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## The Accidental Agency?

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THE ACCIDENTAL AGENCY?

*Sapna Kumar\**

Abstract

This Article presents a new model for examining the role of the Court of Appeals for the Federal Circuit (Federal Circuit) with regard to patent law, positing that the Federal Circuit behaves like an agency and serves as the de facto administrator of the Patent Act. The Federal Circuit has traditionally engaged in a form of substantive rulemaking by issuing mandatory bright-line rules that bind the public. In reviewing patent agency appeals, the Federal Circuit acts more like an agency than a court by minimizing agency deference through the manipulation of standards of review and administrative law doctrines. This position of administrator raises several concerns. Supreme Court intervention has jeopardized the Federal Circuit’s ability to continue engaging in substantive rulemaking, calling into question the sustainability of the lower court’s role as administrator. Furthermore, the Federal Circuit is caught between the Supreme Court’s goal to unify administrative law and Congress’s goal to unify patent law. These problems suggest that a confrontation between the Supreme Court and Congress is inevitable.

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INTRODUCTION

When Congress passes legislation, it relies on other entities to interpret and clarify complex statutory language. Almost always, Congress grants an agency substantive rulemaking authority to serve this purpose.<sup>1</sup> This delegation of power allows the government to respond quickly to societal and legal changes without compromising separation of powers.

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1. One notable exception—besides patent law—is antitrust law. Both the Department of Justice and the Federal Trade Commission lack substantive rulemaking authority over the key provisions of the antitrust statutes. Hillary Greene, *Guideline Institutionalization: The Role of Merger Guidelines in Antitrust Discourse*, 48 WM. & MARY L. REV. 771, 841 (2006) (“The DOJ enjoys no express or implicit grant of rulemaking authority within the antitrust realm. Though in theory one could argue that the FTC enjoys rulemaking authority in the competition context, it is not clear that position would prevail, and as a practical matter it is equally unlikely the FTC would advance such a position.”); Jonathan E. Nuechterlein, *Antitrust Oversight of an Antitrust Dispute: An Institutional Perspective on the Net Neutrality Debate*, 7 J. ON TELECOMM. & HIGH TECH. L. 19, 65 (2009) (noting that the Antitrust Division of the Department of Justice “has no substantive rulemaking authority to speak of”).

At first glance, the Patent Act appears to be an outlier. The Patent and Trademark Office (PTO) administers the Patent Act,<sup>2</sup> but lacks authority to interpret the substantive provisions of the statute.<sup>3</sup> However, close scrutiny reveals that the Court of Appeals for the Federal Circuit (Federal Circuit) serves as a de facto administrator, notwithstanding the fact that it is an Article III court.<sup>4</sup> This role appears to have emerged from the court's specialization<sup>5</sup> and its mandate from Congress to promote uniformity in patent law.<sup>6</sup>

The Federal Circuit engages in two agency-like functions: promulgating substantive rules and adjudicating disputes. The court has historically engaged in a form of rulemaking by issuing mandatory bright-line rules.<sup>7</sup> These rules have varied in subject matter, from requiring district courts to grant injunctions when a patent is infringed, to requiring that all method patents be tied to a machine or involve a transformation.<sup>8</sup> These rules function like substantive rules, in that they bind district courts, the PTO, and the public.<sup>9</sup>

The Federal Circuit also engages in an aggressive form of adjudication that resembles agency review of a subordinate administrative law judge. Typically, judicial review of agencies is deferential. The Administrative Procedure Act (APA) requires courts to review agency determinations of fact and policy with varying degrees of deference.<sup>10</sup> This duty to defer stems from the unique advantages that agencies possess and has been

2. Sapna Kumar, *Expert Court, Expert Agency*, 44 U.C. DAVIS L. REV. 1547, 1570 & n.122 (2011) (noting that “the PTO alone administers the Patent Act” and discussing why experts believe that the PTO administers the entire Patent Act).

3. See 35 U.S.C. § 2 (2006) (granting the PTO substantive rulemaking authority over the conduct of proceedings within the PTO, but failing to grant power to interpret the remainder of the Patent Act); see also Sarah Tran, *Patent Powers*, 25 HARV. J.L. & TECH. 595, 603 (2012) (citing *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991)) (discussing how limitations in the PTO's substantive rulemaking authority emerged out of the Federal Circuit).

4. The Federal Circuit shares many features of Article I courts. As Professor Elizabeth Winston has observed, the court possesses the power to remove Article I Court of Federal Claims judges for “incompetency, misconduct, neglect of duty, engaging in the practice of law, or physical or mental disability,” a power that one generally associates with the legislative branch. Elizabeth I. Winston, *Differentiating the Federal Circuit*, 76 MO. L. REV. 813, 830–31 (2011) (quoting 28 U.S.C. § 176 (2006)). It is “unclear” why “the Federal Circuit holds this power.” *Id.* at 833. Furthermore, the court's jurisdiction “is defined not by territory, but by subject matter.” *Id.* at 815 & n.10 (listing the subject matters over which the Federal Circuit has jurisdiction).

5. See *infra* Section II.A.

6. See *infra* Section I.D.

7. See *infra* Section II.B.

8. See *infra* Section II.C.

9. See *infra* Section II.D; see also Ryan Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 76 MO. L. REV. 733, 744–749 (2011) (arguing that when the Federal Circuit hears cases en banc, it engages in a form of substantive rulemaking).

10. See 5 U.S.C. § 706 (2006) (providing the standards of review for questions of law and questions of fact in both formal and informal agency proceedings).

recognized by the Supreme Court in cases such as *Chevron U.S.A. Inc. v. Natural Resources Defense Council*.<sup>11</sup>

The Federal Circuit, however, has resisted giving deference to administrative patent decisions. It has denied that the review provisions of the APA apply to the PTO,<sup>12</sup> has disregarded Supreme Court administrative law precedent,<sup>13</sup> and has construed mixed questions of law and fact as pure questions of law to enable it to engage in de novo review.<sup>14</sup> By reviewing patent agency decisions heavy-handedly, the Federal Circuit has acted like the head of an agency reining in wayward administrative law judges.

The Federal Circuit's unorthodox role has pros and cons. By reviewing almost all patent appeals, the court occupies a unique position, allowing it to bring uniformity to patent law.<sup>15</sup> Allowing the court to freely overturn agency decisions with which it disagrees further strengthens this role. The current system, however, may enable the Federal Circuit to impermissibly exercise executive branch power in order to enrich the court.<sup>16</sup>

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11. 467 U.S. 837, 844 (1984) (noting the Court has "long recognized" the strong deference entitled to an agency by its reviewing court when the agency interprets ambiguous language in the statute entrusted to it); *see, e.g.*, *Vt. Yankee Nuclear Power Corp. v. Natural Res. Def. Council*, 435 U.S. 519, 543 (1978) ("Absent constitutional constraints or extremely compelling circumstances the administrative agencies should be free to fashion their own rules of procedure and to pursue methods of inquiry capable of permitting them to discharge their multitudinous duties.") (internal quotation marks omitted); *SEC v. Chenery Corp.*, 318 U.S. 80, 88 (1943) ("If an order is valid only as a determination of policy or judgment which the agency alone is authorized to make and which it has not made, a judicial judgment cannot be made to do service for an administrative judgment.").

12. *See In re Zurko*, 142 F.3d 1447, 1449 (Fed. Cir. 1998) (holding that § 706 of the APA does not apply to Federal Circuit review of PTO decisions), *rev'd sub nom. Dickinson v. Zurko*, 527 U.S. 150, 152 (1999).

13. *See infra* Section I.C.

14. *See infra* Section III.B; *see also* Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 301 (2007) (observing that the Federal Circuit tends to turn questions of fact and policy into questions of law in order to review such issues de novo).

15. Administrative law scholars have argued that judicial deference to agencies promotes uniformity. *See, e.g.*, Michael Asimow, *The Scope of Judicial Review of Decisions of California Administrative Agencies*, 42 UCLA L. REV. 1157, 1204 (1995) (arguing that judicial deference to agencies promotes uniformity); Peter L. Strauss, *One Hundred Fifty Cases Per Year: Some Implications of the Supreme Court's Limited Resources for Judicial Review of Agency Action*, 87 COLUM. L. REV. 1093, 1121 (1987) ("When national uniformity in the administration of national statutes is called for, the national agencies responsible for that administration can be expected to reach single readings of the statutes for which they are responsible and to enforce those readings within their own framework . . . . By removing the responsibility for precision from the courts of appeals, the *Chevron* rule subdues this diversity, and thus enhances the probability of uniform national administration of the laws."). However, these arguments were with regard to agencies whose decisions are potentially appealed to multiple courts of appeals, and not just to a single court.

16. The Supreme Court has spoken against actions taken by Congress "to increase its own powers at the expense of the Executive Branch." *Morrison v. Olson*, 487 U.S. 654, 694 (1988). It is

A more pressing question is whether the Federal Circuit's agency-like role is sustainable. To be an effective administrator, the Federal Circuit needs the power to create binding bright-line rules. But the Supreme Court has repeatedly rejected the use of these rules, thereby reducing the lower court's ability to provide uniformity in patent law.<sup>17</sup> Moreover, in *Mayo Foundation for Medical Education and Research v. United States*, the Supreme Court rejected specialized rules for judicial review of tax decisions and reaffirmed its position against exceptionalism in administrative law.<sup>18</sup> This decision raises the question of how long the Federal Circuit will be able to flout core principles of administrative law to promote uniformity in patent law.

This Article presents a new model for examining the role of the Federal Circuit, positing that the court behaves like an executive branch agency and serves as the de facto administrator of the Patent Act. Part I provides background on the APA and discusses the powers of the two agencies that handle patent issues: the PTO and the International Trade Commission (ITC). It also discusses how the Federal Circuit's predecessor began the trend of minimizing deference to agency patent decisions and considers how Congress's decision to create the Federal Circuit had the unintended consequence of encouraging the court to take power from patent agencies.

Part II discusses how the Federal Circuit's specialized nature facilitates the issuance of bright-line rules and how the Supreme Court has restricted such rules. It then argues that these bright-line rules are the functional equivalent of substantive rulemaking, given that they are rigid and bind third parties, such as district courts and the PTO. Part III examines how the Federal Circuit has exerted control over the PTO and ITC by minimizing deference and resisting the proper application of both the APA and administrative law precedent. Part IV explores the sustainability of the Federal Circuit model, given the tension between unifying administrative law and unifying patent law. It further suggests that the competing objectives of Congress and the Supreme Court will need to be resolved in the future.

### I. A MANDATE OF UNIFORMITY

To understand how the Federal Circuit acts like an agency, it is necessary to understand some background underlying administrative law and the creation of the Federal Circuit. The APA was originally passed in

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unclear, however, what limitations there are on a court that takes power from the executive branch.

17. See *infra* Section II.C.

18. 131 S. Ct. 704, 713 (2011) (holding that “[t]he principles underlying our decision in *Chevron* apply with full force in the tax context” and noting that the Court saw “no reason why our review of tax regulations should not be guided by agency expertise pursuant to *Chevron* to the same extent as our review of other regulations”).

1946 to limit the power of agencies created during the New Deal.<sup>19</sup> But the statute also served the purpose of creating uniformity in administrative law—a point that the Supreme Court would later emphasize when scolding the Federal Circuit for failing to review PTO decisions with appropriate deference.<sup>20</sup>

Congress also sought uniformity in patent law. Until 1982, the Court of Customs and Patent Appeals (CCPA) heard all patent appeals from the PTO and ITC.<sup>21</sup> Under the leadership of Judge Giles Rich, the CCPA took an increasingly non-deferential approach to the review of such cases.<sup>22</sup> However, patent litigation was handled by the regional circuits, leading to circuit splits and widespread forum-shopping.<sup>23</sup>

Congress created the Federal Circuit in 1982 to promote uniformity in patent litigation,<sup>24</sup> but failed to consider the effect the court would have on the PTO and ITC. This failure was compounded when the Federal Circuit adopted the CCPA's anti-PTO precedent.<sup>25</sup> Inadvertently, Congress undermined the unification of administrative law, and set the Federal Circuit on a collision course with the Supreme Court.

Sections A and B of this Part provide a brief overview of the APA, as well as the PTO and ITC. Section C discusses the history of the CCPA, and discusses how Judge Rich led a philosophical revival of the court that changed the relationship between the judiciary and the PTO. Section D notes that Congress created the Federal Circuit to promote uniformity in patent law, and describes how that mandate may have led the court to act as a quasi-agency.

#### A. A Brief Overview of the Administrative Procedure Act

The APA was a congressional response to the unbridled expansion of the regulatory state. During the New Deal, the number of agencies

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19. George B. Shepherd, *Fierce Compromise: The Administrative Procedure Act Emerges from New Deal Politics*, 90 NW. U. L. REV. 1557, 1560 (1996).

20. See *infra* Section III.A; see also *Dickinson v. Zurko*, 527 U.S. 150, 155 (1999).

21. See Giles S. Rich, *Thirty Years of This Judging Business*, 14 AIPLA Q.J. 139, 140 (1986).

22. See *infra* Section I.C.

23. See *infra* Section I.D.

24. See *infra* Section I.D.

25. As Professor Jeffrey Lefstin astutely observed, one of the Federal Circuit's greatest problems is the precedent that it chose to adopt. Jeffrey A. Lefstin, *The Constitution of Patent Law: The Court of Customs and Patent Appeals and the Shape of the Federal Circuit's Jurisprudence*, 43 LOY. L.A. L. REV. 843, 847 (2010) ("But by adopting the precedent of its predecessor courts, the Federal Circuit adopted a body of patent law that had been designed for use by a particular court, the CCPA, in a particular context, the review of patentability decisions by the Patent Office. That act of adoption at once set the contours of the Federal Circuit's patent jurisprudence, and hence the contours of modern patent law.") (citation omitted).

dramatically increased, creating concerns that these executive branch entities were operating unchecked.<sup>26</sup> After much debate, the APA was passed in 1946 as a “fierce compromise,” which instituted strong oversight of agencies and implemented uniform judicial review.<sup>27</sup> The final version of the bill exempted no agencies.<sup>28</sup>

The APA provides guidelines for agency rulemaking and adjudication—two of the core functions that agencies perform. Section 553 of the APA provides a rigid procedure for notice-and-comment rulemaking.<sup>29</sup> When an agency clarifies ambiguities in its organic statute using this mechanism, it is potentially eligible for substantial deference from the reviewing court under the Supreme Court’s decisions in *Chevron* and *United States v. Mead Corp.*<sup>30</sup> As discussed below, the PTO is only permitted to use notice-and-comment rulemaking for passing procedural rules.<sup>31</sup>

Sections 556 and 557 of the APA provide the procedure that must be used for formal adjudication.<sup>32</sup> Formal adjudication is a trial-like hearing; it includes testimony by witnesses subject to cross-examination<sup>33</sup> and the creation of a formal record.<sup>34</sup> As with notice-and-comment rulemaking,

26. See Shepherd, *supra* note 19, at 1560 (“Every legislator, both Roosevelt Democrats and conservatives, recognized that a central purpose of the proponents of administrative reform was to constrain liberal New Deal agencies.”).

27. See *id.* at 1670–72 (noting that, despite the unanimous support for the bill, members of Congress were torn with regard to whether the APA offered sufficient oversight of agencies and sufficient access to judicial review).

28. Consequently, the APA governs the PTO and the ITC. See *Dickinson v. Zurko*, 527 U.S. 150, 154–55 (1999) (holding that the review provisions of the APA apply to the PTO); *Osram GmbH v. Int’l Trade Comm’n*, 505 F.3d 1351, 1355 (Fed. Cir. 2007) (“Rulings of the International Trade Commission are reviewed on the standard of the Administrative Procedure Act.”).

29. 5 U.S.C. § 553 (2006).

30. See *United States v. Mead Corp.*, 533 U.S. 218, 229–30 (2001) (noting that “a very good indicator of delegation meriting *Chevron* treatment [is] express congressional authorizations to engage in the process of rulemaking or adjudication that produces regulations or rulings for which deference is claimed” and observing that the “overwhelming number” of Supreme Court cases applying *Chevron* deference involve “notice-and-comment rulemaking or formal adjudication”).

31. See *infra* Subsection I.B.1; see also Thomas W. Merrill, *Rethinking Article I, Section 1: From Nondelegation to Exclusive Delegation*, 104 COLUM. L. REV. 2097, 2155 (2004) (observing that modern administrative rulemaking is subject to rigid procedural requirements in contrast to legislative statuemaking).

32. 5 U.S.C. §§ 556–557 (2006). These provisions also provide the procedure for formal rulemaking, which is rarely used by agencies.

33. *Id.* § 556(d) (“A party is entitled to present his case or defense by oral or documentary evidence, to submit rebuttal evidence, and to conduct such cross-examination as may be required for a full and true disclosure of the facts.”).

34. *Id.* § 556(e) (“The transcript of testimony and exhibits, together with all papers and requests filed in the proceeding, constitutes the exclusive record for decision in accordance with section 557 of this title . . .”).

when an agency interprets its ambiguous statute through formal adjudication, it is potentially eligible for *Chevron* deference.<sup>35</sup>

When the ITC determines whether an imported good infringes a valid and enforceable U.S. patent, it engages in formal adjudication, in accordance with its organic statute.<sup>36</sup> In contrast, the PTO generally lacks formal adjudicative authority<sup>37</sup> and can only utilize poorly defined informal procedures when determining whether a patent should be granted.<sup>38</sup>

The APA furthermore established uniform standards of review for agency actions. Under § 706, questions of law are reviewed de novo.<sup>39</sup> In contrast, questions of fact are set aside only if found to be “arbitrary, capricious, [or] an abuse of discretion” or “unsupported by substantial evidence.”<sup>40</sup> Because questions of fact are reviewed more deferentially than questions of law, problems may arise when a court is confronted with a mixed question of law and fact. As discussed in Section III.B, the Federal Circuit often recharacterizes such mixed questions as pure questions of law, thereby enabling the court to grant less deference to the PTO and ITC on appeal.

