

THE ACCIDENTAL AGENCY?

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ABSTRACT

In the modern administrative state, complex statutes are typically administered by an agency that possesses the power to clarify ambiguities in the statute. The Patent Act, however, is an outlier. Although the statute is administered by the United States Patent and Trademark Office (“PTO”), the PTO lacks substantive rulemaking authority over the Act. Instead, the semi-specialized Court of Appeals for the Federal Circuit (“Federal Circuit”) plays a powerful role in interpreting the Patent Act.

This Article presents a new model for examining the role of the Federal Circuit and posits that the court behaves like an executive branch 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 and the PTO. In reviewing PTO appeals, the Federal Circuit acts more like an agency than a court, by manipulating standards of review and administrative law doctrines to minimize agency deference.

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The Federal Circuit’s position of administrator raises several concerns. First, recent Supreme Court intervention has jeopardized the Federal Circuit’s ability to engage in rulemaking, calling into question the sustainability of its role. Furthermore, although Congress has arguably granted the Federal Circuit authority to pass bright-line rules, the breadth of power that Congress granted to the court raises separation of powers and non-delegation doctrine concerns. These problems suggest that Congress may need to employ more traditional strategies for maintaining uniformity in patent law.

I. INTRODUCTION

In almost all areas of law governed by a complex statute, Congress has granted an agency substantive rulemaking authority to clarify ambiguities in the statute’s text. This delegation of power allows the government to respond quickly to societal and legal changes without compromising separation of powers. Patent law, however, remains an outlier. The United States Patent and Trademark Office (“PTO”) is generally regarded to be the administrator of the Patent Act.¹ However, the PTO lacks necessary substantive rulemaking authority to be an effective administrator.²

The only other comparable area of law is antitrust law, where both the Department of Justice and Federal Trade Commission lack substantive rulemaking authority over the key provisions of the antitrust statutes.³ But the PTO is even weaker than those agencies, because it lacks the ability to chose when it acts and because its substantive decisions are subject to judicial review.⁴

Despite the PTO’s weaknesses, the Patent Act is not without a strong administrator.

¹ See Sapna Kumar, *Expert Court, Expert Agency*, 44 U.C. DAVIS L. REV. 1547, 1570 n.122 (2011) (discussing why experts believe that the PTO administers the entire Patent Act). See also Sarah Tran, *Patent Powers*, 25 HARVARD J. L. TECH. XX (2012) (discussing how limitations in the PTO’s substantive rulemaking authority emerged out of the Federal Circuit) (*citing* Animal Legal Defense Fund v. Quigg, 932 F.2d 920, 930 (Fed. Cir. 1991)).

² See 35 U.S.C. § 6 (West 2000) (granting the commissioner of the PTO substantive rulemaking authority over the conduct of proceedings within the PTO, but failing to grant power to the commissioner to interpret the remainder of the Patent Act.). Note that the United States International Trade Commission (“ITC”) has authority over certain types of patent disputes, but its authority arises under the Tariff Act of 1930, not the Patent Act. Kumar, *supra* n.2, at 1568–75.

³ See Jonathan E. Nuechterlein, *Antitrust Oversight of an Antitrust Dispute: An International Perspective on the Net Neutrality Debate*, 7 J. ON TELECOMM. & HIGH TECH LAW 19, 65 (2009) (noting that the Antitrust Division of the Department of Justice has “has no substantive rulemaking authority to speak of”); Hillary Greene, *Guideline Institutionalization: The Role of Merger Guidelines in Antitrust Discourse*, 48 WM. & MARY L. REV. 771, 841 (2006) (“The 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.”).

⁴ See John M. Golden, *Patentable Subject Matter and Institutional Choice*, 89 TEX. L. REV. 1041, 1048 (2011) (comparing the regulation of patent law with that of antitrust law).

Close scrutiny reveals that the Court of Appeals for the Federal Circuit (“Federal Circuit”) acts as a de facto administrator, notwithstanding the fact that it is an Article III court. This role appears to have emerged from the court’s specialization⁵ and its mandate from Congress to bring uniformity from patent law.⁶

Two major functions that strong agencies engage in are substantive rulemaking and adjudication. The Federal Circuit engages in both of these functions. The Federal Circuit has historically engaged in a form of rulemaking by issuing bright-line rules. These rules function like substantive rules, in that they bind district courts, the PTO, and the public.⁷

The Federal Circuit also engages in a aggressive form of adjudication that resembles that resembles the top level of an agency reviewing a subordinate. Typical judicial review of agencies is marked by deference. The Administrative Procedure Act (“APA”), which was passed in 1946, requires courts to review all agency determinations of fact and policy deferentially.⁸ This idea of judicial deference to the executive branch has been further developed in a number of Supreme Court opinions.⁹

The Federal Circuit, however, has resisted giving any kind of deference to patent decisions from the PTO and ITC. Until the Supreme Court intervened, the Federal Circuit denied that the review provisions of the APA applied to the PTO.¹⁰ The Federal Circuit furthermore recharacterizes patent decisions as questions of law, thereby allowing it to review such decisions de novo.¹¹ It circumvented the Supreme Court’s holding in *S.E.C.*

⁵ See *infra* Part III.B.

