) states in part:
   A patent may not be obtained though the invention is not identically disclosed or described as set forth in 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. [Emphasis added.]
11. 35 U.S.C. § 102(a) (1964) states in part:
   A person shall be entitled to a patent unless—(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent . . .
12. 35 U.S.C. § 102(a) (1964) is somewhat broader than requiring a reference to disclose 100% of the claimed invention since the reference may show less than the entire invention, yet anticipate it: that is, the invention claimed is anticipated in the sense of being disclosed sufficiently to put one of ordinary skill in the art "in possession" of the claimed invention. In re Le Grice, 301 F.2d 929, 133 U.S.P.Q. 365 (C.C.P.A. 1962).
aspect of pre-existing statutory law, but to "codify" prior case law that made "obviousness" a test of patentability. However, the language of section 103 does not in haec verba refer to statutory time bars; rather, its express statement that obviousness is to be determined "at the time the invention was made" appears to negate the operation of a bar where rejection is based on a combination of partially disclosing references. In *Palmquist*, that phrase was relied on to remove the publication from any consideration of whether a time bar existed since, at the time the invention was made, the reference was not yet in existence.

The court in *Foster* reasoned that the phrase "at the time the invention was made" only evidenced a congressional intent to prevent the use of hindsight to determine obviousness. Although a reference may not be used to determine obviousness under section 103, it is pertinent in determining the existence of a statutory time bar under section 102(b). Further, the court continued, a contrary holding would permit an inventor to sleep on his rights after his invention had become obvious to the public; this result would conflict with patent policy that what is in the public domain should remain there.

The *Palmquist* court erred in treating the case as one primarily involving obviousness under section 103, rather than "loss of right to a patent" under section 102(b).

The dissent in *Foster* charged the majority with legislating by giving the statutory bar effect of section 102(b) to an obviousness reference published after the date of invention. The phrases "the invention was ... described" in section 102(b) and "at the time the invention was made" in section 103 are unambiguous; the majority's resort to congressional intent was therefore unwarranted.

The contention that the phrase "the invention was described" is unambiguous seems unfounded. The same phrase appeared in the statute preceding the 1952 Act and was construed to include partially disclosing references that would make the invention obvious, as well as those references completely disclosing the claimed invention. Since there is no evidence that Congress intended to change that construction, it is proper to read obviousness into section 102(b) by construing "described" to mean, according to the reviser's note to 35 U.S.C. § 103 (1964) states in part:


15. An invention does not become in the public domain until the lapse of one year after its non-patent disclosure. 35 U.S.C. § 102 (1964).


Any person who has invented or discovered any new and useful art, machine, manufacture, or composition of matter, or any new and useful improvements thereof . . . not . . . described in any printed publication in this or any foreign country, before his invention or discovery thereof, or more than one year prior to his application . . . may obtain a patent therefor.

in effect, substantially described. A similar interpretation has been given18 the term "described" in section 102(e),19 thus permitting patents that only partially disclose a claimed invention to become available as of their filing date for obviousness rejections under section 103. Although the subsection (e) interpretation of the word "described" does not control its interpretation in subsection (b), it does, at least, show that the Foster interpretation is not unique.

The dissent argued that two areas of the present law illustrate that, contrary to the majority view, there is no universal policy against allowing a patent to issue on an invention that has become obvious to the public more than one year before the filing date. First, co-pending applications made available as references as of their filing date by section 102(e) can be removed by an affidavit proving an invention date prior to the filing date of the application for patent, even if the filing date is more than one year prior to applicant's filing date.20 The conclusion that this disproves the majority's universal policy is valid only if the distinction between actual and constructive knowledge of a reference is overlooked. Co-pending applications are kept secret21 from the public until they issue as patents, so that an inventor's knowledge of the disclosure of a patent that was co-pending with his application can only be constructive as of the filing date of the patent. By allowing an inventor to prove an invention date of more than one year prior to his filing date and earlier than the filing date of the secret co-pending application, the policy of leaving in the public domain what was already there is not violated.