Although Congress passed the APA to gain control over the wayward administrative state, over time the statute became valued for instituting uniformity in the treatment of agencies. In the 1999 case *Dickinson v. Zurko*, the Supreme Court stressed “the importance of maintaining a uniform approach to judicial review of administrative action” and held that the APA applied to the review of PTO decisions.<sup>41</sup> In the 2011 *Mayo Foundation* decision, the Court held that “[t]he principles underlying our decision in *Chevron* apply with full force in the tax context,” and noted that the review of tax regulations should be “guided by agency expertise pursuant to *Chevron* to the same extent as our review of other

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35. See *supra* note 30.

36. 19 U.S.C. § 1337(c) (2006) (requiring the ITC to use formal adjudicative procedures under §§ 556 and 557 of the APA).

37. Oddly, the PTO is allowed to engage in formal adjudication for one situation: the suspension or exclusion of registered patent agents and attorneys from practice. See 35 U.S.C. § 32 (2006) (noting that “[t]he Director may, after notice and opportunity for a hearing, suspend or exclude” any person, agent, or attorney from practicing before the PTO).

38. See 5 U.S.C. § 554 (2006).

39. See *id.* § 706.

40. *Id.*; *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999).

41. *Id.* at 154–55. Professor Orin Kerr has argued that the APA should not apply to PTO decisions regarding the issuance of a patent because the patent system operates through private law mechanisms, such as contract, property, and tort law. 42 WM. & MARY L. REV. 127, 129 (2000). In particular, Kerr argues that a patent resembles a contract because there is an offer, acceptance, and consideration. *Id.* at 135. However, the process through which the APA was passed made clear that Congress did not intend to except patents. See Part III.A. For this reason, it does not appear that Congress intended to create a contract right.

regulations.”<sup>42</sup> Thus, although the APA was originally designed to hold agencies accountable, it evolved into a tool for limiting judicial interference with executive branch authority.<sup>43</sup>

## B. A Brief Overview of Patent Agency Powers

### 1. The Patent & Trademark Office

The Federal Circuit has acknowledged that Congress granted the PTO “broad powers” over its own practice.<sup>44</sup> The PTO is charged with granting and issuing patents and may establish regulations that “govern the conduct of proceedings in the Office.”<sup>45</sup> These procedural rules are promulgated through notice-and-comment rulemaking and therefore bind patent applicants.<sup>46</sup>

The Patent Act also established the Board of Patent Appeals and Interferences (BPAI) to hear appeals of patent rejections from examiners and to handle patent interferences.<sup>47</sup> An inventor whose patent is rejected by the BPAI has the option to appeal either to a district court for further fact-finding or directly to the Federal Circuit.<sup>48</sup>

The PTO notably lacks substantive rulemaking authority over the Patent Act.<sup>49</sup> It cannot use notice-and-comment rulemaking to clarify, for example, what constitutes patentable subject matter. Consequently, the Federal Circuit has granted *Chevron* deference to the PTO only when it has

42. *Mayo Found. for Med. Educ. & Research v. United States*, 131 S. Ct. 704, 713 (2011).

43. *See Zurko*, 527 U.S. at 171 (Rehnquist, C.J., dissenting) (“[T]he APA by its plain text was intended to bring some uniformity to judicial review of agencies by *raising* the minimum standards of review and not by *lowering* those standards which existed at the time.”).

44. *Gerritsen v. Shirai*, 979 F.2d 1524, 1528 (Fed. Cir. 1992).

45. 35 U.S.C. § 2(b)(2)(A) (2006); *accord Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991) (discussing the powers of the PTO).

46. 35 U.S.C. § 2(b)(2)(B) (2006) (stating that PTO procedural rules “shall be made in accordance with section 553” of the APA).

47. 35 U.S.C. § 6(b) (2006). Note that the BPAI has been restructured as the Patent Trial and Appeal Board under § 7 of the Leahy–Smith America Invents Act (AIA). Pub. L. No. 112-29, § 7(e), 125 Stat. 284, 315 (2011) (to be codified at 35 U.S.C. § 145).

48. Such decisions originally appealed to the District Court for the District of Columbia, but now will go to the District Court for the Eastern District of Virginia under the AIA. *Compare* 35 U.S.C. § 145 (2006), *with* 35 U.S.C.A. § 145 (West 2011).

49. *See Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50 (Fed. Cir. 1996) (stating that “the broadest of the PTO’s rulemaking powers” under the Patent Act “authorizes the Commissioner to promulgate regulations directed only to ‘the conduct of proceedings in the [PTO]’; it does NOT grant the Commissioner the authority to issue substantive rules” (alteration in original) (quoting *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991))). Commentators have noted that the distinction between procedural and substantive rules is ambiguous, at best. *See, e.g.,* Arti K. Rai, *Growing Pains in the Administrative State: The Patent Office’s Troubled Quest for Managerial Control*, 157 U. PA. L. REV. 2051, 2070–73 (2009) (discussing the “blurry line between substantive and procedural rules”).

“interpret[ed] statutory provisions relat[ed] to the conduct of proceedings in the Patent Office.”<sup>50</sup>

It is important to note that under the Leahy–Smith America Invents Act of 2011 (AIA), the PTO did receive a variety of new responsibilities from Congress.<sup>51</sup> For example, the Director of the PTO may now prescribe regulations related to post-grant review of patents and *inter partes* review.<sup>52</sup> The grant of these powers may be an indication that Congress has greater trust in the PTO compared to twenty years ago.

But Congress stopped short of allowing the PTO to interpret the core provisions of the Patent Act—those that affect the scope of what is patentable. Nor did Congress explicitly grant formal adjudicative power to the PTO, although the new hearings under the AIA do appear to be trial-like.<sup>53</sup> Thus, although the AIA represents an opportunity for the PTO to establish greater credibility in the patent community, Congress did not substantially alter the balance of power between the Federal Circuit and the PTO. In short, the Federal Circuit still retains the upper hand.

## 2. The International Trade Commission

The ITC is an independent agency whose governing statute is the Tariff Act of 1930. Under § 337 of the Tariff Act, the ITC may issue exclusion orders blocking goods that infringe patents, copyrights, and trademarks from entering the United States;<sup>54</sup> these orders are enforced by the Bureau of Customs and Border Protection in the Department of Homeland

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50. See *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335–37 (2008).

51. See Sarah Tran, *supra* note 3, at 612–23 (discussing the PTO’s new powers under the AIA).

52. See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6(c), 125 Stat. 284, 314 (2011) (to be codified at 35 U.S.C. § 141).

53. See Melissa F. Wasserman, *The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY L. REV. XX (2013) (discussing how the AIA establishes trial-like proceedings for post-grant review proceedings), available at SSRN: <http://ssrn.com/abstract=2166560>. Professor Wasserman proposes that such proceedings should be eligible for *Chevron* deference. If the Federal Circuit did grant such deference to PTO post-grant review, this would shift the dynamics dramatically. However, short of Supreme Court intervention, this seems unlikely.

54. See 19 U.S.C. § 1330(f) (2006) (“The Commission shall be considered to be an independent regulatory agency.”); *About the USITC*, U.S. INT’L TRADE COMM’N, [http://www.usitc.gov/press\\_room/about\\_usitc.htm](http://www.usitc.gov/press_room/about_usitc.htm) (last visited Sept. 29, 2012) (“The United States International Trade Commission is an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade.”); 19 U.S.C. § 1337(a) (2006) (declaring unlawful the sale for importation or sale after importation of goods that violate a valid and enforceable patent, copyright, or trademark); *id.* § 1337(d)(1) (“If the Commission determines . . . that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States . . .”).

Security.<sup>55</sup> This power arises under § 337(a) of the Tariff Act, which was enacted to protect domestic companies against the harsh effects of free trade.<sup>56</sup> These exclusion orders are highly valued by patent holders, because injunctive relief in district courts is limited.<sup>57</sup> Final decisions from the ITC may be appealed to the Federal Circuit.<sup>58</sup>

Unlike the PTO, the ITC is powerful. It is the administrator of the Tariff Act and has the power to engage in formal adjudication under the APA.<sup>59</sup> Moreover, an argument can be made that ITC patent validity and enforceability determinations should be entitled to deference under *Chevron*.<sup>60</sup> Nevertheless, as discussed in Section IV.D, the Federal Circuit takes a heavy-handed approach to reviewing the ITC's patent decisions, and actively minimizes deference to it.

### C. *The Court of Customs and Patent Appeals*

From 1929 to 1982, the five-judge CCPA reviewed all appeals from final judgments of the PTO and the ITC, in addition to appeals from the U.S. Customs Court.<sup>61</sup> The CCPA was an unusual court in several respects. Although it was created as a specialized Article I court,<sup>62</sup> Congress

55. See 19 U.S.C. § 1337(d)(1) (2006); 19 C.F.R. § 12.39 (2008).

56. See Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 542–44 (2009) (discussing how the creation of the ITC reflected a compromise between free trade supporters and protectionists, liberalizing trade but punishing unfair competition by foreign entities).

57. Under *eBay Inc. v. MercExchange, L.L.C.*, a district court can only grant injunctive relief if a four-part balancing test is met. 547 U.S. 388, 391 (2006). That decision, however, does not apply to the ITC. *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (2010) (“Given the different statutory underpinnings for relief before the Commission in Section 337 actions and before the district courts in suits for patent infringement, this court holds that *eBay* does not apply to Commission remedy determinations under Section 337.”).

58. 19 U.S.C. § 1337(c) (2006).

59. *Id.* (“Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of title 5 [of the APA].”).

60. See Kumar, *supra* note 2, at 1562–85; see also *United States v. Mead Corp.*, 533 U.S. 218, 229–30 (2001) (noting that “a very good indicator of delegation meriting *Chevron* treatment [is] express congressional authorizations to engage in the process of rulemaking or adjudication that produces regulations or rulings for which deference is claimed” and observing that the “overwhelming number” of Supreme Court cases applying *Chevron* deference involve “notice-and-comment rulemaking or formal adjudication”).

61. See Paul R. Gugliuzza, *The New Federal Circuit Mandamus*, 45 IND. L. REV. 343, 362 n.135 (2012) (discussing the jurisdiction of the CCPA). The U.S. Customs Court was later replaced by the Court of International Trade. Rich, *supra* note 21, at 141.

62. In 1929, the Supreme Court held that the CCPA was an Article I court. *Ex parte Bakelite Corp.*, 279 U.S. 438, 460 (1929) (“[I]t is plain that the Court of Customs Appeals is a legislative and not a constitutional court.”).

converted it to an Article III court in 1958.<sup>63</sup> Congress explained the conversion by noting that the court was “exercising judicial rather than administrative power,”<sup>64</sup> though it is unclear what changed in the court’s mission. Second, although patent cases by one account comprised 80%–85% of the CCPA’s docket,<sup>65</sup> the CCPA judges were primarily politically connected individuals who had no prior knowledge of patent law.<sup>66</sup>

In the 1960s, the CCPA began to experience a transformation that ultimately led to a more hands-on review of the PTO. Early CCPA decisions emphasized the need to defer to the PTO’s expertise. For example, in *Dickinson v. Zurko*, the Supreme Court examined eighty-nine pre-APA CCPA decisions.<sup>67</sup> The Court noted that in “nearly half” of those cases, the CCPA used the “manifest error” standard of review because of the PTO’s expertise and the PTO’s ability to “deal with technically complex subject matter.”<sup>68</sup> It further observed that “[i]n more than three-fourths of the cases[,] the CCPA” found that deference to PTO fact-finding was warranted because two or more PTO tribunals had agreed on the facts.<sup>69</sup> Thus, the early CCPA showed deference to the PTO,<sup>70</sup> recognizing the agency’s superior knowledge of patent law and technology.

Two major factors, however, contributed to a shift in CCPA jurisprudence. In 1952, Congress overhauled the Patent Act. The new Act was not drafted by any members of Congress, but rather by then-patent practitioner Giles Rich and Patent Office Examiner-In-Chief Pasquale Federico; the Patent Act passed both houses of Congress without any debate.<sup>71</sup> Because Congress failed to grant the PTO interpretive rulemaking

63. *Brenner v. Manson*, 383 U.S. 519, 526 (1966) (noting that Congress declared “the CCPA ‘a court established under article III . . .,’ that is, a constitutional court exercising judicial rather than administrative power” (quoting 28 U.S.C. § 211 (1964))).

64. *Id.*

65. Rich, *supra* note 21, at 140–41. Note the portion of Judge Rich’s essay that lists the statistic of the CCPA’s docket lacks citations.

66. *Id.* at 142.

67. *Dickinson v. Zurko*, 527 U.S. 150, 155 (1999).

68. *Id.* at 160.

69. *Id.*

70. See Lynn E. Eccleston & Harold C. Wegner, *The Rich-Smith Years of the U.S. Court of Customs and Patent Appeals*, 3 J. FED. CIRCUIT HIST. SOC’Y 49, 50 (2009) (noting that the pre-Rich CCPA “had been largely a rubber stamp for decisions of the Patent Office”).

71. According to former CCPA and Federal Circuit Judge Giles S. Rich, “[t]he New Patent Act went through both houses on consent calendars, and those houses relied on the unanimous recommendations of their respective committees.” Neil A. Smith, *Remembrances and Memorial: Judge Giles Sutherland Rich 1904–1999*, 82 J. PAT. & TRADEMARK OFF. SOC’Y 163, 166 (2000); see also Giles S. Rich, *Why and How Section 103 Came to Be*, 14 FED. CIRCUIT B.J. 181, 181–82 (2004) (reprinted from *NONOBVIOUSNESS—THE ULTIMATE CONDITION OF PATENTABILITY* 1:201–1:213 (John F. Witherspoon ed., 1980)) (discussing how Rich and Federico drafted the 1952 Patent Act).

authority over the substantive provisions of the Patent Act, the CCPA was uniquely positioned to make key choices regarding implementation.

Second, in 1956, Giles Rich became the first judge with patent expertise appointed to the CCPA;<sup>72</sup> he had practiced as a patent attorney for several decades, written law review articles in the field, and co-drafted the 1952 Patent Act.<sup>73</sup> A few years later, Judge Arthur Smith was appointed to the bench.<sup>74</sup> Judge Smith also had patent expertise, and together, the two judges were able to start influencing the court.<sup>75</sup> This power shift, combined with the newly passed Patent Act, had a substantial effect on the court's jurisprudence.

As Professor Jeffery Lefstin observes, under the guidance of Judge Rich, the CCPA's judicial philosophy became one of maintaining control over the PTO and providing legitimacy for the court's actions.<sup>76</sup> Judge Rich noted, "In the CCPA, we were not reviewing trials, and Rule 52(a) was not applicable. Or if it was, we ignored it. *Reviewing the PTO Boards, our attitude was we reversed them if they were wrong.*"<sup>77</sup> The CCPA was able to maintain this high level of control over the PTO by virtue of the fact that PTO decisions could only be appealed to that court.

In maintaining this control, the CCPA flagrantly disregarded administrative law. It failed to acknowledge that the APA applies to the PTO, except in the context of standing.<sup>78</sup> Instead, as Judge Rich observed, the CCPA arbitrarily reversed the PTO, not sticking to any one standard and certainly not following the APA.

72. See Rich, *supra* note 21, at 142–43 (noting that the patent bar had become "fed up" with the fact that no judge with intellectual property experience had been appointed to the CCPA and subsequently worked to have Giles S. Rich appointed); Lefstin, *supra* note 25, at 848 n.21.

73. James F. Davis, *Judge Giles S. Rich: His Life and Legacy Revisited*, LANDSLIDE, Sept./Oct. 2009, at 8, 9–10.

74. Lefstin, *supra* note 25, at 848 n.21.

75. See Eccleston & Wegner, *supra* note 70, at 51, 53 (noting that immediately following Judge Smith's joining the CCPA, Judges Rich and Smith "established important precedents that became landmarks" and "transformed the CCPA" away from a court that once "routinely rubber stamped the Patent Office to a court that actively explored patent law doctrines").

76. See Lefstin, *supra* note 25, at 857 (maintaining that after the passage of the 1952 Patent Act, "statutory fidelity" and "conceptual differentiation" were the CCPA's key jurisprudential methods, which "provided doctrinal levers for the court to control the Patent Office's decisions" and "provided legitimacy for the court's exercise of that control").

77. Rich, *supra* note 21, at 149 (emphasis added).

78. A search of all CCPA cases on Lexis with the terms ("PTO" or "patent w/5 office") and "administrative procedure act" revealed only one PTO appeal where the APA was invoked in the context of standing. See *In Re Kahn*, Appeal No. 79-545, 1979 CCPA LEXIS 263, at \*1 (April 18, 1979) (holding that CCPA did not have jurisdiction over Kahn's challenge to the PTO's decision to strike his reissuance application on the grounds of collateral estoppel, and that such a suit needed to be filed in district court under section 702 of the APA). See also *Zurko*, 142 F.3d at 1455 (observing that notwithstanding the passage of the APA, the CCPA continued to review patent decisions "without a clearly articulated standard of review").