⁶ See *infra* Part II.B.

⁷ See *infra* Part III. See also Ryan G. Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 75 MO. L. REV. 733 (2012) (arguing that when the Federal Circuit hears cases en banc, that it engages in a form of substantive rulemaking, and further arguing that such rulemaking is desirable).

⁸ See 5 U.S.C. § 706 (providing the standards of review for questions of law and questions of fact in both formal and informal agency proceedings).

⁹ See, e.g., *Chevron v. Natural Resources Defense Council*, 467 U.S. 837, 865 (1984) (holding that an agency is entitled to strong deference by its reviewing court when the agency interprets ambiguous language in its organic statute); *Vermont Yankee Nuclear Power Corp. v. Natural Resources Defense Council*, 435 U.S. 519, 543 (1977) (“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 quotes omitted); *S.E.C. v. Chenery*, 318 U.S. 80, 88 (1942) (holding that “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”).

¹⁰ See *Dickinson v. Zurko*, 527 U.S. 150 (1999) (holding that section 706 of the Administrative Procedure Act applies to Federal Circuit review of PTO decisions).

¹¹ See *infra*, Part IV.B. See also Stuart M. 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).

v. Chenery,¹² by affirming PTO decisions on grounds other than what the agency provided. The Federal Circuit also provides little deference to patent decisions from the United States International Trade Commission (“ITC”), notwithstanding the fact that the ITC administers the Tariff Act and has interpretive authority. By engaging in aggressive judicial review, the Federal Circuit has acted like the head of an agency, reigning in wayward administrative law judges.

The Federal Circuit’s unorthodox role has several advantages. By reviewing almost all patent appeals, the court occupies an unique position allowing it to bring uniformity to patent law. By allowing the court to freely overturn agency decisions that it disagrees with, this role is further strengthened.

The current system, however, raises troubling questions. To what extent has the Federal Circuit stripped the executive branch of power in order to enrich the judiciary, and what are the implications? The Supreme Court has spoken against actions taken by Congress “to increase its own powers at the expense of the executive branch.”¹³ But what limitations, if any, are there on a court that takes power from the executive branch?

A more pressing question is whether the Federal Circuit’s administrator role is sustainable. To be an effective administrator, the Federal Circuit needs the power to engage in substantive rulemaking. But the Supreme Court has repeatedly reversed the Federal Circuit’s bright-line rules, thereby reducing the lower court’s ability to provide uniformity in patent law.¹⁴ Moreover, in 2011, the Supreme Court rejected specialized rules for judicial review of tax decisions and reaffirmed its position against exceptionalism in administrative law.¹⁵ This decision raises the question of how long the Federal Circuit will be able to continue flouting core principles of administrative law to provide uniformity.

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. In Part II, I discuss how the Federal Circuit’s predecessor, the Court of Customs and Patent Appeals (“CCPA”), began the trend of minimizing deference to agency patent decisions. I further consider how Congress’s decision to create the Federal Circuit had the unintended consequence of encouraging the Federal Circuit to take power from the PTO and ITC.

¹² *Chenery*, 318 U.S. at 88 (holding that “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”).

¹³ *Morrison v. Olson*, 487 U.S. 654, 694 (1988).

¹⁴ See *infra* Part II.C.

¹⁵ See *Mayo Found. for Med. Educ. & Research v. U.S.*, 131 S. Ct. 704, 713 (2010) (holding that “[t]he principles underlying our decision in *Chevron* apply with full force in the tax context” and noting that the Court sees “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”).

In Part III, I discuss how the Federal Circuit's specialized nature facilitates the issuance of bright-line rules, and how the Supreme Court has restricted such rules. I then look at how these bright-line rules are the functional equivalent of substantive rulemaking, given that they are rigid and bind third parties such as the district court and PTO. In Part IV, I examine how the Federal Circuit has reigned in the PTO and ITC by minimizing deference and resisting the proper application of both the APA and administrative law precedent. In Part V, I explore the feasibility of the Federal Circuit model, given constitutional constraints and the Supreme Court's resistance to bright-line rules and administrative law exceptionalism. Part VI concludes.

II. A MANDATE OF UNIFORMITY

To understand how the Federal Circuit acts like an agency, it is necessary to understand its history. 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.¹⁶ For nearly thirty years, the CCPA lacked a single patent expert on the court. Perhaps because of this, the court was highly deferential to the PTO, viewing the agency as an expert.¹⁷

But a shift in the CCPA's jurisprudential approach began in the 1950s. In 1952, Congress passed an updated Patent Act. The Act was not drafted by any members of Congress, but rather, by then patent practitioner Giles Sutherland Rich and Patent Officer Examiner-In-Chief Pasquale J. Federico; it passed both houses of Congress without any debate.¹⁸ A few years later, Giles Rich would be appointed to the CCPA, leading to the court taking a much more dominant role in reviewing PTO decisions.¹⁹

When Congress created the Federal Circuit in 1982, it focused on creating uniformity in patent law.²⁰ It failed to consider the effect that such uniformity would have on the executive branch. This failure was compounded by the Federal Circuit adopting the

¹⁶ Giles S. Rich, *Thirty Years of This Judging Business*, 14 AIPLA Q.J. 139, 141 (1986). The U.S. Customs Court was later replaced by the Court of International Trade. *Id.*

¹⁷ See *infra* Part II.A.