The second area said to show no universal policy is that section 102(b) does not include loss of right to patent by the public's mere knowledge of the invention for more than one year prior to the filing date for patent. Section 102(b) lists four possibilities that may give rise to a loss of right to a patent: if the invention, for more than one year prior to the filing date was (1) patented, or (2) described in a printed publication, or (3) in public use, or (4) on sale. Unlike section 102(a), public knowledge is not listed as creating a bar. The dissent, however, fails to explain how public knowledge of an invention can be proved without introducing evidence of one or more of the four possibilities included in section 102(b). As an evidentiary matter, prior public knowledge sufficient to preclude a patent can generally be proved only by the

19. 35 U.S.C. § 102(e) (1964) states that a person shall be entitled to a patent unless— the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent.
20. This situation occurred in both Palmquist and in In re Schoenewaldt, 343 F.2d 1000, 145 U.S.P.Q. 289 (C.C.P.A. 1965). Thus, the words "the date" in the last clause of Rule 133, 37 C.F.R. § 1.132 (1964), referring to when patents may become statutory bars, are correctly construed to mean the date of issuance rather than the filing date.
existence of at least one of the four possibilities in section 102(b). Therefore, the omission of "known" in section 102(b) does not, as a practical matter, militate against the general policy foreclosing the issuance of patents on inventions that have been obvious to the public more than one year prior to the filing date.

The Foster court failed to make clear whether section 102(b) simply makes references published prior to one year before the filing date available as references under section 103, or whether section 102(b) considered alone creates the loss of right to patent in obviousness situations. The former construction may seem proper because only section 103 expressly uses the word "obvious." Section 103, however, contains a specific time reference as to availability—the time the invention was made—thus making this construction strained. On the other hand, by adopting the construction that section 102(b) includes obviousness within the word "describes," resort to section 103 is unnecessary. To arrive at this construction, however, a judge-made category of obviousness, preserving the pre-1952 case law, is created within section 102(b).

In re Folkers is an example of the availability aspect of Foster. There, appellant conceded the claimed invention would be obvious if the reference were available, and it was unnecessary to invoke the judicial category of obviousness. A second recent case, In re Hassler, involved both the threshold question of availability and the subsequent question of obviousness within the new meaning of section 102(b). Thus, the court clearly indicates that Foster does not import section 103 into section 102(b) or vice-versa.

The judge-made category of obviousness within section 102(b) permits courts to formulate policy without being limited by precedents exclusively concerned with hindsight problems of section 103. Section 102(b) protects the public, not the inventor; thus, the protection afforded an inventor by a "no-hindsight" policy is immaterial in cases involving time-bars. Since Foster does not confuse the policies underlying sections 103 and 102(b), there is no warrant to expect a time-bar to arise where a pending application filed more than one year prior to another application renders the latter obvious. Only by reading section 102(e) as interpreted with reference to section 103, as in In re Harry, together with section 102(b) could such a bar arise.

23. To be sufficient knowledge, it must be of a complete invention, Coffin v. Ogden, 85 U.S. (18 Wall.) 120, 124 (1873), or of such character as would enable a person skilled in the art to make or use the invention. Curtiss Aeroplane & Motor Corp. v. Janin, 278 Fed. 454 (2d Cir. 1921). Testimony of knowledge of an invention passed only by means of the memories of persons to other persons was held not accessible to the public. Gayler v. Wilder, 51 U.S. (10 How.) 477 (1850). If proof is of knowledge of an unpublished manuscript, it must be sufficient to enable one skilled in the art to reduce the invention to practice. In re Borst, 345 F.2d 851, 145 U.S.P.Q. 544 (C.C.P.A. 1965).

24. The court said that loss of right to a patent is an issue with which § 103 per se has nothing whatsoever to do. Also, the court said that the rejection "unpatentable over" permits the court to consider both 35 U.S.C. §§ 102(b) and 103 (1964). The court did not state that its rejection was based on § 102(b) considered without reference to § 103. 343 F.2d at 990, 145 U.S.P.Q. at 174-75.


27. The interesting result was to affirm a 35 U.S.C. § 103 (1964) rejection without resort to § 103.


Such a fusion is improper since the policy of a statutory time-bar is predicated on public knowledge, whereas availability as of the filing date is based on constructive knowledge. Thus, courts may implement these differing policies when construing obviousness within section 102(b) without being hampered by the obviousness precedents of section 103.

Since the Foster approach creates a separate judicial category of obviousness within section 102(b), it does not change the time for determining obviousness under section 103. So long as the cautionary words against the use of hindsight of the Foster court are adhered to in future cases, and to the extent the underlying policy of statutory time-bar applies in obviousness situations, the Foster result is a desirable return to pre-Palmquist law.

Michael Joe Myers

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30. The Foster court stated,
We wish to make it clear that this ruling is predicated on our construction of section 102(b) and has no effect on the statements in Palmquist respecting the determination of obviousness under section 103 when a statutory time-bar is not involved. The existence of unobviousness under that section, as a necessary prerequisite to patentability, we reiterate, must be determined as of “the time the invention was made” without utilizing after-acquired knowledge. 343 F.2d at 990, 145 U.S.P.Q. at 174.