This attitude carried over to the Federal Circuit, brought in part by the judges who came from the CCPA and Court of Claims.<sup>79</sup> Judge Rich—who became one of the inaugural Federal Circuit judges—acknowledged that the Federal Circuit engaged in “*de novo* fact finding and delving into the record on our own when we should not.”<sup>80</sup> He recognized that he was “probably one of the offenders.”<sup>81</sup> But he defended the practice, stating: “I do not know how one can decide whether a finding of fact is *clearly* erroneous without delving into the record, and surely we have the right to make such a decision.”<sup>82</sup>

The Federal Circuit cemented this position with its first decision, adopting CCPA caselaw as controlling precedent<sup>83</sup> and disregarding the precedent of the regional circuits. In doing so, the Federal Circuit adopted the CCPA’s non-deferential approach to reviewing PTO and ITC decisions. As Federal Circuit Judge Jay Plager remarked in 1993:

I thought the PTO was an administrative agency. But we don’t review it as if it is. There is no other administrative agency in the United States that I know of in which the standard of review over the agency’s decisions gives the appellate court as much power over the agency as we have over the PTO.<sup>84</sup>

Thus, the acts of the defunct CCPA continue to influence the Federal Circuit with regard to the review of PTO decisions.

#### D. *The Creation of the Federal Circuit*

Although the idea of Congress’s creating a national court for patent appeals had been around since the late nineteenth century,<sup>85</sup> the idea did

79. See Federal Court Improvement Act of 1982, § 165, Pub. L. No. 97-164, 96 Stat. 25, 50 (1982) (“The judges of the United States Court of Claims and of the United States Court of Customs and Patent Appeals in regular active service on the effective date of this Act shall continue in office as judges of the United States Court of Appeals for the Federal Circuit.”).

80. Rich, *supra* note 21, at 149.

81. *Id.*

82. *Id.*

83. South Corp. v. United States, 690 F.2d 1368, 1370 (Fed. Cir. 1982).

84. Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 OHIO ST. L.J. 1415, 1415 (1995) (quoting S. Jay Plager, *An Interview with Circuit Judge S. Jay Plager*, 5 J. PROPRIETARY RTS. 2, 5 (1993)); see also Sarah Tran, *Administrative Law, Patents, and Distorted Rules*, 80 GEO. WASH. L. REV. 831, 834 (2012) (discussing how unusually weak the PTO is compared to other federal agencies).

85. Paul M. Janicke, *To Be Or Not To Be: The Long Gestation of the U.S. Court of Appeals for the Federal Circuit (1887-1982)*, 69 ANTITRUST L.J. 645, 645 (2001) (“Bills in Congress to create a national court for patent appeals had appeared as early as 1887, and the specific mechanism for fashioning a patent-and-other-things court by expanding the jurisdictions of preexisting courts was debated since 1906.”)

not gain traction until the 1970s. By 1977, the Senate was considering two bills to create a National Court of Appeals.<sup>86</sup> In 1978, the Department of Justice's Office for Improvements in the Administration of Justice proposed a merger of the CCPA and the United States Court of Claims to handle patent and tax appeals.<sup>87</sup> This proposal was soon narrowed to encompass only patent litigation appeals.<sup>88</sup>

During the debate on how to reform the judiciary, a common theme emerged regarding the need for uniformity in the patent system. Each court of appeals was faced with the task of interpreting the Patent Act, which gave rise to numerous circuit splits and disparate treatment of patents. For example, the Eighth Circuit invalidated 89% of all patents, whereas the Tenth Circuit invalidated only 30% of them.<sup>89</sup>

The president-elect of the American Patent Law Association described the situation as a "crisis," and linked a "decline of . . . technological superiority" in the United States to the ineffective patent litigation system.<sup>90</sup> In the House Report for the Federal Courts Improvement Act, Congress stressed the problems of "undue forum-shopping and unsettling inconsistency in adjudications" stemming from patent appeals being heard in the regional circuits.<sup>91</sup> It further noted that the "establishment of a single court to hear patent appeals was repeatedly singled out by the witnesses" as the best way to strengthen the patent system, and would provide "nationwide uniformity in patent law."<sup>92</sup>

Consequently, when Congress passed the Federal Courts Improvement Act of 1982 (FCIA),<sup>93</sup> it gave the newly established Federal Circuit the mandate to unify patent law. Congress granted the Federal Circuit

86. COMM. ON REVISION OF THE FED. JUDICIAL SYS., U.S. DEP'T OF JUSTICE, THE NEEDS OF THE FEDERAL COURTS 17–18 (1977), available at <http://hdl.handle.net/2027/uc1.b4178233> (discussing two Senate bills under review by a subcommittee).

87. Janicke, *supra* note 85, at 654–55 (citing OFFICE FOR IMPROVEMENTS IN THE ADMIN. OF JUSTICE, A PROPOSAL TO IMPROVE THE FEDERAL APPELLATE SYSTEM (1978)). This idea surfaced again when the APA was being drafted. The 1935 ABA Committee report included a recommendation that a single administrative court be created covering the jurisdictions for Court of Claims, the Board of Tax Appeals, the Customs Court, and the Court of Customs and Patent Appeals. Shepherd, *supra* note 19, at 1575.

88. Janicke, *supra* note 85, at 658–59 (noting that the Senate passed a bill in 1979 removing any tax from the Federal Circuit's jurisdiction, and that the House followed suit in 1980).

89. Lawrence Baum, *The Federal Courts and Patent Validity: An Analysis of the Record*, 56 J. PAT. OFF. SOC'Y 758, 762 (1974).

90. *Court of Appeals for the Federal Circuit—1981: Hearing on H.R. 2405 Before the Subcomm. on Courts, Civil Liberties, & the Admin. of Justice of the H. Comm. on the Judiciary*, 97th Cong. 50 (1981) (statement of J. Jancin, Jr., President Elect Am. Patent Law Ass'n).

91. H.R. REP. NO. 97-312, at 20 (1981).

92. *Id.* Note, however, that the decision to establish a national patent court was highly controversial. See Kumar, *supra* note 2, at 1604.

93. Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982).

jurisdiction over the overwhelming majority of patent appeals,<sup>94</sup> thereby allowing the court to shape patent law as it saw fit. The fact that numerous provisions of the Patent Act are highly ambiguous and that the PTO lacks interpretive authority over the substantive provisions made the new court's position even stronger.

Congress's uniformity mandate, however, had unintended consequences. When Congress passed the FCIA, it paid attention to neither the PTO nor ITC.<sup>95</sup> Yet, to unify patent law, rules were needed to interpret ambiguities in the Patent Act. This need would give rise to the use of bright-line rules in the Federal Circuit. Moreover, by declaring a need for uniform patent law, Congress opened the door to the Federal Circuit's disregard of deferential review mandated in administrative law. Thus, Congress ultimately failed to see that the price of uniformity would be paid by the executive branch of government.

## II. FEDERAL CIRCUIT RULEMAKING

There are a number of reasons why Congress chooses to delegate power to an executive branch agency. Agencies possess subject-matter expertise and institutional advantages, and can deal with politically charged policy decisions.<sup>96</sup> Instead of attempting to fine-tune a difficult area of law, Congress can pass a broad law and delegate substantive rulemaking authority to an agency.<sup>97</sup> The agency can then engage in notice-and-comment rulemaking under § 553 of the APA to fill gaps in its organic statute.

Although the Federal Circuit is an Article III court, it is similarly situated to an agency. Congress entrusted the court with near-exclusive

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94. Originally, if the petitioner's well-pleaded complaint did not assert a claim arising under patent law, the Federal Circuit would not have jurisdiction over the appeal. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830 (2002). However, under the AIA, 28 U.S.C. § 1338(a) was amended to state: "No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights." Leahy-Smith America Invents Act, Pub. Law 112-29, § 19(a), 125 Stat. 331 (2011). Also, the AIA amended 28 U.S.C. § 1295(a)(1) to broaden the Federal Circuit's jurisdiction to include appeals "in any civil action arising under, or in any civil action in which a party has asserted a compulsory counterclaim arising under, any Act of Congress relating to patents or plant variety protection." *Id.* § 19(b), 125 Stat. 331.

95. Kumar, *supra* note 2, at 1583.

96. William N. Eskridge, Jr. & John Ferejohn, *The Article I, Section 7 Game*, 80 GEO. L.J. 523, 534 (1992) ("There are numerous reasons for Congress's willingness to delegate significant lawmaking power to agencies, including the institutional advantages agencies have in developing detailed policy prescriptions and the congressional inclination to avoid or defer controversial policy decisions.").

97. The Supreme Court recognized Congress's limitations in *Chevron U.S.A. Inc. v. Natural Resources Defense Council*, 467 U.S. 837 (1984), where it noted that "judges are not experts," and therefore are not in the best position to engage in policy making. *Id.* at 865-66.

jurisdiction in interpreting a vague area of law. Moreover, the Federal Circuit has been dominated by patent specialists with a vested interest in shaping patent law.<sup>98</sup> Consequently, the court has had strong motivation to address the lingering confusion that was caused by the passage of the Patent Act of 1952.<sup>99</sup>

But how can a court engage in rulemaking? The Federal Circuit's answer came in the form of bright-line rules. Encouraged by the Supreme Court in the late 1990s, the Federal Circuit increasingly utilized rigid tests that bound not just the parties, but also district courts and the PTO. These tests were both legislative-like and forward-looking, thereby taking on characteristics of a substantive rule. Their effect was also similar to that of an agency rule, providing clarity and greater certainty to inventors, though at the expense of providing nuanced case-by-case decisionmaking.

In recent years, however, the Supreme Court has severely restricted the Federal Circuit's use of such rules. This calls into question the Federal Circuit's ability to continue administering the Patent Act.

Section A of this Part discusses the specialized nature of the Federal Circuit and how this has promoted rulemaking. Section B describes the court's increasing reliance on bright-line rules. Section C then discusses how the Supreme Court pushed back against these rules, beginning in 1993. Finally, Section D argues that bright-line rules function as a form of rulemaking and that the Supreme Court's rejection of bright-line rules jeopardizes the Federal Circuit's ability to act as a de facto administrator.

### A. Specialization

It would be impossible for the Federal Circuit to engage in rulemaking on any meaningful scale without its specialized knowledge of patent law. Yet Congress did not intend for the Federal Circuit to become a specialized court.<sup>100</sup> The House Judiciary Committee emphasized that the new court would have “a varied docket spanning a broad range of legal issues and types of cases.”<sup>101</sup> The Committee also believed that appellate courts would establish rules regarding how to handle ancillary and pendent patent claims,<sup>102</sup> implying that other courts would continue to hear patent cases.

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98. Initially, this patent expertise came from the five CCPA judges who joined the Federal Circuit in 1982. Over time, more judges with patent backgrounds would be appointed to the court. *See supra* Section I.C.

99. *See, e.g.,* Dana Remus Irwin, *Paradise Lost in the Patent Law? Changing Visions of Technology in the Subject Matter Inquiry*, 60 FLA. L. REV. 775, 804–07 (2008) (discussing the “segmented approach” of the 1952 Act); Harold C. Wegner, *The Disclosure Requirements of the 1952 Patent Act: Looking Back and a New Statute for the Next Fifty Years*, 37 AKRON L. REV. 243 (2004) (discussing changes to § 112 under the 1952 Act).

100. H.R. REP. NO. 97-312, at 19 (1981).

101. *Id.*

102. *Id.* at 41.

Although only one-third of the Federal Circuit's docket is patent law,<sup>103</sup> the remainder does not attract nearly as much attention. No judge appears to have been appointed to the court because of his or her expertise in veterans affairs, government contracts, or personnel law.<sup>104</sup> One might have expected trade to have played a larger role in Federal Circuit appointments as well, given that the Federal Circuit reviews decisions from the Court of International Trade and the ITC. Yet it was not until President Barack Obama appointed Judge Jimmie Reyna in 2011 that the court received its first trade expert.<sup>105</sup>

Four of the ten active judges had patent backgrounds prior to joining the Federal Circuit. Judge Kimberly Moore was a patent law professor and clerked for Judge Glen Archer on the Federal Circuit.<sup>106</sup> Judge Alan Lourie

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103. See Tony Dutra, "Introspective Look" at Federal Circuit Highlights Breadth of Court's Docket, 77 PAT. TRADEMARK & COPYRIGHT J. 560, 560 (2009) (noting that 31% of the Federal Circuit's docket is intellectual property cases, nearly all of which involve patents); John M. Golden, *The Supreme Court As "Prime Percolator": A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657, 665 (2009) ("Patent appeals typically form only about a third of the court's docket.").

104. See Chief Judge Paul R. Michel, *State of the Court Address at the Judicial Conference for the United States Court of Appeals for the Federal Circuit*, 1–2 (May 20, 2010), <http://www.cafc.uscourts.gov/images/stories/announcements/2010/stateofthecourt10.pdf> ("I note that our court lacks anyone from West of the Allegheny Mountains, any Asian-American or African-American and anyone appointed who has specialized in contract, international trade, veterans or personnel law."); see also Steven L. Schooner, *A Random Walk: The Federal Circuit's 2010 Government Contract Decisions*, 60 AM. U. L. REV. 1067, 1069 (2011) (discussing the lack of judges with government contract experience).

105. See Cardin Applauds Confirmation of Marylander Jimmie Reyna to Federal Circuit Bench, (quoting Senator Ben Cardin as stating that "Mr. Reyna is an outstanding trade lawyer who brings over 20 years of invaluable international trade experience to a court that—while responsible for such adjudication—previously did not have an international trade expert among its ranks.") available online at <http://www.cardin.senate.gov/newsroom/press/release/cardin-applauds-confirmation-of-marylander-jimmie-reyna-to-federal-circuit-bench>. Jason Rantanen, *Senate Confirms Jimmie V. Reyna to the CAFC*, PATENTLY-O (Apr. 6, 2011, 11:13 AM), <http://www.patentlyo.com/patent/2011/04/senate-confirms-jimmie-v-reyna-to-the-cafc.html> (discussing Judge Reyna's international trade experience). President Obama also appointed Judge Kathleen O'Malley, who is the only judge in the history of the Federal Circuit who had previously served as a federal district court judge. See *Biography of Kathleen M. O'Malley, Circuit Judge*, U.S. CT. OF APPEALS FOR FED. CIRCUIT, <http://www.cafc.uscourts.gov/judges/kathleen-m-omalley-circuit-judge.html> (last visited Oct. 4, 2012) [hereinafter *Kathleen M. O'Malley*]; Steven Schooner, *A Random Walk: The Federal Circuit's 2010 Government Contracts Decisions*, 60 AM. U. L. REV. 1067, 1070 n.7 (2011) (observing that Judge O'Malley is the first district court judge to get elevated to the Federal Circuit). This is in contrast to other courts of appeal, where district court judges are frequently elevated to appellate courts.

106. *Judicial Nominations, Judge Kimberly A. Moore*, GEORGE W. BUSH WHITE HOUSE ARCHIVES, <http://georgewbush-whitehouse.archives.gov/infocus/judicialnominees/moore.html> (last visited Sept. 28, 2012); *Biography of Kimberly A. Moore, Circuit Judge*, U.S. CT. OF APPEALS FOR FED. CIRCUIT, <http://www.cafc.uscourts.gov/judges/kimberly-a-moore-circuit-judge.html> (last

was both the Vice President of Corporate Patents and Trademarks, and Associate General Counsel of SmithKline Beecham Corporation; he was also the President of the Philadelphia Patent Law Association.<sup>107</sup> Judge Pauline Newman served as director of the Patent, Trademark and Licensing Department at FMC Corp., and prior to that was a patent attorney.<sup>108</sup> Judge Kathleen O'Malley, as a district court judge, presided over more than 100 patent and trademark cases; she also served as judicial liaison to the Local Patent Rules Committee for the Northern District of Ohio and regularly taught a law school course on patent litigation.<sup>109</sup> Also, Federal Circuit nominee Richard Taranto “participated in dozens of Federal Circuit patent appeals” as a litigator, argued three intellectual property cases before the Supreme Court, and taught patent law at Harvard.<sup>110</sup>

Those judges who started out as non-specialists quickly developed patent expertise. For example, Chief Judge Randall Raider did not have a patent background before he became a Federal Circuit judge. However, he subsequently taught patent law and other intellectual property courses at several law schools, and has coauthored a patent law casebook.<sup>111</sup>

This high level of specialization distinguishes the Federal Circuit from other Article III appellate courts. The court’s closest analog is the D.C. Circuit, which is highly regarded for its expertise in administrative law.<sup>112</sup> The D.C. Circuit is viewed as a feeder court to the Supreme Court, given that four of the current Justices were elevated from it.<sup>113</sup> This allows the D.C. Circuit to attract highly qualified judges from a variety of backgrounds. However, all courts of appeal hear a substantial number of agency appeals, making the D.C. Circuit’s expertise less unusual than that

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visited Sept. 28, 2012).

107. *Biography of Alan D. Lourie, Circuit Judge*, U.S. CT. OF APPEALS FOR FED. CIRCUIT, <http://www.cafc.uscourts.gov/judges/alan-d-lourie-circuit-judge.html> (last visited Sept. 28, 2012).

108. *Biography of Pauline Newman, Circuit Judge*, U.S. CT. OF APPEALS FOR FED. CIRCUIT, <http://www.cafc.uscourts.gov/judges/pauline-newman-circuit-judge.html> (last visited Sept. 28, 2012).

109. *Kathleen M. O'Malley*, *supra* note 105.

110. *Next Federal Circuit Judge Nominee: Richard G. Taranto*, PATENTLY-O (Nov. 10, 2011, 9:42 AM), <http://www.patentlyo.com/patent/2011/11/next-federal-circuit-judge-nominee-richard-g-taranto.html>.

111. *Biography of Randall R. Rader, Chief Judge*, U.S. CT. OF APPEALS FOR FED. CIRCUIT, <http://www.cafc.uscourts.gov/judges/randall-r-rader-chief-judge.html> (last visited Sept. 28, 2012).