¹⁸ According to former CCPA and Federal Circuit judge Giles 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 597, 601 (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*, The Bureau of National Affairs, Inc. (John F. Witherspoon ed., 1980), pp. 1:201–1:213) (discussing how Rich and Federico drafted the 1952 Patent Act, as well as the House and Senate Reports on the bill).

¹⁹ The CCPA also minimized deference to the ITC. However, few ITC patent decisions existed prior to the 1974 revision to the Tariff Act, and the number only became substantial after a subsequent amendment in 1988. Consequently, it is difficult to generalize the CCPA's behavior towards the ITC.

²⁰ See *infra* Part II.B.

CCPA's anti-PTO precedent.²¹ Inadvertently, by attempting to unify patent law, Congress undermined unification of administrative law, and set the Federal Circuit on a collision course with the Supreme Court.

In Section A of this Part, I discuss the history of the CCPA, and how Judge Rich led a takeover of the court that changed the relationship between the judiciary and the PTO. In Section B, I discuss how Congress created the Federal Circuit to promote uniformity in patent law, and how that mandate may have led the court to act as a quasi-agency.

A. *The Court of Customs and Patent Appeals*

The CCPA was an unusual court in several regards. Although it was created as a specialized Article I court,²² it was converted to an Article III court in 1958 by Congress.²³ Congress's explanation for the conversion was that the court was "exercising judicial rather than administrative power," 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,²⁴ the CCPA judges were primarily politically-connected individuals who had no prior knowledge of patent law.²⁵

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 89 pre-APA CCPA decisions.²⁶ 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/or the PTO's ability to deal with technically complex subject matter.²⁷ It further observed that in more than three-fourths of the cases, the CCPA found that deference to PTO factfinding was warranted because two or more PTO tribunals had agreed on the

²¹ As scholar Jeffrey Lefstin astutely observed, one of the Federal Circuit's greatest problems is the precedent that it chose to adopt. See Jeffrey A. Lefstin, *The Court of Customs and Patent Appeals and the Shape of the Federal Circuit's Jurisprudence*, 43 LOY. L.A. L. REV. 843, 851 (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.").

²² 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.").

²³ *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))).

²⁴ Rich, *supra* note 15 at 140–141. Note that this statistic does not have an underlying citation in Judge Rich's essay, calling into question its accuracy.

²⁵ Rich, *supra* note 15 at 142.

²⁶ 529 U.S. at 527.

²⁷ *Id.*

facts.²⁸ In other words, the early CCPA showed deference to the PTO,²⁹ recognizing the agency's superior knowledge of patent law and technology.

Two major factors, however, contributed to a shift in CCPA jurisprudence. First, in 1952, to the Patent Act was overhauled. Because Congress failed to grant the PTO interpretive rulemaking authority over the substantive provisions of the Patent Act, the CCPA was in a position to make key choices regarding implementation.

Second, in 1956, Judge Giles Rich became the first judge with patent expertise appointed to the CCPA.³⁰ He had extensive patent experience, having practiced as a patent attorney for several decades, written law review articles in the field, and co-drafted the 1952 Patent Act.³¹ A few years later, Judge Arthur Smith was appointed to the bench. Judge Smith also had patent expertise, and together, the two Judges were able to start influencing the court.³² This power shift, plus the newly passed Patent Act, had a substantial effect on the court's jurisprudence.

As scholar 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.³³ 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.*³⁴

The CCPA was able to maintain this high level of control over the PTO by virtue of the fact that all PTO decisions appealed to that court.

The CCPA also disregarded administrative law. It failed to acknowledge the possibility

²⁸ *Id.*

²⁹ See Lynn E. Eccleston & Harold C. Wegner, *The Rich-Smith Years of the U.S. Court of Customs and Patent Appeals*, 3 J. FED. CIR. HIST. SOC'Y 49, 50 (2009) (noting that the pre-Rich CCPA "had been largely a rubber stamp for decisions of the Patent Office").

³⁰ Rich, *supra* note 15, at 143 n.2 (noting that Judges Rich, Smith, Lane, and Markey were the only patent judges to sit on the CCPA); see also Lefstin, *supra* note 16 at 849 n.21.

³¹ James F. Davis, *Judge Giles Rich: His Life and Legacy Revisited*, A.B.A. LANDSLIDE at 9 (Sept/Oct 2009), reprinted at http://www.americanbar.org/content/dam/aba/migrated/intelprop/magazine/LandslideSept09_Davis.pdf.

³² See Eccleston & Wegner, *supra* note 26 at 51, 53 (noting that immediately following Judge Smith joining the CCPA, Judges Rich and Smith "established important precedent 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").

³³ See Lefstin, *supra* note 18 at 857. (maintaining that after the passage of the 1952 Patent Act, "statutory fidelity" and "conceptual differentiation" were the CCPA's key jurisprudential methods, that "provided doctrinal levers for the court to control the Patent Office's decisions" and that "provided legitimacy for the court's exercise of that control").