112. See John M. Golden, *The Federal Circuit and the D.C. Circuit: Comparative Trials of Two Semi-Specialized Courts*, 78 GEO. WASH. L. REV. 553, 554–55 (2010) (discussing the D.C. and Federal Circuits as being examples of semi-specialized courts, but acknowledging that “the Federal Circuit’s grip on patent appeals is much more complete than the D.C. Circuit’s grip on appeals involving administrative law.”).

113. *Id.* at 556 (noting that the D.C. Circuit “enjoys unmatched prestige” due in part to its status as a “feeder court” for the Supreme Court).

of the Federal Circuit.

Consequently, the Federal Circuit is in the unique position of possessing sufficient competence in a single area of law allowing it to dramatically shape that area. As Part IV discusses, this expertise has led the court to second-guess the PTO and ITC, thereby overstepping its authority as an Article III court.

### B. *The Rise of Bright-Line Rules*

When Congress passes a statute and fails to delegate its interpretation to an agency, that power effectively passes to the courts.<sup>114</sup> Thus, when Congress failed to grant the PTO substantive rulemaking authority over the key sections of the Patent Act, the Federal Circuit was well within its authority to step in and interpret ambiguities in the statute. The court's preferred method of doing this is through mandatory bright-line rules that mimic substantive rulemaking.<sup>115</sup>

Bright-line rules have existed since the early days of the Federal Circuit. For example, its presumption that an infringer is entitled to permanent injunctive relief dates back to 1983, when the court held that “where validity and continuing infringement have been clearly established . . . immediate irreparable harm is presumed” and that “[a] court should not be reluctant to use its equity powers once a party has so clearly established his patent rights.”<sup>116</sup> The Federal Circuit also inherited bright-line rules when it adopted CCPA decisions as precedent.<sup>117</sup> The “teaching, suggestion, or motivation” test was created by the CCPA to show whether a combination of prior art is obvious.<sup>118</sup> Relying firmly on this precedent, the Federal Circuit established that this test was

114. Professor Margaret Lemos has discussed judicially administered statutes at length. She notes that “[w]hen Congress enacts a statute, it inevitably resolves some policy disputes and leaves others open. All legislation leaves some residuum of policymaking power to the institution—court or agency—charged with administering it.” Margaret H. Lemos, *The Other Delegate: Judicially Administered Statutes and the Nondelegation Doctrine*, 81 S. CAL. L. REV. 405, 428 (2008) (citations omitted).

115. See *infra* Section II.D.

116. *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983), *abrogated by eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006), *as recognized in Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1141, 1148 (Fed. Cir. 2011).

117. *South Corp. v. United States*, 690 F.2d 1368, 1370 (Fed. Cir. 1982). This decision had the effect of disregarding patent precedent from the regional circuits, including courts such as the Seventh Circuit that were highly respected by practitioners.

118. *In re Bergel*, 292 F.2d 955, 956–57 (C.C.P.A. 1961) (finding nothing in the record to suggest combining two prior art references and noting that “[t]he mere fact that it is possible to find two isolated disclosures which might be combined in such a way to produce a new compound does not necessarily render such production obvious unless the art also contains something to suggest the desirability of the proposed combination”).

mandatory.<sup>119</sup>

The Federal Circuit did retain some more nuanced, policy-minded tests.<sup>120</sup> For example, in the court's early days, it noted that "[r]igid standards are especially unsuited to the on sale provision where the policies underlying the bar, in effect, define it."<sup>121</sup> It stated that "the facts of each case must be weighed in view of public policy," balancing "prompt and widespread disclosure of inventions to the public" with giving the inventor sufficient time to determine whether to seek a patent.<sup>122</sup>

In 1998, the Supreme Court sent a strong message that it preferred bright-line rules.<sup>123</sup> In *Pfaff v. Wells Electronics*, the unanimous Court announced a rule articulating when an invented device is "on sale" under § 102(b) of the Patent Act.<sup>124</sup> The Court held that the on-sale bar applies when the product is "the subject of a commercial offer for sale" and when the invention is "ready for patenting."<sup>125</sup> In that case—even though Wayne Pfaff's invention had not been reduced to practice—the Court found the invention was ready for patenting, because Pfaff had provided the manufacturer with a description and drawings sufficient to allow a person skilled in the art to practice the invention.<sup>126</sup>

The Court did not leave the Federal Circuit entirely unchecked. In *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, the en banc Federal Circuit held that prosecution history estoppel arises from any amendment

119. See, e.g., *ACS Hosp. Sys., Inc. v. Montefiore Hosp.*, 732 F.2d 1572, 1577 (Fed. Cir. 1984) ("Obviousness cannot be established by combining the teachings of the prior art to produce the claimed invention, absent some teaching or suggestion supporting the combination. Under section 103, teachings of references can be combined *only* if there is some suggestion or incentive to do so." (citing *In re Rinehart*, 531 F.2d 1048 (C.C.P.A. 1976); *In re Regel*, 526 F.2d 1399 (C.C.P.A. 1975); *In re Avery*, 518 F.2d 1228 (C.C.P.A. 1975); *In re Imperato*, 486 F.2d 585 (C.C.P.A. 1973); *In re Andre*, 341 F.2d 304 (C.C.P.A. 1965))).

120. See John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 778 (2003) (noting that the Federal Circuit employed totality of the circumstances tests "[d]uring its first decade and well into its second").

121. *W. Marine Elecs., Inc. v. Furuno Elec. Co.*, 764 F.2d 840, 844 (Fed. Cir. 1985).

122. *Id.* at 845.

123. As early as 1999, commentators predicted that *Pfaff v. Wells Electronics*, 525 U.S. 55 (1998), would push the Federal Circuit toward bright-line rules. See Isabelle R. McAndrews, *The On-sale Bar After Pfaff v. Wells Electronics: Toward a Bright-Line Rule*, 81 J. PAT. & TRADEMARK OFF. SOC'Y 155 (1999).

Oddly, although the Supreme Court supported agency-like rulemaking in the Federal Circuit during the 1990s, it also criticized the Federal Circuit for failing to grant proper deference to appeals from the PTO. In *Dickinson v. Zurko*, 527 U.S. 150 (1999), the Supreme Court held that the APA applies to patent decisions from the PTO, and that the Federal Circuit must apply the appropriate standard of review under § 706 of the APA. *Id.* at 152.

124. *Pfaff v. Wells Elecs.*, 525 U.S. 55, 56, 67 (1998).

125. *Id.* at 67.

126. *Id.* at 68.

that narrows a claim to comply with any part of the Patent Act<sup>127</sup> and that a flexible case-by-case approach was unworkable because it hinders predictability.<sup>128</sup> The Supreme Court reversed. It held that although the inventor cannot use the doctrine to recapture what she gave up to get the claim through the PTO, she can apply the doctrine to the narrow claim that was issued.<sup>129</sup> The Court recognized that although this approach would introduce uncertainty, this was “the price of ensuring the appropriate incentives for innovation.”<sup>130</sup>

In the face of these inconsistencies, the Federal Circuit continued to create more bright-line rules. In *Gen-Probe Inc. v. Vysis, Inc.*, the Federal Circuit drew a line between declaratory judgment cases that satisfy the case-or-controversy requirement and those that do not.<sup>131</sup> The court held that a patent licensee in compliance with its license could not establish an Article III case or controversy for a declaratory judgment action regarding patent validity, enforceability, or scope.<sup>132</sup>

### C. The Supreme Court and the Fall of the Bright-Line Rule

The Supreme Court’s attitude toward bright-line patent rules shifted in the mid-2000s with the changes in court membership. In the 2006 decision *eBay Inc. v. MercExchange, L.L.C.*, the Court found patent exceptionalism to be inappropriate, and rejected the Federal Circuit’s rule of granting injunctive relief upon a finding of infringement.<sup>133</sup> The Supreme Court held that district courts cannot grant an injunction unless the plaintiff demonstrates:

(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>134</sup>

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127. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 234 F.3d 558, 568 (Fed. Cir. 2000), *vacated*, 535 U.S. 722, 742 (2002).

128. *Id.* at 596.

129. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 741 (2002).

130. *Id.* at 732.

131. *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1381 (Fed. Cir. 2004), *rev’d sub nom. MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

132. *Id.*; *see also* *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 122, 137 (2007) (discussing, and ultimately reversing, the *Gen-Probe* decision); Liza Vertinsky, *Reconsidering Patent Licensing in the Aftermath of MedImmune*, 45 HOUS. L. REV. 1609, 1615–16 (2009) (discussing the Federal Circuit’s bright-line “reasonable apprehension of suit” test).

133. *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 394 (2006).

134. *Id.* at 391.

The Court stated that “[t]hese familiar principles apply with equal force to disputes arising under the Patent Act,” and maintained that the Patent Act did not evince an intent by Congress to depart from traditional equitable practice.<sup>135</sup>

One year later, in *MedImmune, Inc. v. Genentech, Inc.*, the Supreme Court rejected the Federal Circuit’s rule that a company that licenses a patent cannot establish “actual controversy” unless it breaches the license agreement.<sup>136</sup> In dicta, the Court also rejected the Federal Circuit’s “reasonable apprehension of suit” test for justiciability of claims in declaratory judgment actions.<sup>137</sup> Under this test, the Federal Circuit previously held that a declaratory plaintiff must have a reasonable apprehension of being imminently sued.<sup>138</sup> The Supreme Court stated that the reasonable apprehension of suit test conflicted with earlier Court cases holding that apprehension of a suit was not necessary for bringing a declaratory judgment.<sup>139</sup>

The same year, the Supreme Court struck down the Federal Circuit’s rule that the teaching-suggestion-motivation (TSM) test for obviousness was mandatory.<sup>140</sup> With regard to the question of obviousness, the Court stated “our cases have set forth an expansive and flexible approach inconsistent with the way the Court of Appeals applied its TSM test.”<sup>141</sup> Although the Court recognized that it had advocated “uniformity and definiteness” in an earlier decision, it observed that it had also advocated examining “secondary considerations” where appropriate.<sup>142</sup> The Court further noted that the Federal Circuit had taken a useful guiding principle from the CCPA too far.<sup>143</sup>

In the 2008 decision *In re Bilski*, the Federal Circuit held that the machine-or-transformation test, first articulated by the court in 1998,<sup>144</sup>

135. *Id.* at 391–92.

136. *MedImmune, Inc.*, 549 U.S. at 132.

137. *Id.* at 132 n.11.

138. *Teva Pharm. USA, Inc. v. Pfizer, Inc.*, 395 F.3d 1324, 1333 (Fed. Cir. 2005). This rule is not based on CCPA precedent, but rather on precedent from the Third Circuit. *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 880 (Fed. Cir. 1983) (rejecting the Third Circuit’s approach to jurisdiction “that there can never be an apprehension of a federal infringement suit . . . when a license is still in effect” in favor of a more lenient approach that “a reasonable apprehension of an infringement suit” gives rise to jurisdiction).

139. *MedImmune, Inc.*, 549 U.S. at 132 n.11.

140. *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 415 (2007) (“We begin by rejecting the rigid approach of the Court of Appeals.”).

141. *Id.*

142. *Id.* at 415–16 (citing *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 18 (1966)).

143. *Id.* at 418–19 (“But when a court transforms the general principle into a rigid rule that limits the obviousness inquiry, as the Court of Appeals did here, it errs.”).

144. *See State St. Bank & Trust Co. v. Signature Fin. Grp.*, 149 F.3d 1368, 1373 (Fed. Cir. 1998) (“Today, we hold that the transformation of data, representing discrete dollar amounts, by a

was mandatory for determining the patent eligibility of a process under § 101 of the Patent Act.<sup>145</sup> The Supreme Court affirmed the invalidity of the patent at issue, but held that a nonabstract business method can be patentable even if it fails the test.<sup>146</sup> The Court reiterated “that courts should not read into the patent laws limitations and conditions which the legislature has not expressed,”<sup>147</sup> making its strongest statement to date against judicial rulemaking. The Supreme Court also noted that, in recognizing limited exceptions to patentable subject matter, it had not given courts “*carte blanche* to impose other limitations that are inconsistent with the text and the statute’s purpose and design.”<sup>148</sup>

Finally, in *Prometheus Laboratories, Inc. v. Mayo Collaborative Services*, the claim at issue involved a method that allowed doctors to measure metabolites in the blood to determine whether the patient’s dose of a particular drug was too high or low.<sup>149</sup> The Federal Circuit observed that the Supreme Court “did not disavow the machine-or-transformation test” in *Bilski*.<sup>150</sup> It held that the claim was patent-eligible under § 101 because it related to the application of a natural phenomenon, and that the process of administering the drug to the patient and measuring the transformation in the blood satisfied the transformation prong of the machine-or-transformation test.<sup>151</sup>

The Supreme Court reversed the Federal Circuit 9–0, observing that “to transform an unpatentable law of nature into a patent-eligible *application* of such a law, one must do more than simply state the law of nature while adding the words ‘apply it.’”<sup>152</sup> Although the Court emphasized that machine-or-transformation was not met in this case, it stressed that it had “neither said nor implied that the test trumps the ‘law of nature’

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machine through a series of mathematical calculations into a final share price, constitutes a practical application of a mathematical algorithm, formula, or calculation, because it produces ‘a useful, concrete and tangible result’—a final share price momentarily fixed for recording and reporting purposes and even accepted and relied upon by regulatory authorities and in subsequent trades.”).

145. *In re Bilski*, 545 F.3d 943, 954 (Fed. Cir. 2008) (“The Supreme Court, however, has enunciated a definitive test to determine whether a process claim is tailored narrowly enough to encompass only a particular application of a fundamental principle rather than to pre-empt the principle itself. A claimed process is surely patent-eligible under § 101 if: (1) it is tied to a particular machine or apparatus, or (2) it transforms a particular article into a different state or thing.”), *aff’d on other grounds*, *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010).

146. *Bilski v. Kappos*, 130 S. Ct. 3218, 3226–27, 3231 (2010).

147. *Id.* at 3226 (quoting *Diamond v. Diehr*, 450 U.S. 175, 182 (1981)) (internal quotation marks omitted).

148. *Id.* at 3226.

149. *Prometheus Labs., Inc. v. Mayo Collaborative Servs.*, 628 F.3d 1347, 1350 (Fed. Cir. 2010), *rev’d*, 132 S. Ct. 1289 (2012).

150. *Id.* at 1355.

151. *Id.* at 1355–56.

152. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289, 1294 (2012).

exclusion.”<sup>153</sup>

This series of Supreme Court decisions establish that the Federal Circuit’s rigid reliance on rules will no longer be tolerated. The Court has not expressed concern over the Federal Circuit’s creating tests to help clarify ambiguities in the Patent Act, but rather over its making such tests mandatory.<sup>154</sup> This backlash against judicial rulemaking, however, raises an important question—whether the Federal Circuit’s actions were improper and what the Supreme Court’s motivation was for intervening.

#### D. *Bright-Line Rules as Substantive Rules*

Scholars have discussed how the Federal Circuit’s use of bright-line rules provides certainty through the use of formalism,<sup>155</sup> but adversely impacts innovation.<sup>156</sup> From that perspective, the Supreme Court’s rejection of these rules may be viewed as a retreat from a particular type of formalism. For example, Professor Timothy Holbrook has argued that the Court has rejected substantive formalism in favor of process-based formalism.<sup>157</sup> Additionally, Professor Arti Rai has suggested that the Court’s actions may be an attempt to promote more nuanced policy making in the Federal Circuit. Professor Rai points out that the Supreme Court has “emphasized the dynamic and evolving nature” of patent law,<sup>158</sup> and that in *Festo*, it noted that “[f]undamental alterations” in established (flexible) rules “risk destroying the legitimate expectations of inventors in their property.”<sup>159</sup>

153. *Id.* at 1303.

154. *See* *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 419 (2007); *see also* *Bilski v. Kappos*, 130 S. Ct. 3218, 3231 (2010).

155. *See* John R. Thomas, *Formalism at the Federal Circuit*, 52 AM. U. L. REV. 771, 776 (2003) (“Adjudicative rule formalism counsels that lawmakers should, where possible, stipulate bright-line rules instead of vague standards.”); Vertinsky, *supra* note 132, at 1620 (“Reliability and predictability of patent rights are critical to facilitating private party contracts and bright-line rules can be useful in enhancing predictability and strengthening property rights where managed appropriately to allow for changes in technological needs and possibilities.”).

156. *See* Janice M. Mueller, *The Evanescent Experimental Use Exemption from United States Patent Infringement Liability: Implications for University and Nonprofit Research and Development*, 56 BAYLOR L. REV. 917, 965 (2004) (“Despite the seeming attractiveness of precise rules, nuanced and flexible standards are generally more appropriate for the dynamic innovation environment confronted by the Federal Circuit.”); Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035, 1040 (2003) (noting that “bright-line rules cannot be expected to do a good job of furthering the innovation goals of patent law” and that “even if certain bright-line rules could incorporate innovation policy goals to some extent, the rules that the Federal Circuit has chosen do not appear to do so”).

157. Timothy R. Holbrook, *Substantive Versus Process-Based Formalism in Claim Construction*, 9 LEWIS & CLARK L. REV. 123, 126–127, 129 (2005).

158. Rai, *supra* note 156, at 1119–20.

159. *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002).

But scholars have only just begun to consider bright-line rules as a form of substantive rulemaking. From this perspective, the rejection of bright-line rules might be viewed as a response to the Federal Circuit assuming an agency-like role. Although the procedure for creating bright-line rules varies considerably from the notice-and-comment rulemaking process, the effects of both types of rules are essentially the same.

### 1. Overview of Substantive Rulemaking

In administrative law, the distinction between substantive and non-substantive rulemaking is important because only substantive rules carry the force of law,<sup>160</sup> making them binding on both the agency and the public.<sup>161</sup> The APA defines “rule” as “the whole or a part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency.”<sup>162</sup> According to the Federal Circuit, a substantive rule is broadly defined as “action that is legislative in nature, is primarily concerned with policy considerations for the future rather than the evaluation of past conduct, and looks not to the evidentiary facts but to policy-making conclusions to be drawn from the facts.”<sup>163</sup>

An agency cannot pass substantive rules unless (1) the agency has been delegated authority to do so by Congress and (2) the agency follows proper procedure under the APA.<sup>164</sup> The vast majority of substantive rules are passed through the notice-and-comment rulemaking process governed by § 553 of the APA.<sup>165</sup> This provision allows an agency to propose a rule,<sup>166</sup> and requires a commenting period for the public to provide input.<sup>167</sup> The agency will then take this input into account in issuing a final version of the rule.<sup>168</sup> The procedure provided by § 553 allows the public to provide meaningful commentary, thereby (in theory) safeguarding the community

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160. See *United States v. Mead Corp.*, 533 U.S. 218, 254 (2001) (observing that interpretations such as opinion letters, policy statements, agency manuals, and enforcement guidelines “lack the force of law” and “do not warrant *Chevron*-style deference”).

161. See *Coal. for Common Sense in Gov’t Procurement v. Sec’y of Veterans Affairs*, 464 F.3d 1306, 1317 (Fed. Cir. 2006) (“The change in existing law affected by a substantive rule is binding not only within the agency, but is also binding on tribunals outside the agency.”).

162. 5 U.S.C. § 551(4) (2006).

163. *Coal. for Common Sense*, 464 F.3d. at 1317 (quoting *Paralyzed Veterans of Am. v. Sec’y of Veterans Affairs*, 308 F.3d 1262, 1264–65 (Fed. Cir. 2002)) (internal quotation marks omitted).

164. See *Mead Corp.*, 533 U.S. at 226–27.

165. See 5 U.S.C. § 553 (2006).

166. *Id.* § 553(b).

167. *Id.* § 553(c).

168. *Id.*

against bad rules.<sup>169</sup>

Non-substantive rules, such as interpretive rules and policy statements, are exempt from the notice-and-comment process.<sup>170</sup> They do not have the force of law, and consequently, these statements do not bind the agency or the public.<sup>171</sup> Policy statements merely communicate to the public how the agency plans to exercise a discretionary power,<sup>172</sup> whereas interpretive rules tell the public how the agency interprets an existing statute or rule.<sup>173</sup>

Professor Mark Seidenfeld and others have argued that agencies ought to be granted greater flexibility.<sup>174</sup> As Professor Seidenfeld observes, the Supreme Court has held that agencies are free to make policy through rulemaking.<sup>175</sup> Thus, an argument can be made that substantive rules need not be bright-line in nature. At the same time, the traditional dichotomy is that substantive rules tend to be rigid,<sup>176</sup> whereas interpretive rules and policy statements allow for flexibility.

## 2. Federal Circuit Substantive Rulemaking

Professor Ryan Vacca recently argued that when the Federal Circuit acts en banc, it functions like an agency engaging in substantive rulemaking.<sup>177</sup> Professor Vacca claims that the Federal Circuit's order for a rehearing en banc constitutes a de facto notice-and-comment process,

169. See *Am. Radio Relay League, Inc. v. FCC*, 524 F.3d 227, 236 (D.C. Cir. 2008) (discussing the importance of agencies' providing all pertinent data and information to the public, so that the public can provide "useful criticism" of the proposed rule (quoting *Conn. Light & Power Co. v. Nuclear Regulatory Comm'n*, 673 F.2d 525, 530 (D.C. Cir. 1982))).

170. *Preminger v. Sec'y of Veterans Affairs*, 632 F.3d 1345, 1349 (Fed. Cir. 2011).

171. See *Am. Mining Cong. v. Mine Safety & Health Admin.*, 995 F.2d 1106, 1109 (D.C. Cir. 1993) (discussing the distinction between substantive and non-substantive rules).

172. According to the Attorney General's Manual on the APA, a "policy statement" is a statement "issued by an agency to advise the public prospectively of the manner in which the agency proposes to exercise a discretionary power." U.S. DEP'T OF JUSTICE, ATTORNEY GENERAL'S MANUAL ON THE ADMINISTRATIVE PROCEDURE ACT 30 n.3 (1947).

173. According to the Attorney General's Manual on the APA, "interpretive rules" are "rules or statements issued by an agency to advise the public of the agency's construction of the statutes and rules which it administers." *Id.*

174. See Mark Seidenfeld, *Bending the Rules: Flexible Regulation and Constraints on Agency Discretion*, 51 ADMIN. L. REV. 429, 440–41 (1999).

175. *Id.* at 441 (citing *SEC v. Chenery Corp.*, 332 U.S. 194, 202–03 (1947); *NLRB v. Bell Aerospace Co.*, 416 U.S. 267, 295 (1974)).

176. Indeed, a common criticism of agency rulemaking is that it is an "ossified" . . . decisionmaking process that is less flexible, less rational, and less effective" compared to adjudication. David B. Spence & Lekha Gopalakrishnan, *Bargaining Theory and Regulatory Reform: The Political Logic of Inefficient Regulation*, 53 VAND. L. REV. 599, 608 (2000) (quoting Jody Freedman, *Collaborative Governance in the Administrative State*, 45 UCLA L. Rev. 1, 3. (1997)).

177. Vacca, *supra* note 9, at 747–48.

because amici can submit briefs to the court for a set period of time.<sup>178</sup>

But looking at the Federal Circuit cases discussed above, both panel and en banc rules are equivalent to substantive rulemaking. The rules were legislative-like, given that they were rigid and mandatory. They were also forward-looking tests meant to bind lower courts, the PTO, and the public at large. Although Professor Vacca is correct that only en banc decisions offer any opportunity for public participation,<sup>179</sup> rules issued through panel decisions also bind parties like substantive rules.

There are several reasons to be uneasy with the Federal Circuit's bright-line substantive rulemaking. The Federal Circuit is an Article III court whose judges are appointed for life.<sup>180</sup> Consequently, if the public is dissatisfied with any rule that the Federal Circuit enacts, there is no mechanism by which to replace the judges. The PTO, by contrast, is part of the Department of Commerce. The President can hold the Director of the PTO accountable for bad choices, and the public can ultimately hold the President accountable.

Bright-line rulemaking, moreover, permits very limited public input. Members of the public can file amicus briefs in an attempt to sway the Federal Circuit on a particular decision.<sup>181</sup> And in at least one case, the Federal Circuit appears to have reversed a decision because of public backlash.<sup>182</sup> Such public participation is substantially less effective than public input during agency rulemaking. With judicial rulemaking, the public never knows which appeal will give rise to a bright-line rule. Moreover, filing an amicus brief is a more onerous task than filing a comment regarding a proposed rule on a government website.

Agencies, however, are subject to rigid procedural requirements when engaging in notice-and-comment rulemaking.<sup>183</sup> They are required to provide all relevant information and data to the public to ensure the public's full participation.<sup>184</sup> Unlike amicus briefs, which a court can

178. *Id.* at 748.

179. *Id.* at 748–49.

180. *See* U.S. CONST. art. III, § I (“The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.”); S. REP. NO. 97-275, at 2–3 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11–12 (“Court of Appeals for the Federal Circuit—The bill creates an article III court that is similar in structure to the eleven other courts of appeals.”).

181. *See* Vacca, *supra* note 9, at 743–44.

182. *See* Kumar, *supra* note 2, at 1607–08 (discussing *Enzo Biochem, Inc. v. Gen-Probe Inc.*, 285 F.3d 1013 (Fed. Cir. 2002), *vacated*, 323 F.3d 956, 970 (Fed. Cir. 2002)).

183. *See* 5 U.S.C. § 553 (2006) (establishing procedural requirements for rulemaking); Merrill, *supra* note 31, at 2155 (observing that modern administrative rulemaking is subject to rigid procedural requirements in contrast to legislative statuemaking).

184. The Third Circuit recently noted that to ensure the public has been “fairly apprised of a

ignore, an agency “must respond in a reasoned manner to the comments received,” both “to explain how the agency resolved any significant problems raised by the comments, and to show how that resolution led the agency to the ultimate rule.”<sup>185</sup>

Agencies also have access to greater amounts of information than appellate courts do.<sup>186</sup> In issuing a bright-line rule, the Federal Circuit may only rely upon the briefs submitted by the parties.<sup>187</sup> In contrast, agencies can consider numerous sources of information, such as studies and information from hearings.<sup>188</sup>

But is the Federal Circuit at fault for using bright-line rules? By virtue of failing to grant the PTO substantive rulemaking authority over the major provisions of the Patent Act, Congress implicitly delegated interpretive authority to the courts. In creating a semi-specialized court, Congress further concentrated power in the Federal Circuit, allowing the expert court to serve as a one-stop shop for clarification of the Patent Act. Consequently, the Federal Circuit’s rulemaking does not appear to exceed the authority granted to the court by Congress, although it may fail to promote good policy. Indeed, an argument can be made that the Federal Circuit has been put in an untenable situation, being charged with unifying administrative law, yet being required to be deferential to agencies under the APA.

### III. FEDERAL CIRCUIT ADJUDICATION

The PTO has historically been a weak agency. Though § 2(a)(1) of the Patent Act states that the PTO “shall be responsible for the granting and issuing of patents,”<sup>189</sup> it fails to grant the PTO substantive rulemaking authority over the provisions of the Patent Act that govern patentability

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new rule,” the court must ask “whether the purposes of notice and comment have been adequately served.” *Prometheus Radio Project v. FCC*, 652 F.3d 431, 449 (3d Cir. 2011) (quoting *Am. Water Works Ass’n v. EPA*, 40 F.3d 1266, 1274 (D.C. Cir. 1994)). To achieve “an exchange of views, information, and criticism” between the public and the agency, the agency “must disclose in detail the thinking that has animated the form of a proposed rule and the data upon which that rule is based” and it “has an obligation to make its views known to the public in a concrete and focused form so as to make criticism or formulation of alternatives possible.” *Id.* (emphasis omitted) (quoting *Home Box Office, Inc. v. FCC*, 567 F.2d 9, 35–36 (D.C. Cir. 1977)) (internal quotation marks omitted).

185. *Navistar Int’l Transp. Corp. v. EPA*, 941 F.2d 1339, 1359 (6th Cir. 1991) (quoting *Action on Smoking & Health v. Civil Aeronautics Bd.*, 699 F.2d 1209, 1216 (D.C. Cir. 1983)) (internal quotation marks omitted).

186. Frank H. Easterbrook, *Judicial Discretion in Statutory Interpretation*, 57 OKLA. L. REV. 1, 3 (2004).

187. *See id.*

188. *Id.*

189. 35 U.S.C. § 2(a)(1) (2006).

requirements and infringement.<sup>190</sup> Instead, the agency is limited to creating procedures for implementing the statute.<sup>191</sup>

Whatever mistrust Congress had of the PTO in 1952 could have subsided over time. With proper funding and guidance, the PTO *could* have developed policymaking skills that would have allowed it to successfully administer the statute. But the Federal Circuit picked up where the framers of the Patent Act and the CCPA left off, continuing to weaken and discredit the agency.

The Federal Circuit consistently misconstrues the APA and Supreme Court precedent interpreting the APA with regard to patent cases. Among the courts of appeal, the Federal Circuit stands alone in its attempt to undermine administrative law. Admittedly, the court does generally comply with the APA in reviewing non-patent agency decisions. But for patent cases from the PTO and ITC, the court's review resembles the non-deferential approach taken by the top level of an agency reviewing an administrative law judge more than a federal court reviewing an executive branch agency.<sup>192</sup> This is particularly interesting given that the Federal Circuit's review of non-patent agencies appears to be quite deferential.<sup>193</sup>

190. See Tran, *supra* note 3, at 603.

191. Liza Vertinsky, *Comparing Alternative Institutional Paths to Patent Reform*, 61 ALA. L. REV. 501, 535 (2010).

192. There is one notable exception: so-called *Auer* deference. The Supreme Court held that an agency's interpretation of its own regulation is granted controlling weight unless it is "plainly erroneous or inconsistent with the regulation." *Auer v. Robbins*, 519 U.S. 452, 461 (1997) (internal quotation marks omitted). In a recent opinion authored by Judge Timothy Dyk, the Federal Circuit granted *Auer* deference to the PTO's interpretation of one of its regulations, despite the fact that the Federal Circuit had previously interpreted the same regulation differently. *In re Lovin*, 652 F.3d 1349, 1356 (Fed. Cir. 2011) (applying the "plainly erroneous or inconsistent with the regulation" standard). In doing so, the court applied a *Chevron*-related Supreme Court case that "held that a judicial interpretation would trump an agency's construction only if the judicial precedent 'unambiguously foreclose[d] the agency's interpretation, and therefore contain[ed] no gap for the agency to fill.'" *Id.* at 1354 (alteration in original) (quoting *Nat'l Cable & Telecomms. Ass'n v. Brand X Internet Servs.*, 545 U.S. 967, 983 (2005)). The Federal Circuit could have attempted to distinguish between *Chevron* and *Auer* deference, but it instead appropriately deferred to the PTO.

193. For example, the Federal Circuit has been willing to apply *Chevron* and *Skidmore* deference to non-patent agencies. See *Keener v. United States*, 551 F.3d 1358, 1363 (Fed. Cir. 2009) (granting *Chevron* deference to the Treasury regulation interpreting I.R.C. § 7422); *Patterson v. Dep't of the Interior*, 424 F.3d 1151, 1159 (Fed. Cir. 2005) (granting *Chevron* deference to the Office of Personnel Management); *Tunik v. Merit Sys. Prot. Bd.*, 407 F.3d 1326, 1336 (Fed. Cir. 2005) (granting *Chevron* deference to the Merit Systems Protection Board's interpretation of 5 U.S.C. § 7521); *Brownlee v. Dyncorp*, 349 F.3d 1343, 1354–55 (Fed. Cir. 2003) (granting *Chevron* deference to the Secretary of Defense's interpretation of Federal Acquisition Regulation); *Shakeproof Assembly Components, Div. of Ill. Tool Works, Inc. v. United States*, 268 F.3d 1376, 1381 (Fed. Cir. 2001) ("Even where [the Department of] Commerce has not engaged in notice-and-comment rulemaking, its statutory interpretations articulated in the course of antidumping

Section A of this Part looks at the Federal Circuit's attempts to disregard the judicial review provision of the APA with respect to the PTO. Section B discusses the Federal Circuit's practice of construing questions of fact as those of law so it can review them *de novo*. Section C argues that the Federal Circuit has deliberately misinterpreted Supreme Court precedent so it can affirm PTO decisions on alternate grounds. Finally, Section D discusses how the Federal Circuit's non-deferential treatment of patent agencies extends to the ITC.

#### A. *Applicability of the Administrative Procedure Act*

While Congress debated the APA, patent attorneys and the Patent Office fought against additional control and oversight, but both were ultimately unsuccessful.<sup>194</sup> For example, the American Bar Association's Special Committee on Administrative Law<sup>195</sup> issued a proposal in 1935, and again in 1936, that the jurisdictional functions of the Court of Claims, the Board of Tax Appeals, the Customs Court, and the CCPA be combined into a single administrative court.<sup>196</sup> A representative for the Patent and Trademark Section of the American Bar Association testified against the proposal and expressly asked that patents be "let alone."<sup>197</sup>

The 1939 Walter–Logan bill was a rigid predecessor to the APA that attempted to dramatically formalize agency process.<sup>198</sup> The bill contained an explicit exception for the Patent Office, likely because it was established in 1836—well before the New Deal.<sup>199</sup> President Franklin Roosevelt vetoed that bill in 1940.<sup>200</sup>

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proceedings draw *Chevron* deference." (citing *United States v. Mead Corp.*, 533 U.S. 218, 230–31 (2001)); *Eastman Kodak Co. v. Bell & Howell Document Mgmt. Prods. Co.*, 994 F.2d 1569, 1571 (Fed. Cir. 1993) (granting *Chevron* deference to the Trademark Trial and Appeals Board's interpretation of Lanham Act). In contrast, the court has not granted the PTO *Skidmore* deference for its interpretations of the Patent Act and has been reluctant to grant *Chevron* deference to ITC patent decisions.

194. The Patent Office was renamed the Patent and Trademark Office in 1975. Pub. L. 93-596, Sec. 1, 88 Stat. 1949 (Jan. 2, 1975).

195. The ABA's Special Committee was established in 1933 in response to the bar's concern with the growing administrative state. See Shepherd, *supra* note 19, at 1569–70 (noting that "[t]he committee professed to take no position on the desirability of the New Deal" but that their 1933 report "expressed indirectly the organized bar's opposition to the New Deal.")

196. *Id.* at 1575.

197. 1936 A.B.A. Ann. Rep. 234 (statement of Thomas E. Robertson).

198. PETER WOLL, ADMINISTRATIVE LAW: THE INFORMAL PROCESS 19 (1963).

199. Shepherd, *supra* note 19, at 1618–19 tbl.1.

200. *Presidential Veto Message, Walter-Logan Bill*, reprinted in 86 Cong. Rec. 13943 (1940) ("Today in sustaining American ideals of justice, an ounce of action is worth more than a pound of argument. For these reasons I return the bill without my approval. Franklin D. Roosevelt.").