³⁴ Rich, *supra* note 15, at 149 (emphasis added).

that the APA applied to its review of PTO decisions until 1981. In *Digital Equipment Corporation v. Diamond*, the CCPA reviewed a decision in which the PTO struck down the petitioner’s reissuance application on the basis of fraud.³⁵ The petitioner argued that the decision was arbitrary and capricious under section 706 of the APA.³⁶ The court stated that although it “fully” recognized “the limited scope of judicial review of agency action” under section 706, it declared that the clear error standard was nevertheless the appropriate standard of review.³⁷ The CCPA based its decision to apply the clear error standard on *Citizens to Preserve Overton Park, Inc. v. Volpe*, a Supreme Court decision that established the searching hard-look review for questions of policy.³⁸ This was inapt, given that a finding of fraud is not a discretionary policy decision.

The CCPA further ignored the possibility that any PTO interpretation of the Patent Act was entitled to weak deference under the Supreme Court’s 1944 decision *Skidmore v. Swift Company*.³⁹ In that decision, the Court held that an administrator’s highly informal interpretation of its governing statute constitutes “a body of experience and informed judgment to which courts and litigants may properly resort for guidance.”⁴⁰ This case remains good law for judicial review of agency decisions that do not carry the force of law.⁴¹ Nevertheless, the court never mentioned that the PTO was eligible for any kind of deference. Instead, the CCPA acted as though the PTO was wholly exempt from all of administrative law.

This attitude carried over to the Federal Circuit, brought in part by the judges who came from the CCPA and Court of Customs.⁴² 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.”⁴³ He recognized that he was “probably one of the offenders.” 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.”⁴⁴

³⁵ *Digital Equip. Corp. v. Diamond*, 653 F.2d 701, 706 (C.C.P.A. 1981).

³⁶ *Id.*

³⁷ *Id.* at 714.

³⁸ *Id.* (citing *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 416 (1971)).

³⁹ 323 U.S. 134 (1944).

⁴⁰ *Id.* at 140.

⁴¹ *U.S. v. Mead Corp.*, 533 U.S. 218, 234 (2003) (holding that agency decisions that do not carry force of law are eligible for deference under *Skidmore*).

⁴² See Section 165 of the Federal Court Improvement Act, Pub. L. No. 97-164, 96 Stat. 25 (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.”).

⁴³ Rich, *supra* note 15, at 149.

⁴⁴ *Id.*

Furthermore, in the Federal Circuit's first decision, the court adopted CCPA caselaw as controlling precedent⁴⁵ and disregarding that of the regional circuits. In doing this, the Federal Circuit adopted the CCPA's non-deferential approach to reviewing PTO and ITC decisions. As Judge 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.⁴⁶

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

B. *The Creation of the Federal Circuit*

The idea of creating a specialized court to hear patent appeals had been around for at least one hundred years prior to the creation of the Federal Circuit.⁴⁷ But the idea did not gain traction until the 1970s. 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.⁴⁸ Congress began considering this idea in 1979,⁴⁹ and the proposal was soon narrowed down to encompass only patent litigation appeals.⁵⁰

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

⁴⁵ S. Corp. v. United States, 690 F.2d 1368, 1370-71 (Fed. Cir. 1982).

⁴⁶ Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 OHIO L. REV. 1415, 1415 (1995) (quoting S. Jay Plager, An Interview with Circuit Judge S. Jay Plager, 5 J. PROPRIETARY RTS. 2, 5 (1993) (Circuit Judge, Court of Appeals for the Federal Circuit). See also Sarah Tran, *Administrative Law, Patents, and Distorted Rules*, __ GEO. WASH. L. REV. __ (2012) (discussing how unusually weak the PTO is compared to other federal agencies).

⁴⁷ See Jack Q. Lever, *The New Court of Appeals for the Federal Circuit*, 64 J. PAT. OFF. SOC'Y 178, 182) (citing SUBCOMM. PATENTS, TRADEMARKS AND COPYRIGHTS OF THE S. COMM. ON THE JUDICIARY, 86TH CONG., STUDY NO. 20 (Comm. Print 1959); Margaret M. Conway, SINGLE COURT OF PATENT APPEALS — A LEGISLATIVE HISTORY (U.S. Gov't Printing Office 1959)).

⁴⁸ Richard H. Seamon, *The Provenance of the Federal Courts Improvement Act of 1982*, 71 GEO. WASH. L. REV. 543, 559 (2003) (discussing the Office for Improvements in the Administration of Justice's proposal to consolidate the Court of Claims and the CCPA, which "would inherit the appellate jurisdiction of those two courts and would, in addition, have exclusive appellate jurisdiction over patent and tax cases from the nation's federal district courts"); U.S. DEP'T OF JUSTICE, THE NEEDS OF THE FEDERAL COURTS: REPORT OF THE DEPARTMENT OF JUSTICE COMMITTEE ON REVISION OF THE FEDERAL JUDICIAL SYSTEM I (1977), reprinted in *State of the Judiciary and Access to Justice: Hearings Before the Subcomm. on Courts, Civil Liberties, and the Admin. of Justice of the H. Comm. on the Judiciary*, 95th Cong. 521-43 (1977).