In 1941, The Senate Judiciary Committee considered three bills addressing administrative procedural reform.<sup>201</sup> The Patent Office was the sole agency to seek an exemption from the bills,<sup>202</sup> which failed to pass.<sup>203</sup> As Professor George Shepherd notes, with the exception of the Patent Office, “[i]t appears that agencies understood—and that the Roosevelt administration had made clear to them—that some form of procedural reform was inevitable.”<sup>204</sup> The remaining agencies “now sought to shape [the APA] and soften it.”<sup>205</sup>

An early version of the McCarran–Sumners bill, which was drafted in 1943, excluded patent cases from the judicial review chapter;<sup>206</sup> however, Congress struck that exemption. When the McCarran–Sumners bill passed as the Administrative Procedure Act, it contained no individual agency exceptions.<sup>207</sup>

The Federal Circuit, like the CCPA before it, refused to recognize that the APA had altered the judicial review standard for PTO decisions.<sup>208</sup> Although the CCPA never explicitly held that the APA was inapplicable to appeals from the PTO’s Board of Patent Appeals and Interferences (BPAI), it neither applied the statute nor acknowledged the possibility of its applicability.<sup>209</sup> In 1997, the court stated: “The APA’s more deferential standards of review have never been applicable to the Board’s decisions and we are not persuaded to change this practice.”<sup>210</sup> The court observed that it could not change its standard without the full court’s review.<sup>211</sup>

The opportunity for en banc review of the Federal Circuit’s practice came in the 1998 decision *In re Zurko*.<sup>212</sup> The unanimous court acknowledged that the Patent Commissioner had “campaigned

201. Shepherd, *supra* note 19, at 1638.

202. *Id.*

203. *Id.* at 1638, 1641.

204. *Id.*

205. *Id.*

206. *See id.* at 1649 (discussing the introduction of the McCarran–Sumners bill); (92 Cong. Rec. 2162 (1946) (statement of Allen Moore) (discussing how the bill contained exceptions for the Bureau of the Internal Revenue and Patent Office).

207. *See* Administrative Procedure Act, Pub. L. 79-404, 60 Stat. 237 (1946) (exempting no agencies from the provisions of the statute); *In re Zurko*, 142 F.3d 1447, 1452 (Fed. Cir. 1998) (noting the Commissioner’s argument that the final version of the APA contained no explicit exception for the Patent Office), *rev’d sub nom.* Dickinson v. Zurko, 527 U.S. 150, 165 (1999).

208. *See, e.g., In re Lueders*, 111 F.3d 1569, 1574–78 (Fed. Cir. 1997) (holding that history does not support applying the APA’s more deferential standards of review to findings of fact).

209. *See, e.g., In re Kunzmann*, 326 F.2d 424, 426 (C.C.P.A. 1964) (upholding the examiner’s findings because the appellant “failed to demonstrate that the examiner’s finding in this regard was clearly erroneous”).

210. *Lueders*, 111 F.3d at 1575.

211. *Id.* at 1574.

212. *In re Zurko*, 142 F.3d 1447 (Fed. Cir. 1998).

aggressively” for the court to review the BPAI’s factual findings under the substantial evidence standard from § 706 of the APA.<sup>213</sup> The court nevertheless held that the less deferential “clearly erroneous” standard was appropriate for reviewing issues of patent validity appealed from the BPAI.<sup>214</sup>

The Federal Circuit relied on § 559 of the APA to support the position that the Patent Office was exempt from § 706.<sup>215</sup> Section 559 states that the judicial review provisions in the APA “do not limit or repeal additional requirements imposed by statute or otherwise recognized by law.”<sup>216</sup> The Federal Circuit interpreted this provision to preserve standards of judicial review that “evolved as a matter of common law, rather than compelling that all such standards of review be displaced” by the APA.<sup>217</sup>

Even if this interpretation of § 559 is correct, the court’s attempt to circumvent § 706 was, at best, creative. The court first pointed to legislative history for early drafts of the APA that Congress did not enact. For example, the Federal Circuit observed that the failed Walter–Logan Bill exempted the Patent Office from the APA.<sup>218</sup> It likewise noted the Senate Judiciary Committee’s statement that the McCarran–Sumners bill created an exemption for “matters subject to a subsequent trial of the law and the facts *de novo* in any court,” such as “the work of the Patent Office.”<sup>219</sup> This language, however, referred to the early version of the bill that contained an explicit exception;<sup>220</sup> no such language

213. *Id.* at 1449.

214. *Id.* at 1459.

215. *Id.* at 1452 (“This history suggests that Congress drafted the APA to apply to agencies generally, but that because of existing common law standards and the availability of trial *de novo* pursuant to section 4915 of the Revised Statutes, the predecessor of 35 U.S.C. § 145, Congress did not intend the APA to alter the review of substantive Patent Office decisions.”).

Note that the legislative history that the Federal Circuit used to support the *Zurko* decision speaks equally to the Customs Service. As with the Patent Office, the creation of the Customs Service long precedes the New Deal and has a history of operating without direct judicial oversight. Both agencies provide opportunities for an appeal from an agency decision to a trial court for *de novo* review. But in 1981, the CCPA cited to the Supreme Court’s decision in *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402 (1971), and held that past CCPA precedent was “no longer controlling in view of the Administrative Procedure Act which authorizes judicial review to determine whether agency action, findings, and conclusions are arbitrary, capricious, or otherwise not in accordance with the law.” *Farrell Lines, Inc. v. United States*, 657 F.2d 1214, 1217 n.7.5 (C.C.P.A. 1981) (citation omitted), *overruling* *Waterman S.S. Corp. v. United States*, 30 C.C.P.A. 119 (1942). Given that the CCPA directly reviewed Customs Service decisions, one would have expected this decision to be relevant precedent for the Federal Circuit in determining how to review BPAI decisions.

216. 5 U.S.C. § 559 (2006).

217. *In re Zurko*, 142 F.3d at 1452.

218. *Id.* at 1451.

219. *Id.* at 1451 (quoting 92 Cong. Rec. 2162 (1946)).

220. 92 Cong. Rec. 2162 (1946).

appeared in the final version of the bill that passed.<sup>221</sup>

The court then claimed that the reason such language did not appear in the final bill was “likely that Congress viewed an explicit exception for the Patent Office as redundant in light of the ‘otherwise recognized by law’ exception” under § 559.<sup>222</sup> The court disregarded the fact that most agencies quit seeking exemptions not because of statutory redundancy, but because procedural reform was inevitable.<sup>223</sup>

The Federal Circuit also supported its position based on the history of the Patent Act, which set no standard of review.<sup>224</sup> The court observed that the CCPA never applied § 706 judicial review standards in reviewing the PTO.<sup>225</sup> Although it conceded that no single common law standard of review existed for PTO decisions, the court held that this lack of consistency established an additional requirement recognized by law.<sup>226</sup> It furthermore made a *stare decisis* argument based on the fact that the CCPA had never applied standards from § 706, even though the CCPA had failed to consistently apply any other standard.<sup>227</sup>

Ultimately, the Supreme Court reversed the Federal Circuit.<sup>228</sup> The Court noted that “[t]he APA was meant to bring uniformity to a field full of variation and diversity” and that “[i]t would frustrate that purpose to permit divergence on the basis of a requirement ‘recognized’ only as ambiguous.”<sup>229</sup> It observed that the CCPA failed to apply a consistent judicial review standard, and found that the CCPA’s failure to apply the APA was not dispositive.<sup>230</sup>

Chief Justice William H. Rehnquist, joined by Justices Anthony M. Kennedy and Ruth Bader Ginsburg, dissented, arguing that the APA raised the minimum standard of review for agencies and that courts could establish more searching standards.<sup>231</sup> Chief Justice Rehnquist argued:

In making this determination, I would defer, not to agencies in general as the Court does today, but to the Court of Appeals

221. See Administrative Procedure Act, Pub. L. 79-404, 60 Stat. 237 (1946) (making no reference to “patent”).

222. *Zurko*, 142 F.3d at 1452.

223. See *Shepherd*, *supra* note 19, at 1638 (noting that agencies came to realize “that some form of procedural reform was inevitable” and that their best option was to “shape it and soften it.”).

224. See *Zurko*, 142 F.3d at 1453–57 (examining the history of the Patent Act).

225. *Id.* at 1455 (“Following Congress’ enactment of the APA, the CCPA continued to review Patent Office decisions as it had done before, without a clearly articulated standard of review.”).

226. *Id.* at 1454, 1459 (recognizing “the clear error standard” as an additional requirement).

227. See *id.* at 1454, 1457–58.

228. *Dickinson v. Zurko*, 527 U.S. 150, 165 (1999).

229. *Id.* at 155.

230. See *id.*

231. *Id.* at 170–71 (Rehnquist, C.J., dissenting).

for the Federal Circuit, the specialized Article III court charged with review of patent appeals. In this case the unanimous en banc Federal Circuit and the patent bar both agree that these cases recognized the “clearly erroneous” standard as an “additional requirement” placed on the PTO beyond the APA’s minimum procedures. I see no reason to reject their sensible and plausible resolution of the issue.<sup>232</sup>

In taking this approach, the dissent treated the Federal Circuit as the administrator of the Patent Act, and acted as though the issue of deference turned solely on expertise. The Federal Circuit’s application of the *Chenery* doctrine, discussed below, further illustrates the fallacy of viewing deference solely as an issue of expertise.<sup>233</sup>

Even after the Supreme Court’s intervention, the Federal Circuit continued to minimize deference to the PTO. Courts are supposed to review questions of fact from informal proceedings under the highly deferential arbitrary and capricious review standard.<sup>234</sup> In contrast, courts review questions of fact from formal adjudication or rulemaking under the slightly less deferential substantial evidence standard, focusing on the formal record.<sup>235</sup>

PTO proceedings are informal in that they do not comply with §§ 556 and 557 of the APA.<sup>236</sup> Nevertheless, the Federal Circuit announced that the substantial evidence standard was appropriate, despite the lack of formal process.<sup>237</sup> The reasoning for the court’s decision hinged on the language of § 706(2)(E) of the APA, which states that a reviewing court should set aside agency actions that are “unsupported by substantial evidence in a case subject to sections 556 and 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute.”<sup>238</sup>

The Federal Circuit focused on the second part of the phrase. The court maintained that § 144 of the Patent Act states that the court “shall review the decision from which an appeal is taken on the record before the Patent

232. *Id.* at 171.

233. *See infra* Section III.C.

234. 5 U.S.C. § 706(2)(A) (2006); *see also* Arti K. Rai, *Allocating Power Over Fact-Finding in the Patent System*, 19 BERKELEY TECH. L.J. 907, 916 (2004) (“Substantial evidence review, which focuses on evidence within the four corners of the agency record, applies to formal agency proceedings; arbitrary and capricious review applies to informal proceedings.”) (citations omitted).

235. 5 U.S.C. § 706(2)(E) (2006); *see also* Rai, *supra* note 234.

236. *See In re Gartside*, 203 F.3d 1305, 1314, 1315 n.7 (Fed. Cir. 2000); Rai, *supra* note 234, at 916 (noting that PTO proceedings are informal).

237. *Gartside*, 203 F.3d at 1313.

238. 5 U.S.C. § 706(2)(E) (2006).

and Trademark Office,”<sup>239</sup> and that the substantial evidence standard was therefore appropriate.<sup>240</sup> In drawing this distinction, the court claimed that substantial evidence is much less deferential than arbitrary and capricious review.<sup>241</sup>

Yet the Supreme Court in *Zurko* disagreed with this claim, citing to a D.C. Circuit case with a parenthetical explaining that there is “no difference” between the two standards “as applied to court review of agency factfinding.”<sup>242</sup> This perceived lack of distinction may be the reason why the Court declined to decide which standard applied.<sup>243</sup>

### B. *The Manipulation of Questions of Law and Fact*

The level of deference that an agency receives for its decisions turns on whether the question the agency considered was one of law or fact. Courts review questions of law de novo, granting no deference to the agency.<sup>244</sup> In contrast, as noted above, courts review questions of fact deferentially, and affirm a high percentage of such agency decisions.<sup>245</sup>

The Supreme Court has recognized that the nature of the distinction between law and fact is “vexing,”<sup>246</sup> and that “the appropriate methodology for distinguishing” such questions “has been, to say the least, elusive.”<sup>247</sup> Professor Craig Nard observed that law and fact often overlap, resulting in a third category of mixed questions of law and fact.<sup>248</sup> Even more problematic than blurred dividing lines is the fact that courts can exploit the distinction to reduce deference to agencies.

239. 35 U.S.C. § 144 (2006).

240. *Gartside*, 203 F.3d at 1313.

241. *Id.* at 1312.

242. *Dickinson v. Zurko*, 527 U.S. 150, 158 (1999) (citing *Ass’n of Data Processing Serv. Orgs., Inc. v. Bd. of Governors of Fed. Reserve Sys.*, 745 F.2d 677, 683–84 (D.C. Cir. 1984)).

243. *See Rai, supra* note 234, at 917 (noting that “[t]he Court probably did not contemplate the liberties that the Federal Circuit would take with the legal gap left open by the *Zurko* decision” and observing that Justice Stephen Breyer indicated during oral argument that arbitrary and capricious review might be most appropriate).

244. Caleb Nelson, *Adjudication in the Political Branches*, 107 COLUM. L. REV. 559, 615–16 (2007) (“Article III presumptively demands that the reviewing courts be able to exercise de novo judgment about questions of law and about factual disputes on which constitutional rights turn, but Congress usually can require courts to give great weight to the agencies’ other factual determinations.”).

245. *See* FRANK B. CROSS, *DECISION MAKING IN THE U.S. COURTS OF APPEALS* 53 (2007) (finding that courts of appeals affirm agency decisions in 75% of cases under arbitrary and capricious review and in 70% of cases under substantial evidence review). Note, however, that this study looks at all courts of appeal and not just the Federal Circuit.

246. *Pullman-Standard v. Swint*, 456 U.S. 273, 288 (1982).

247. *Miller v. Fenton*, 474 U.S. 104, 113 (1985).

248. Nard, *supra* note 84, at 1424 (“[L]aw and fact often overlap, forming a third category called mixed questions of law and fact or law application to fact.”).

Professor Arti Rai and others observe that the Federal Circuit exploits the distinction between law and fact to minimize deference to the PTO.<sup>249</sup> Facts are central to patent law issues such as infringement, claim scope, and validity.<sup>250</sup> Questions of fact in informal proceedings, like those in the PTO, should be affirmed unless they are “arbitrary, capricious, [or] an abuse of discretion.”<sup>251</sup> Yet the Federal Circuit engages in what Professor Rai refers to as “alchemy”—turning facts into law<sup>252</sup> by construing questions that involve mixed issues of law and fact, such as claim construction, as “pure questions of law.”<sup>253</sup> The court then reviews the agency decision *de novo* instead of granting proper deference to PTO fact-finding.

One might argue that the Federal Circuit should review fact-finding *de novo*, given its comparative expertise. But of the ten active judges currently on the bench, only three appear to possess technical degrees: Judges Newman (Ph.D. Chemistry),<sup>254</sup> Lourie (Ph.D. Chemistry),<sup>255</sup> and Moore (B.S.E.E., M.S.).<sup>256</sup> This still leaves large gaps in scientific knowledge, such as computer science, biology, and physics.<sup>257</sup> In contrast, all PTO examiners possess at least a technical undergraduate degree,<sup>258</sup> and administrative law judges on the BPAI additionally possess a J.D. and “comprehensive patent experience” in a desired technical area.<sup>259</sup>

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249. Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877, 883 (2002) (discussing “the Federal Circuit’s [a]lchemy” of turning questions of fact into questions of law); *see also* Thomas O. Sargentich, *The Supreme Court’s Administrative Law Jurisprudence*, 7 ADMIN. L.J. AM. U. 273, 284 (1993) (observing that “the line between law and policy is highly manipulable” and that “[m]atters can be seen as questions of law when we want them to be decided by courts, and they often can be seen as issues of policy when we want deference to agencies”).

250. Rai, *supra* note 249, at 881.

251. 5 U.S.C. § 706(2)(A) (2006).

252. Rai, *supra* note 249.

253. *Id.*

254. Biography of Pauline Newman, IP HANDBOOK OF BEST PRACTICES, <http://www.iphandbook.org/handbook/authors/A132/> (last visited Sept. 29, 2012).

255. *See supra* note 108.

256. *See Biography of Kimberly A. Moore, supra* note 106.

257. *See Rai, supra* note 249, at 888 (noting that only a few Federal Circuit judges have technical training and that there are gaps in their expertise).

258. *See Patent Examiner Positions*, U.S. PAT. & TRADEMARK OFF., <http://www.uspto.gov/web/offices/pac/exam.htm> (last visited Sept. 29, 2012) (stating that the minimum qualification for an entry-level GS-5 position is the completion of all requirements for a bachelor’s degree in engineering, chemistry, microbiology, physics, biology, or design; several fields also require a minimum number of hours of coursework in the major).

259. *See, e.g.*, Job Listing for Administrative Patent Judge, USAJOBS, <http://www.usajobs.gov/GetJob/ViewDetails/306360900> (follow “viewed” hyperlink) (last visited Sept. 29, 2012); *see also* 35 U.S.C. § 6(a) (2006) (“The administrative patent judges shall be persons of competent legal knowledge and scientific ability . . .”).

Part of the problem is that whether a patent issue is a question of law or fact impacts review of both agency and trial court decisions. Given that trial court judges generally do not have patent expertise, some might prefer that the Federal Circuit aggressively construe issues as questions of law, in order to trigger de novo review.<sup>260</sup>

But even if the Federal Circuit is motivated by limiting the power of unskilled trial court judges, it is also taking power away from the executive branch. Consider, for example, the issue of claim construction. In the Supreme Court's *Markman v. Westview Instruments, Inc.* decision, the Court held that claim construction is an issue for the judge.<sup>261</sup> In dicta, however, the Court noted that claim construction is a "mongrel practice."<sup>262</sup> It further noted, pragmatically, that for an issue that "falls somewhere between a pristine legal standard and a simple historical fact, the fact/law distinction at times has turned on a determination that, as a matter of the sound administration of justice, one judicial actor is better positioned than another to decide the issue in question."<sup>263</sup> Here, the Court noted, judges "are the better suited to find the acquired meaning of patent terms" than juries,<sup>264</sup> and argued that this would promote uniformity in patent law.<sup>265</sup>

Many scholars have argued that the Supreme Court's decision supports the idea that claim construction is a mixed question of law and fact,<sup>266</sup> which leads to the observation that judges should receive deference for such decisions.<sup>267</sup> Nevertheless, in *Cybor Corp. v. FAS Technologies, Inc.*, the en banc Federal Circuit held that "claim construction is purely a matter of law," and is subject to de novo review.<sup>268</sup>

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260. Note, however, that even a nonexpert district court judge will have the benefit of having heard testimony firsthand, rather than reviewing a cold record. Therein lies a fundamental problem with the patent litigation system—the failure to employ specialized trial courts. Congress could have achieved uniformity in the patent system by coupling special trial court judges modeled after the bankruptcy system with a strong patent agency with full rulemaking authority.

261. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 376, 391 (1996).

262. *Id.* at 378.

263. *Id.* at 388 (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985)).

264. *Id.*

265. *Id.* at 390–91.

266. See, e.g., Rochelle Cooper Dreyfuss, *In Search of Institutional Identity: The Federal Circuit Comes of Age*, 23 BERKELEY TECH. L.J. 787, 824–25 (2008) (describing claim construction as a mixed question of law and fact); Kathleen M. O'Malley et al., *A Panel Discussion: Claim Construction from the Perspective of the District Judge*, 54 CASE W. RES. L. REV. 671, 674 (2004) (arguing that under *Markman*, the Supreme Court deemed claim construction to be "a mixed question of law and fact").

267. See Rai, *supra* note 249, at 887 (discussing why de novo review of fact-laden decisions harms uniformity).

268. *Cybor Corp. v. FAS Techs. Inc.*, 138 F.3d 1448, 1454–55 (Fed. Cir. 1998). The issue of whether claim construction should be viewed as a question of whether district courts should be

A direct consequence of the *Cybor* decision is that ITC claim construction is reviewed de novo, notwithstanding the fact that there is no jury in ITC proceedings, nor are there *Markman* hearings. Consequently, the Federal Circuit's decision to make claim construction a pure question of law not only took power away from the district courts, but also from the executive branch.

By construing mixed questions as those of pure law, the Federal Circuit acts more like the top level of an agency than an Article III court. Commissioners that head agencies often have wide discretion to reverse decisions made by administrative law judges. For example, Commissioners of the ITC can reverse an ALJ's decision on any ground, without deference.<sup>269</sup> The Federal Circuit appears to want this level of discretion for itself, without the limitations of an agency.

### C. *The Chenery Doctrine*

In the 1940s, the Supreme Court decided two cases, known as *Chenery I* and *Chenery II*, which set a new standard for courts that affirm agency decisions.<sup>270</sup> Although the cases are now quite old, their holding that courts cannot substitute their own judgment when affirming an agency is still good law. Patent scholars have paid scant attention to the doctrine,<sup>271</sup> notwithstanding a recent case in which the Federal Circuit circumvented the decisions to minimize deference to the PTO.<sup>272</sup>

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entitled to deference for claim constructions remains divisive. In *Retractable Technologies, Inc. v. Becton, Dickinson and Co.*, the court reiterated that claim construction is to be reviewed de novo. 653 F.3d 1296, 1303 (Fed. Cir. 2011). A petition for hearing en banc was denied, but Judge Moore, joined by Judge Rader, dissented, stating: "It is time to rethink the deference we give to district court claim constructions and the fallacy that the entire process is one of law." 659 F.3d 1369, 1373 (Moore, J. dissenting). Judge O'Malley maintained that "[i]t is time to revisit and reverse our decision in *Cybor Corp.*" *Id.* at 1373 (O'Malley, J. dissenting).

269. 19 C.F.R. § 210.45(c) (2012) (stating that "the Commission may affirm, reverse, modify, set aside or remand" an ALJ's initial determination "for further proceedings").

A similar dynamic exists for many Article I courts. For example, although special trial judges of the Tax Court "perform more than ministerial tasks," "they lack authority to [issue] final decision[s]." *Freytag v. Comm'r*, 501 U.S. 868, 881–82 (1991). An open question remains as to why Congress granted the CCPA (and subsequently, the Federal Circuit) Article III status.

270. *SEC v. Chenery Corp.*, 332 U.S. 194 (1947) [hereinafter *Chenery II*]; *SEC v. Chenery Corp.*, 318 U.S. 80 (1943) [hereinafter *Chenery I*].

271. The only scholarly discussion of the *Chenery* doctrine in relation to patent law prior to this Article is in an amicus brief that was filed in *Dickinson v. Zurko* and was later republished. See Thomas G. Field, Jr. et al., *Dickinson v. Zurko: An Amicus Brief*, 4 MARQ. INTELL. PROP. L. REV. 49, 57–61 (2000) (observing that the Federal Circuit's decision in *In re Zurko* violates the *Chenery* doctrine). Subsequently, Amy Motomura has written about the Federal Circuit's misapplication of the *Chenery* decisions. See Amy Motomura, *Rethinking the Chenery Doctrine* (draft on file with author).

272. See *In re Comiskey*, 554 F.3d 967, 973–75 (Fed. Cir. 2009).

### 1. The *Chenery* Decisions

When an appellate court reviews a district court decision, the appellate court is permitted to affirm the decision on grounds other than what the district court considered.<sup>273</sup> The district court's basis for its decision is not dispositive. Judicial review of agency adjudication, however, is far more restricted. In the Supreme Court's 1943 decision *SEC v. Chenery* (*Chenery I*), the SEC considered whether a corporation's management owes a fiduciary duty to all of its affected securities holders.<sup>274</sup> The SEC determined that although "the management does not hold stock . . . in trust for the stockholders," it owes them a "duty of fair dealing."<sup>275</sup>

In reviewing the SEC's actions, the Supreme Court drew a sharp distinction between reviewing district court decisions and reviewing agency decisions. The Court held that "in reviewing the decision of a lower court, it must be affirmed if the result is correct 'although the lower court relied upon a wrong ground or gave a wrong reason.'"<sup>276</sup> The Court explained:

The reason for this rule is obvious. It would be wasteful to send a case back to a lower court to reinstate a decision which it had already made but which the appellate court concluded should properly be based on another ground within the power of the appellate court to formulate.<sup>277</sup>

Thus, appellate courts may affirm district courts on a different basis than what the district court used for reasons of judicial economy.

In contrast, the Supreme Court did not find that judicial economy was a driving force in appellate review of agency adjudication. The Court observed that for such decisions, review is more analogous to that of jury decisions, and noted: "The grounds upon which an administrative order must be judged are those upon which the record discloses that its action was based."<sup>278</sup> It then articulated what scholars have characterized as a "fundamental principle of administrative law".<sup>279</sup>

273. *Chenery I*, 318 U.S. at 88 ("[W]e do not disturb the settled rule that, in reviewing the decision of a lower court, it must be affirmed if the result is correct 'although the lower court relied upon a wrong ground or gave a wrong reason.'") (quoting *Helvering v. Gowran*, 302 U.S. 238, 245 (1937)).

274. *Id.* at 87.

275. *Id.*

276. *Id.* at 88 (quoting *Helvering v. Gowran*, 302 U.S. 238, 245 (1937)).

277. *Id.* at 88.

278. *Id.* at 87.

279. Elizabeth Magill & Adrian Vermeule, *Allocating Power Within Agencies*, 120 YALE L.J. 1032, 1042 (2011).

If an order is valid only as a determination of policy or judgment which the agency alone is authorized to make and which it has not made, *a judicial judgment cannot be made to do service for an administrative judgment*. For purposes of affirming no less than reversing its orders, an appellate court cannot intrude upon the domain which Congress has exclusively entrusted to an administrative agency.<sup>280</sup>

Four years later, in a case also called *S.E.C. v. Chenery (Chenery II)*, the Court reiterated that in judging a decision that the “administrative agency alone is authorized to make,” the court “must judge the propriety of such action solely by the grounds invoked by the agency.”<sup>281</sup> Thus, the reviewing court is constrained because it cannot take power away from the agency. Only the agency has the power to select the basis for its decision. This holding has been reaffirmed in more recent Supreme Court decisions,<sup>282</sup> and has been applied to agency decisions that arise from informal adjudication.<sup>283</sup>

## 2. The Federal Circuit’s Application of *Chenery*

In the past, the Federal Circuit occasionally heeded the *Chenery* decisions. For example, the *In re Thrift* court found that the BPAI did not provide an adequate basis for rejecting a claim.<sup>284</sup> The court then vacated and remanded the decision back to the BPAI.<sup>285</sup> Although the agency provided additional reasons for its rejection of the claim at trial, the court maintained that under the *Chenery* decisions, a ground that does not appear in the BPAI’s decision could not be the basis for affirmance.<sup>286</sup>

Likewise, in the Veterans Appeals case *Mayfield v. Nicholson*, the court found that the agency’s decision could not be affirmed on other

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280. *Chenery I*, 318 U.S. at 88 (emphasis added). Likewise, the Court noted a few years later that to do otherwise “would propel the court into the domain which Congress has set aside exclusively for the administrative agency.” *Chenery II*, 332 U.S. at 196.

281. 332 U.S. at 196.

282. See *Gonzales v. Thomas*, 547 U.S. 183, 186 (2006) (applying *Chenery I*, and noting that appellate courts are “not generally empowered to conduct a *de novo* inquiry into the matter being reviewed and to reach its own conclusions based on such an inquiry,” but rather, should “remand to the agency for additional investigation or explanation” (internal quotation marks omitted)); *Motor Vehicle Mfrs. Ass’n of the U.S. v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 50 (1983) (“It is well-established that an agency’s action must be upheld, if at all, on the basis articulated by the agency itself.”).

283. See, e.g., *Camp v. Pitts*, 411 U.S. 138, 139, 143 (1973) (applying the *Chenery* doctrine to informal adjudication).

284. *In re Thrift*, 298 F.3d 1357, 1366 (Fed. Cir. 2002).

285. *Id.*

286. *Id.* at 1366–67.

grounds, even though most of the facts were undisputed.<sup>287</sup> The government argued that the U.S. Court of Appeals for Veterans Claims applied the relevant statute and regulation to the undisputed facts of the case, and therefore “did not make a determination or judgment which an administrative agency alone is authorized to make.”<sup>288</sup> The court disagreed, noting that the absence of a factual dispute did not reduce the agency’s analysis to “a mechanical comparison” of the statute, the regulation, and the disability letter at issue.<sup>289</sup> An agency’s decision instead “turns on what inferences the agency draws from the facts before it.”<sup>290</sup> In other words, the issue was not a pure question of law, even though it had undisputed facts.

In 2009, however, the Federal Circuit changed its approach. In the *In re Comiskey* decision, the BPAI affirmed the patent examiner’s finding that a method was unpatentable under § 103 of the Patent Act.<sup>291</sup> On appeal, the Federal Circuit affirmed the BPAI, but on the basis that § 101 was not met.<sup>292</sup>

The Federal Circuit stated that “the Supreme Court made clear that a reviewing court can (and should) affirm an agency decision on a legal ground not relied on by the agency, if there is no issue of fact, policy, or agency expertise.”<sup>293</sup> The Federal Circuit supported this assertion with a statement by the Supreme Court that a review of a *district court decision* should not be remanded when the appellate court would affirm on a different basis.<sup>294</sup> The Federal Circuit omitted the fact that the Supreme Court was making a distinction between the review of district court decisions and the review of agency decisions; it furthermore disregarded the comparison of agency adjudication to jury verdicts.

The court also quoted the portion of *Chenery I* that states: “If an order is valid only as a determination of *policy or judgment* which the agency alone is authorized to make and which it has not made, a judicial judgment cannot be made to do service for an administrative judgment.”<sup>295</sup> The Federal Circuit concluded that when the agency decision at issue is a question of law, with no disputed underlying factual issues, the issue is a determination of neither policy nor judgment. The court asserted that in such circumstances, *Chenery* “not only permits [it] to supply a new legal ground for affirmance, but encourages such a resolution” where “[i]t would

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287. *Mayfield v. Nicholson*, 444 F.3d 1328, 1334–35 (Fed. Cir. 2006).

288. *Id.* at 1335 (internal quotation marks omitted).

289. *Id.*

290. *Id.*

291. *In re Comiskey*, 554 F.3d 967, 969 (Fed. Cir. 2009).

292. *Id.* at 969. For reasons unknown, Judge Paul Michel signed onto the opinions in both *Mayfield* and *In re Comiskey*. *Id.*; *Mayfield*, 444 F.3d at 1329.

293. *Comiskey*, 554 F.3d at 974.

294. *Id.* (quoting *Chenery I*, 318 U.S. at 88).

295. *Id.* (emphasis in original) (quoting *Chenery I*, 318 U.S. at 88).

be wasteful to send the case back to the agency for a determination as to patentable subject matter.”<sup>296</sup> The court supported its position using only Federal Circuit cases.

At no point, however, has the Supreme Court distinguished among questions of fact, mixed questions of fact and law, and pure questions of law in holding that agency decisions cannot be affirmed on alternative grounds. Indeed, the original decision involved a question of law;<sup>297</sup> only later did other courts extend the original decision to fact-finding and statements of reason.<sup>298</sup>

The little precedent that is consistent with the Federal Circuit’s position is based on faulty or inapplicable reasoning. The Fourth Circuit held that a case did not present a *Chenery* problem “because the question of interpretation of a federal statute is not ‘a determination or judgment which an administrative agency alone is authorized to make.’”<sup>299</sup> The Fourth Circuit cited to a district court opinion that noted: “We are interpreting the scope of a federal statute and this task is not peculiar to an administrative agency.”<sup>300</sup> In contrast, Congress has authorized the PTO to grant and reject patent applications. Although the PTO must interpret the Patent Act to determine whether to grant a patent, such interpretations relate to the task that Congress entrusted the PTO with.

The Eighth Circuit has interpreted the *Chenery* decisions as limited to determinations of law.<sup>301</sup> However, this decision, like *In re Comiskey*, reads the Supreme Court cases too narrowly. The *Chenery* decisions make clear that the doctrine is inapplicable only when a statute compels the agency’s action.<sup>302</sup> But as the *Mayfield* decision illustrates, having a

296. *Id.* at 975 (second alteration in original) (internal quotation marks omitted) (quoting *Chenery I*, 318 U.S. at 88).

297. Kevin M. Stack, *The Constitutional Foundations of Chenery*, 116 YALE L.J. 952, 956 (2007) (“The *Chenery* decision itself involved review of a formal adjudication, in which the SEC had relied upon erroneous legal principles to justify a decision that might have been sustained on other grounds.”); Amy R. Motomura, *Rethinking the Chenery Doctrine*, at 14 (draft on file with author) (observing that the *Chenery* decisions “involved a legal error by the SEC”).

298. Stack, *supra* note 297, at 956.

299. *N.C. Comm’n of Indian Affairs v. U.S. Dep’t of Labor*, 725 F.2d 238, 240 (4th Cir. 1984); *see also Overseas Educ. Ass’n v. Fed. Labor Relations Auth.*, 827 F.2d 814, 818 n.1 (D.C. Cir. 1987) (“It is absurd to suppose that [*Chenery I*] requires the Authority or a court adjudicating a question of law to order an agency to do that which the law forbids because the agency overlooked the point, and *Chenery* has never been put to so perverse a use.”).

300. *N.C. Comm’n of Indian Affairs*, 725 F.2d at 240 (citing *Milk Transp., Inc. v. Interstate Commerce Comm’n*, 190 F. Supp. 350, 355 (D. Minn. 1960), *aff’d per curiam*, 368 U.S. 5 (1961)); *see also Motomura, supra* note 297 at 12 (discussing the Fourth Circuit’s decision).

301. *Arkansas AFL-CIO v. FCC*, 11 F.3d 1430, 1440 (8th Cir. 1993). *See also Motomura, supra* note 297 at 13 (discussing the Eighth Circuit’s decision).

302. *See Koyo Seiko Co. v. United States*, 95 F.3d 1094, 1099–1102 (Fed. Cir. 1996) (affirming a Department of Commerce antidumping proceeding where the only issue was one of

question of law does not automatically make this the case.<sup>303</sup>

Likewise, the key issue in *In re Comiskey* was whether the BPAI was compelled to hold that the invention was not patentable under § 101 of the Patent Act or whether its decision turned on inferences drawn from the facts or on issues of policy. Section 101 sparsely states: “Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”<sup>304</sup> Neither § 101 nor its legislative history provides guidance for what constitutes a process, machine, manufacture, or the like.<sup>305</sup>

As the Supreme Court’s fractured opinion in *Bilski v. Kappos* illustrates, what constitutes patentable subject matter is far from a mechanical comparison of the claim at issue to § 101.<sup>306</sup> It involves policy-laden determinations of what types of inventions merit protection and the technical expertise to determine whether an invention is new and useful.<sup>307</sup> The PTO must make these policy determinations to do the job that was entrusted to it by Congress. It is thus unclear how the Federal Circuit can justify circumventing the *Chenery* decisions.

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statutory construction, and the “plain language of the statute compel[led] the conclusion”); *see also* Stack, *supra* note 297, at 965–66 (discussing the limits of *Chenery*).