⁴⁹ S. 677, 9th Cong. (1979); S. 678, 96th Cong. (1979);

⁵⁰ Lever, *supra* note XX, at 194.

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.⁵¹

The president-elect of the American Patent Law Association described the situation as a “crisis, and linked a “decline of technological superiority” in the U.S. to the ineffective patent litigation system.⁵² 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.⁵³ 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”⁵⁴

Consequently, when Congress passed the Federal Courts Improvement Act of 1982,⁵⁵ it gave the newly established Federal Circuit the mandate to unify patent law. The Federal Circuit was granted jurisdiction over the overwhelming majority of patent appeals,⁵⁶ thereby allowing the court to shape patent law as it saw fit. The fact that the Patent Act is an extremely ambiguous statute and that the PTO lacked interpretive authority over the substantive provisions made the court’s position even stronger.

Congress’s uniformity mandate, however, had unintended consequences. When Congress passed the FCIA, it paid no attention to the PTO and ITC.⁵⁷ 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 disregarding 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.

III. FEDERAL CIRCUIT RULEMAKING

There are a number of reasons why Congress chooses to delegate power to an executive

⁵¹ Laurence Baum, *The Federal Courts and Patent Validity: An Analysis of the Record*, 56 J. PAT. OFF. SOC’Y 758, 762 (1974).

⁵² *Hearings on H.R. 2405, “Court of Appeals for the Federal Circuit Act of 1981,” before the Subcommittee on Courts, Civil Liberties, and the Administration of Justice, H. Comm. on the Judiciary*, 97th Cong. 63 (1981) (statement of J. Jancin Jr., President Elect Am. Patent Law Ass’n).

⁵³ H.R. REP. NO 97-312, at 20 (1981).

⁵⁴ *Id.*

⁵⁵ Federal Court Improvement Act, Pub. L. No. 97-164, 96 Stat. 25 (1982).

⁵⁶ Note that the Federal Circuit does not have jurisdiction over all appeals with patent issues. If the petitioner’s well-pleaded complaint does not assert a claim arising under patent law, the Federal Circuit will not have jurisdiction over the appeal. *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 830 (2002). Thus, patent-related arguments asserted in counterclaims can appeal to a regional court of appeal.

⁵⁷ Kumar, *supra* note 2 at 1583.

branch agency. Agencies possess subject-matter expertise, institutional advantages, and can deal with politically-charged policy decisions.⁵⁸ 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.⁵⁹ The agency can then engage in notice-and-comment rulemaking under section 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 jurisdiction over a vague area of law.⁶⁰ Moreover, the Federal Circuit has been dominated by patent specialists with a vested interest in shaping patent law;⁶¹ something that regional court of appeals lack. Consequently, the court had strong motivation to address the lingering confusion that was caused by the passage of the Patent Act of 1952.

But how can a court engage in rulemaking? The Federal Circuit's answer came in the form of bright-line rules. Encouraged by the Rehnquist Court, the Federal Circuit increasingly relied on creating 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. They also had a similar effect as 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 Roberts Court has cracked down on the Federal Circuit's use of such rules. This calls into question the Federal Circuit's ability to continue administering the Patent Act.

In Section A, I discuss the specialized nature of the Federal Circuit and how this has promoted rulemaking. In Section B, I talk about the court's increasing reliance on bright-line rules. I then discuss in Section C how the Roberts Court pushed back against these rules. In Section D, I argue that bright-line rules function as a form of rulemaking and how the Supreme Court's rejection of bright-line rules jeopardizes the Federal Circuit's ability to act as a de facto administrator.

A. *Specialization*

⁵⁸ 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.").

⁵⁹ The Supreme Court recognized Congress's limitations in *Chevron v. Natural Resources Defense Council*, where it noted that judges are not experts, and therefore are not in the best position to engage in policymaking. 467 U.S. 837, 856–66 (1984).

⁶⁰ Note that if the petitioner's well-pleaded complaint does not assert a claim arising under patent law, the Federal Circuit will not have jurisdiction over the appeal. *Vornado*, 535 U.S. at 830. Thus, patent-related arguments asserted in counterclaims can appeal to a regional court of appeal.

⁶¹ 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 infra* Part III.A.

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.⁶² 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.”⁶³ The Committee also believed that appellate courts would establish rules regarding how to handle ancillary and pendent patent claims,⁶⁴ implying that other courts would continue to hear patent cases. In practice, patent-related cases appealing to general courts of appeal is rare.⁶⁵

Although only one-third of the Federal Circuit’s docket is patent law,⁶⁶ the remainder does not attract nearly as much attention. No judge appears to have been appointed to the court because of her expertise in veterans affairs or with the Merit Systems Protection Board, but appointments based on patent expertise is common.⁶⁷ One would have expected trade to play 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 wasn’t until President Obama appointed Judge Jimmie Reyna in 2011 that the court received its first trade expert, perhaps signaling a shift towards appointing more generalist judges.⁶⁸

Five of the ten currently active judges had patent backgrounds prior to joining the Federal Circuit. Judge Kimberly Moore was a patent law professor and clerked for Judge Archer on the Federal Circuit.⁶⁹ Judge Richard Linn worked as a patent agent, a patent examiner, and headed a law firm’s intellectual property practice group.⁷⁰ Judge David Lourie 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

⁶² H.R. REP. NO. 97-312, at 19 (1981).

⁶³ *Id.*

⁶⁴ *Id.* at 41.

⁶⁵ [need cite]

⁶⁶ See Tony Dutra, “Introspective Look” at Federal Circuit Highlights Breadth of Court’s Docket, 77 PAT. TRADEMARK & COPYRIGHT J. 560, 560 (2009) (noting that thirty-one percent of the Federal Circuit’s docket is intellectual property cases, with nearly all such cases involving 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.”).

⁶⁷ [need cite]

⁶⁸ President Obama also appointed Judge Katherine O’Malley, who is the only judge in the history of the Federal Circuit who had previously served as a federal district court judge. This is in contrast to other courts of appeal, where district court judges are frequently elevated to appellate court judges.

⁶⁹ Biography of Kimberly A. Moore, Circuit Judge (Jan. 08, 2012), <http://www.cafc.uscourts.gov/judges/kimberly-a-moore-circuit-judge.html>; Judicial Nominations, Judge Kimberly A. Moore (Jan. 08, 2012) <http://georgewbush-whitehouse.archives.gov/infocus/judicialnominees/moore.html>.

⁷⁰ Biography of Richard Linn, Circuit Judge (Jan. 08, 2012), <http://www.cafc.uscourts.gov/judges/richard-linn-circuit-judge.html>.

Philadelphia Patent Law Association.⁷¹ Judge Pauline Newman was a patent attorney who served as director of the Patent, Trademark and Licensing Department at FMC Corp and prior to that, was a patent attorney.⁷² Judge 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.⁷³ 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.⁷⁴

Those judges who start out as non-specialists quickly develop patent expertise. For example, Chief Judge Randall Rader did not have a patent background before he became a Federal Circuit judge. However, he subsequently taught patent law and other IP courses at several law schools, and has co-authored a patent law casebook.⁷⁵

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.⁷⁶ But all courts of appeal, including the Federal Circuit, hear a substantial number of agency appeals. Moreover, 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.⁷⁷ This allows the D.C. Circuit to attract highly-qualified judges from a variety of backgrounds.

Consequently, the Federal Circuit is in the unusual position of possessing sufficient competence in a single area of law, allowing it to dramatically shape that area. Furthermore, as I will discuss in Part IV, this expertise has led to the court second-guessing the PTO and ITC, thereby overstepping its boundaries as an Article III court.

B. *The Rise of Bright-Line Rules*

⁷¹ Biography of Alan D. Lourie, Circuit Judge (Jan. 08, 2012), <http://www.cafc.uscourts.gov/judges/alan-d-lourie-circuit-judge.html>.

⁷² Biography of Pauline Newman, Circuit Judge (Jan. 08, 2012), <http://www.cafc.uscourts.gov/judges/pauline-newman-circuit-judge.html>.

⁷³ Biography of Katherine M. O'Malley, Circuit Judge (Jan. 08, 2012), <http://www.cafc.uscourts.gov/judges/kathleen-m-omalley-circuit-judge.html>.

⁷⁴ Dennis Crouch, *Next Federal Circuit Judge Nominee: Richard G. Taranto*, PATENTLYO (Nov. 10, 2011), <http://www.patentlyo.com/patent/2011/11/next-federal-circuit-judge-nominee-richard-g-taranto.html>.

⁷⁵ Biography of Randall R. Rader, Chief Judge <http://www.cafc.uscourts.gov/judges/randall-r-rader-chief-judge.html>.

⁷⁶ See John M. Golden, *Comparative Trials of Two Semi-Specialized Courts*, 78 GEO. WASH. L. REV. 553, 555 (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.>").

⁷⁷ *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).

When Congress passes a statute and fails to delegate its interpretation to an agency, that power effectively passes to the courts.⁷⁸ 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.⁷⁹

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.”⁸⁰ The Federal Circuit also inherited bright-line rules when it adopted CCPA decisions as precedent.⁸¹ The teaching, suggestion, or motivation test was originally created by the CCPA to show whether a combination of prior art is obvious.⁸² Relying firmly on this precedent, the Federal Circuit established that this test was mandatory.⁸³

The Federal Circuit did retain some balancing and “totality of the circumstances” tests.⁸⁴ 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

⁷⁸ Margaret Lemos has discussed judicially administered statutes at length. She notes:

When 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.

See Margaret H. Lemos, *The Other Delegate: Judicially Administered Statutes and the Non-Delegation Doctrine*, 81 S. CAL. L. REV. 405, 427 (2008)

⁷⁹ See *infra* Part III.E.

⁸⁰ *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (1983).

⁸¹ 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.

⁸² *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 “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”).

⁸³ 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.”) (emphasis in original) (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)).