303. *See supra* notes 287–90 and accompanying text.

304. 35 U.S.C. § 101 (2006).

305. *See* Dennis Crouch & Robert P. Merges, *Operating Efficiently Post-Bilski by Ordering Patent Doctrine Decision-Making*, 25 BERKELEY TECH. L.J. 1673, 1677 (2010) (“The literal terms of § 101—‘process, machine, manufacture and composition of matter’—are so open-ended that they provide very little traction for a court that feels the need to [rein] in the scope of patentable subject matter.”); Robert A. Kreiss, *Patent Protection for Computer Programs and Mathematical Algorithms: The Constitutional Limitations on Patentable Subject Matter*, 29 N.M. L. REV. 31, 57 (1999) (“The legislative history regarding the meaning of the terms in § 101 provides no guidance in determining the meaning of those words as terms of art.”).

306. Sapna Kumar, *The Bilski Decision: What Does it Mean for the Future of Business Method and Software Patents?*, COMP. L. REV. INT. (August 15, 2010).

307. The Supreme Court had initially shied away from weighing in too heavily on policy issues surrounding patentable subject matter. In *Diamond v. Chakrabarty*, 447 U.S. 303 (1980), the Court explicitly noted that policy concerns regarding safety were best left to the legislative process. *Id.* at 317 (“The choice we are urged to make is a matter of high policy for resolution within the legislative process after the kind of investigation, examination, and study that legislative bodies can provide and courts cannot. That process involves the balancing of competing values and interests, which in our democratic system is the business of elected representatives.”). But in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), the Supreme Court directly confronted the policy debate on how to promote innovation through defining what constitutes patentable subject matter. *Compare id.* at 3227 (Kennedy, J., plurality) (arguing that, although patents were initially not given out for inventions that fail the machine-or-transformation test, “times change” and “[t]echnology and other innovations progress in unexpected ways”), *with id.* at 3254 (Stevens, J., concurring in the judgment) (arguing that business method patents do not promote innovation).

The *In re Comiskey* decision has arguably allowed the Federal Circuit to maintain uniformity in patent law. It allows the court to clarify to the public what the court believes are inadequacies in the claimed invention, rather than letting the PTO have the final word. This is more efficient than repeatedly remanding decisions back to the PTO until the agency agrees with the court's reasoning.

But there are numerous problems with the Federal Circuit's heavy-handed review of PTO rejections. As Judge Laurence Silberman of the D.C. Circuit has noted, the idea that the judicial branch cannot intrude upon the domain that Congress has entrusted to the agency stems "from proper respect for the separation of powers among the branches of government."<sup>308</sup> When Congress entrusts adjudicative power to an administrative agency, it entrusts it to the executive branch. Consequently, when the Federal Circuit substitutes its own judgment for that of the PTO, it takes for itself power that Congress properly delegated to the executive branch and thereby violates separation of powers.

Such usurpation of executive branch discretion is troubling from an institutional-design perspective. As an executive branch entity, the PTO is politically accountable.<sup>309</sup> Consequently, if the PTO adopted a policy contrary to that of the current administration, the Director could face removal by the President. If the public is displeased with the PTO's actions, the public has the opportunity to vote the current President out of office. Furthermore, Congress can exert oversight by controlling the PTO's budget, subjecting PTO officials to hearings, and refusing to confirm the President's choice for Director.<sup>310</sup>

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308. *Church of Scientology of Cal. v. IRS*, 792 F.2d 153, 165 (D.C. Cir. 1986) (Silberman, J., concurring); see also *Bhattarai v. Holder*, 408 Fed. App'x 212, 221 (10th Cir. 2011) ("*Chenery's* rule thus secures the separation of powers among the three branches."); Richard E. Levy & Robert L. Glicksman, *Agency-Specific Precedents*, 89 TEX. L. REV. 499, 504 (2011) ("In *SEC v. Chenery Corp.*, for example, the Court drew on separation of powers concepts to conclude that agency decisions must stand or fall on the basis of the reasons given by the agency and that courts cannot uphold the agency decision on other grounds."); Joshua I. Schwartz, *Administrative Law Lessons Regarding the Role of Politically Appointed Officials in Default Terminations*, 30 PUB. CONT. L.J. 143, 205 (2001) ("The *Chenery* rule rests ultimately on considerations of separation of powers.").

309. See Nathan Alexander Sales & Jonathan H. Adler, *The Rest is Silence: Chevron Deference, Agency Jurisdiction, and Statutory Silences*, 2009 U. ILL. L. REV. 1497, 1524 (observing that agencies should make policy decisions because agencies are ultimately accountable to the president, whereas courts are unaccountable); Lemos, *supra* note 114, at 449–50 (discussing the role of accountability in executive branch agencies in comparison to courts).

310. See Richard A. Posner, *Theories of Economic Regulation*, 5 BELL J. ECON. & MGMT SCI. 335, 338–39 (1974) (noting that agencies must go to legislative appropriations committees each year and that there is competition for limited funds); Barry R. Weingast & Mark J. Moran, *Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission*, 91 J. POL. ECON. 765, 769–70 (1983) (discussing several mechanisms of congressional control, including public hearings and investigations, limited funding, and congressional control).

In contrast, the Federal Circuit answers only to the Supreme Court. When the Federal Circuit takes power for itself from the PTO, the Federal Circuit further insulates policy decisions from public accountability. Consequently, clarity and uniformity come at a high price.<sup>311</sup>

#### D. Judicial Review of International Trade Commission Decisions

The Federal Circuit's agency-like behavior extends to the ITC. Although the Federal Circuit has granted *Chevron* deference to non-patent-related ITC decisions, it has denied such deference to ITC patent determinations. The sole exception is Judge Newman's opinion in *Kinik Co. v. International Trade Commission*.<sup>312</sup> In dicta, the court stated that the ITC was entitled to *Chevron* deference when it decided that a defense under the Patent Act did not apply in ITC proceedings.<sup>313</sup> This decision was extremely controversial and led to Senate hearings on the subject.<sup>314</sup>

One important aspect of ITC adjudication is that it does not have a preclusive effect in district courts. Just under two-thirds of all patent cases litigated in the ITC are also litigated in a federal district court.<sup>315</sup> One would think that this would give the ITC more power, because its decisions would bind subsequent district court litigation on the same patent. However, in 1996, the Federal Circuit held that ITC decisions are not entitled to preclusive effect.<sup>316</sup> The court based this decision on legislative history from the 1974 Tariff Act, in which Congress stated that the ITC could only consider validity and enforceability when deciding whether § 337 was violated.<sup>317</sup> Consequently, even if an ITC decision leads to an undesirable outcome from the Federal Circuit's perspective, it is free to

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over appointments).

311. Some scholars have argued that patents are property-like, and that consequently, political-based changes are bad. See, e.g., John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 548 (2010) (noting that granting the PTO stronger deference would undermine the stability of patent property rights, and that "[r]apid changes in patent policy could thus create the worst of all possible worlds from the standpoint of public policy, with little encouragement of real innovation and much litigation."). However, even if we view political-based policy changes as detrimental, this does not change the fact that the Federal Circuit's practice of denying the PTO and ITC proper deference poses separation of powers problems.

312. *Kinik Co. v. Int'l Trade Comm'n*, 362 F.3d 1359, 1361, 1363 (Fed. Cir. 2004).

313. *Id.* at 1363.

314. See *Process Patents: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. (2007) (statement of John R. Thomas) (testifying regarding controversy surrounding the *Kinik* decision), available at <http://scholarship.law.georgetown.edu/cong/36>.

315. Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 70 (2008).

316. *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568–69 (Fed. Cir. 1996).

317. *Id.* (quoting S. REP. NO. 93-1298, at 196 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7329); see also H.R. REP. NO. 93-571, at 78 (1974).

disregard the decision in PTO and district court appeals.

In closing, the Federal Circuit's review of PTO and ITC decisions does not resemble typical judicial review of agency decisions. The Federal Circuit minimizes deference to the agencies by misconstruing basic principles of administrative law. It actively interprets patent decisions as questions of law to avoid applying the correct standard of review.

By minimizing deference, the Federal Circuit may be fulfilling its mandate of promoting uniformity in patent law. In doing so, however, the Federal Circuit loses sight of the fact that it is dealing with a coequal branch of government. These agencies are not the court's alter ego, but instead are part of the executive branch that has been entrusted by Congress with policymaking powers. By taking these powers for itself, the Federal Circuit undermines separation of powers.

#### IV. THE STABILITY OF THE COURT-AGENCY MODEL

When Congress created the Federal Circuit in 1982, it provided the court with tools to become a powerful force in patent law. Congress likely did not intend to alter the review of patent agency appeals, given that it was silent about the treatment of PTO and ITC decisions.<sup>318</sup> Nor did Congress want to create an expert court, believing that appeals from non-patent agencies would keep the Federal Circuit balanced.<sup>319</sup> Yet Congress clearly did want to create a court with enough power to prevent forum-shopping and to bring uniformity to patent law.

The Federal Circuit did not take this opportunity for granted; over time, it assumed an agency-like position in patent law. With encouragement from the Supreme Court, it engaged in rulemaking by issuing mandatory bright-line rules that created clarity in patent law,<sup>320</sup> at the expense of good policy.<sup>321</sup> In doing so, the Federal Circuit filled a void left by Congress when it failed to grant the PTO full substantive rulemaking authority, and the Federal Circuit brought greater clarity and predictability to patent law. The Federal Circuit continues to engage in agency-like adjudication, sidestepping proper judicial review standards to allow for more hands-on review of PTO and ITC appeals. Such activity was unnecessary, given that

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318. *See supra* Section I.D.

319. H.R. REP. NO. 97-312, at 19 (1981) (observing that the court would have "a varied docket spanning a broad range of legal issues and types of cases," thereby preventing specialization).

320. *See supra* notes 116-19, 123-26 & 131-32 and accompanying text.

321. *See, e.g.*, Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1672-74 (2003) (noting that the Federal Circuit's rule-based approach has disregarded the policy consequences on different industries); John F. Duffy, *Rules and Standards on the Forefront of Patentability*, 51 WM. & MARY L. REV. 609, 614 (2009) (arguing that clarity brought by rules comes at the expense of durability); Rai, *supra* note 156, at 1040 (maintaining that bright-line rules do not promote innovation policy).

the PTO and ITC were capable of performing their appointed roles. The court's actions have, however, promoted the uniformity in patent law that Congress desired.

Without Supreme Court intervention, this court–agency model could have continued to bring uniformity to patent law as a whole. This is not to say that such a model is *preferable* to the traditional one of having an agency administer the statute, since the court–administrator model necessarily sacrifices good policy making as well as the political accountability inherent in the executive branch. Rather, the model would have been stable, with the Federal Circuit wielding both executive and judicial powers.

However, two current Supreme Court objectives are at odds with the model. The first objective is to curb the Federal Circuit's use of mandatory bright-line rules. In justifying the need for flexible rules, the Court has emphasized the limitations in the Federal Circuit's statutory interpretation powers. It is important to note that there is no evidence that Federal Circuit rulemaking violates the Patent Act or the will of Congress. Indeed, the Federal Circuit has clarified ambiguities in the Patent Act, not unlike how an agency clarifies its ambiguous organic statute through rulemaking.

It is worth further exploration as to whether the Federal Circuit's use of rigid rules violates separation of powers, particularly the nondelegation doctrine. Professor Margaret Lemos has discussed at length the problems with judicially administered statutes under a nondelegation doctrine theory.<sup>322</sup> She observes that “[d]elegations to courts cannot be defended on the same functional grounds as delegations to agencies for the simple reason that courts are different from agencies in ways that are critical to the nondelegation debate.”<sup>323</sup>

With regard to patent law, the Supreme Court appears to limit the Federal Circuit's ability to create rigid rules when Congress has not expressly delegated interpretive authority to the Federal Circuit. As discussed above, the *Bilski* Court restated the principle that “courts should not read into the patent laws limitations and conditions *which the legislature has not expressed*.”<sup>324</sup> It then went one step further, stating that courts do not have “*carte blanche* to impose other limitations that are inconsistent with the text and the statute's purpose and design.”<sup>325</sup> This emphasis on the metes and bounds of delegation to the court calls into question whether the Federal Circuit has overstepped its authority from Congress in issuing inflexible rules. The idea of the nondelegation doctrine

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322. Lemos, *supra* note 114.

323. *Id.* at 445.

324. *Bilski v. Kappos*, 130 S. Ct. 3218, 3226 (2010) (emphasis added) (quoting *Diamond v. Diehr*, 450 U.S. 175, 182 (1981)) (internal quotation marks omitted).

325. *Id.*

playing a role in delegations to Article III courts has only begun to be explored.<sup>326</sup>

The second Supreme Court objective that the Federal Circuit has run up against is the Court's desire to unify administrative law. In *Zurko*, the Supreme Court rebuked the Federal Circuit for failing to apply the judicial review provision of the APA to appeals from the BPAI.<sup>327</sup> The Court emphasized that it will recognize only exceptions from the APA that are explicitly created by Congress.<sup>328</sup> This anti-exceptionalist position was reiterated in the Court's 2011 *Mayo Foundation* decision.<sup>329</sup> There, the Court held that Treasury Department regulations were entitled to *Chevron* deference, notwithstanding older precedent that provided less deference.<sup>330</sup> The Court stated: "We see no reason why our review of tax regulations should not be guided by agency expertise pursuant to *Chevron* to the same extent as our review of other regulations."<sup>331</sup>

The Court's reiteration of uniformity in administrative law bodes poorly for the Federal Circuit. The Federal Circuit's manipulation of law and fact, its misconstruction of the *Chenery* doctrine, and its refusal to apply proper deference to the ITC all highlight forms of patent exceptionalism. These practices are therefore vulnerable to Supreme Court scrutiny, regardless of their promotion of uniformity in patent law.

The competing objectives of Congress and the Supreme Court are on a collision course, and one or both branches of government will ultimately need to address them. If Congress wants the Federal Circuit to have agency-like power, it can impose stricter review standards for PTO and ITC decisions. Section 559 of the APA states that the standard of review provisions of the APA "do not limit or repeal additional requirements imposed by statute or otherwise recognized by law."<sup>332</sup> The Supreme Court has noted that such a departure must be clear,<sup>333</sup> so Congress would need to be explicit.

Congress could also revise the Patent Act to state that the Federal Circuit has broad leeway to interpret ambiguous statutory language. However, such a move could result in backlash from the Supreme Court on constitutional grounds, perhaps for a violation of separation of powers—as

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326. For example, Professors Rafael Pardo and Kathryn Watts have recently discussed nondelegation issues in the context of bankruptcy law and administrative law. See Rafael I. Pardo & Kathryn A. Watts, *The Structural Exceptionalism of Bankruptcy Administration*, 60 UCLA L. REV. (forthcoming 2012).

327. *Dickinson v. Zurko*, 527 U.S. 150, 161–65 (1999).

328. *Id.* at 165.

329. *Mayo Found. for Med. Educ. & Research v. United States*, 131 S. Ct. 704, 713 (2011).

330. *Id.* at 712–13.

331. *Id.* at 713.

332. 5 U.S.C. § 559 (2006).

333. *Zurko*, 527 U.S. at 155 (noting that "legislative departure from the norm must be clear").

was articulated in *Chenery I*—or for a nondelegation doctrine violation.<sup>334</sup>

In closing, the success of the Federal Circuit's unorthodox role of administrator has been undermined by Congress's and the Supreme Court's competing goals and competing interpretations of law. Congress will ultimately need to decide whether it wants to confront the Supreme Court to keep the Federal Circuit powerful, or whether it is time to turn full administrative responsibilities over to an agency.

#### CONCLUSION

The Federal Circuit was established to bring uniformity to patent law through creating a single court to hear patent appeals. But in creating a specialized court with a mandate of uniformity, Congress inadvertently created an agency-like entity in the judiciary. The consequence has been a power struggle between the Federal Circuit and the executive branch, as well as between the Federal Circuit and the Supreme Court.

Part of the Federal Circuit's behavior has been necessary. Rules decrease uncertainty and prevent repeated litigation on the same issues. In this regard, it is unclear whether the Federal Circuit has acted improperly. The Supreme Court's series of interventions might be more accurately construed as an attack on Congress for granting the Federal Circuit too much power, as opposed to the lower court acting outside of its authority.

However, the Federal Circuit is also actively taking power from the executive branch. It has fought against the confines of the APA, attempting to minimize deference to the PTO and ITC by fighting the application of the APA's judicial review provisions and by construing issues as questions of law. It has furthermore disregarded the Supreme Court's administrative law precedent in the *Chenery* decisions.

One view is that the Federal Circuit is attempting to fill a void Congress created when it chose to not give the PTO substantive rulemaking authority. Congress's failure to rectify the situation can only be viewed as deliberate, given that most complex statutes are administered by agencies with substantive rulemaking authority. Consequently, one can argue that the Federal Circuit's heavy-handed review of patent agency appeals occurs with Congress's tacit approval.

A more cynical story, however, is that the Federal Circuit is actively taking power from the executive branch and is enriching its own status by deliberately weakening the PTO and ITC. By virtue of having immense power in a narrow area of law, the court has developed a cult of personality while largely escaping scrutiny for its actions.

Whether the Federal Circuit is an accidental agency or a deliberate one, it is caught between competing goals of the Supreme Court and Congress.

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334. See *supra* note 309.

Given the Supreme Court's express desire to unify administrative law, it is likely that we will see more interventions when the Federal Circuit fails to give proper deference to agencies. This could force Congress to decide whether it wishes to fight for its Article III administrator, or whether it should utilize a more conventional route of granting an agency substantive rulemaking authority.