⁸⁴ 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 “during its first decade and well into its second”).

it.”⁸⁵ 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.⁸⁶

In 1998, the Rehnquist Court sent a strong message that it preferred bright-line rules.⁸⁷ In *Pfaff v. Wells Electronics*,⁸⁸ the unanimous Court announced a rule articulating when an invented device is “on sale” under § 102(b) of the Patent Act. 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.”⁸⁹ In this case, even though Pfaff’s invention had not been reduced to practice, the court found the invention was ready for patenting because Pfaff had provided manufacturer with description and drawings sufficient to allow a person skilled in the art to practice the invention.⁹⁰

The Rehnquist Court did not leave the Federal Circuit entirely unchecked. In *Festo Co. v. Kabushiki Co.*, the en banc Federal Circuit held that prosecution history estoppel arises from any amendment that narrows a claim to comply with any part of the Patent Act⁹¹ and that a flexible case-by-case approach was unworkable because it hinders predictability.⁹² The Supreme Court reversed, holding that although the inventor cannot use the doctrine to recapture what she gave up to get the claim through, she can get the equivalent to the narrow claim.⁹³ The Court recognized that although this approach would introduce uncertainty, this was “the price of ensuring the appropriate incentives for innovation.”⁹⁴

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

⁸⁵ *W. Marine Elecs. v. Furuno Elec. Co.*, 764 F.2d 840, 844 (1985).

⁸⁶ *Id.* at 845.

⁸⁷ 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: Toward a Bright-Line Rule*, 81 J. PAT. & TRADEMARK OFF. SOC’Y 155 (1999).

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

⁸⁸ *Pfaff v. Wells Elecs.*, 525 U.S. 55 (1998).

⁸⁹ *Id.* at 67.

⁹⁰ *Id.*

⁹¹ *Festo Corp. v. Kabushiki Co.*, 234 F.3d 558, 568 (Fed. Cir. 2000), *vacated*, 535 U.S. 722 (2002).

⁹² *Id.* at 596.

⁹³ *Festo Corp. v. Kabushiki Co.*, 535 U.S. 722, 741 (2002).

⁹⁴ *Id.* at 731.

that do not.⁹⁵ The court held that a patent licensee who is in compliance with its license cannot establish an Article III case or controversy for a declaratory judgment action regarding patent validity, enforceability, or scope.⁹⁶

C. *The Roberts Court and the Fall of the Bright-Line Rule*

The Supreme Court's attitude towards bright-line patent rules abruptly shifted when John Roberts became Chief Justice. In the 2006 decision *eBay Inc. v. Mercexchange, LLC*,⁹⁷ the Court found patent exceptionalism to be inappropriate, and rejected the Federal Circuit's rule of granting injunctive relief upon a finding of infringement. 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."⁹⁸ 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 intent by Congress to depart from traditional equitable practice.⁹⁹

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.¹⁰⁰ In dicta, the Court also rejected the Federal Circuit's reasonable-apprehension-of-suit test for justiciability of claims in declaratory judgment actions.¹⁰¹ Under this test, the Federal Circuit previously held that a declaratory plaintiff must have a reasonable apprehension of being imminently sued.¹⁰² 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

⁹⁵ *Gen-Probe Inc. v. Vysis, Inc.*, 359 F.3d 1376, 1381 (Fed. Cir. 2004), *rev'd*, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118 (2007).

⁹⁶ *Id.* See also *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 122 (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).

⁹⁷ *eBay Inc. v. Mercexchange, LLC*, 547 U.S. 388 (2006).

⁹⁸ *Id.* at 391.

⁹⁹ *Id.*

¹⁰⁰ *MedImmune*, 549 U.S. at 132.

¹⁰¹ *Id.* at 132 n.11.

¹⁰² *Teva Pharms. USA, Inc. v. Pfizer Inc.*, 395 F.3d 1324, 1333 (2005). This rule is not based on CCPA precedent, but rather, precedent from the second circuit. *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 880 (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 in effect" in favor of a more lenient approach that "a reasonable apprehension of an infringement suit" gives rise to jurisdiction.)

declaratory judgment.¹⁰³

The same year, the Supreme Court struck down the Federal Circuit's rule that the teaching-suggestion-motivation ("TSM") test for obviousness was mandatory.¹⁰⁴ 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."¹⁰⁵ 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.¹⁰⁶ The Court further noted that the Federal Circuit had taken a useful guiding principal from the CCPA too far.¹⁰⁷

In the 2008 decision *In Re Bilski*, the Federal Circuit held that the machine-or-transformation test, first articulated by the court in the 1998,¹⁰⁸ was mandatory for determining the patent eligibility of a process under section 101 of the Patent Act.¹⁰⁹ The Supreme Court affirmed the invalidity of the patent at issue, but held that a non-abstract business method can be patentable even if it fails the test.¹¹⁰ The Court reiterated that "courts should not read into the patent laws limitations and conditions which the legislature has not expressed,"¹¹¹ 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."¹¹²

This series of Supreme Court decisions establish that bright line rules will no longer be

¹⁰³ *MedImmune Inc.*, 549 U.S. at 132 n.11.

¹⁰⁴ *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.")

¹⁰⁵ *Id.*

¹⁰⁶ *Id.* at 415–16 (quoting *Graham v. John Deere Co.*, 383 U.S. 1, 18 (1966)).

¹⁰⁷ *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.")

¹⁰⁸ *See State St. Bank v. Signature Fin. Grp.*, 149 F.3d 1368, 1373 (1998) ("Today, we hold that the transformation of data, representing discrete dollar amounts, by a 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.")

¹⁰⁹ *In re Bilski*, 545 F.3d 943, 954 (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 section 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 (2010).

¹¹⁰ *Bilski v. Kappos*, 130 S. Ct. 3218, 3225–27 (2010).

¹¹¹ *Id.* at 3226 (quoting *Diamond v. Diehr*, 450 U.S. 175, 182 (1981)).

¹¹² *Id.*

tolerated. The Court has not expressed concern over the Federal Circuit creating tests to help clarify ambiguities in the Patent Act. Rather, the Court has been troubled by the mandatory nature of such tests. This backlash against judicial rulemaking, however, raises an important question of 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 provide certainty through formalism¹¹³ but adversely impact innovation.¹¹⁴ From that perspective, the Supreme Court’s rejection of these rules is a retreat from a particular type of formalism. For example, scholar Timothy Holbrook has argued that the Court has rejected substantive formalism in favor of process-based formalism.¹¹⁵

But scholars are only beginning to consider bright-line rules as a form of substantive rulemaking and how they fit in the administrative state. Although the procedure for creating a bright-line rule varies considerably from the notice-and-comment rulemaking process, the effect 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,¹¹⁶ making them binding on both the agency and the public.¹¹⁷ The APA defines “rule” as “the whole or a part of an agency statement of general or particular applicability and future effect

¹¹³ See Vertinsky, *supra* note 94, 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.”); 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.”).

¹¹⁴ See Janice M. Mueller, *The Evanescent Experimental Use Exception from United States Patent Infringement Liability: Implications for 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”).

¹¹⁵ Timothy Holbrook, *Substantive Versus Process-Based Formalism in Claim Construction*, 9 LEWIS & CLARK L. REV. 123, 126–129 (2005).

¹¹⁶ 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.”).

¹¹⁷ 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.”).

designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency. . .”¹¹⁸ 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.”¹¹⁹

An agency cannot pass substantive rules unless (1) the agency has been delegated authority to do so by Congress and (2) the agency utilizes proper procedure under the APA. The vast majority of substantive rules are passed through the notice-and-comment rulemaking process governed by section 553 of the APA.¹²⁰ This provision allows an agency to propose a rule,¹²¹ and for the public to have a commenting period to provide input.¹²² The agency will then take this input into account in issuing a final version of rule. The procedure provided by section 553 allows the public to provide meaningful commentary, thereby safeguarding the community against bad rules.¹²³

In contrast, non-substantive rules, such as interpretive rules and policy statements, are exempt from the notice-and-comment process.¹²⁴ They do not have the force of law, and consequently, such statements do not bind the agency or the public.¹²⁵ Policy statements merely communicate to the public how the agency plans to exercise a discretionary power,¹²⁶ whereas interpretive rules tell the public how the agency interprets an existing statute or rule.¹²⁷

2. *Federal Circuit Substantive Rulemaking*

Scholar Ryan Vacca recently argued that when the Federal Circuit acts en banc, it

¹¹⁸ 5 U.S.C. § 551(4) (West 2011).

¹¹⁹ *Coal. for Common Sense*, 464 F.3d at 1317.

¹²⁰ 5 U.S.C. § 553 (West 2011).

¹²¹ 5 U.S.C. § 553(b) (West 2011).

¹²² 5 U.S.C. § 553(c) (West 2011).

¹²³ *See American Radio Relay League, Inc. v. F.C.C.*, 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).

¹²⁴ *Preminger v. Secretary of Veterans Affairs*, 632 F.3d 1345, 1349 (Fed. Cir. 2011).

¹²⁵ *See Am. Mining Cong. v. MSHA*, 995 F.2d 1106, 1109 (D.C. Cir. 1993) (discussing the distinction between substantive and non-substantive rules).

¹²⁶ 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.” ATTORNEY GENERAL’S MANUAL ON THE APA at 30 n.3 (1947), *quoted in American Min. Congress*, 995 F.2d at 1109.

¹²⁷ According to the Attorney General’s Manual on the APA, an interpretive rule is a “rule or statement issued by an agency to advise the public of the agency’s construction of the statutes and rules which it administers.” *Id.*, *quoted in American Min. Congress*, 995 F.2d at 1109.

functions like an agency engaging in substantive rulemaking.¹²⁸ Vacca points out that the Federal Circuit's order for a rehearing en banc constitutes a de facto notice-and-comment process, because amici can submit briefs to the court for a set period of time.¹²⁹

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 Vacca is correct that only en banc decisions offer any opportunity for public participation,¹³⁰ rules issued through panel decisions also bind parties like substantive rules.

In this regard, one can argue that the Supreme Court's opinions serve as an intervention against substantive rulemaking by courts, as opposed to rulemaking in general. The Supreme Court carefully states that the Federal Circuit is free to use tests, it merely prohibits the use of mandatory tests.¹³¹

The Roberts Court has cause to be uneasy with judicial substantive rulemaking for several reasons. The first is accountability. Federal Circuit is an Article III court whose judges are appointed for life.¹³² 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.

Further, bright-line rulemaking permits only limited public input.¹³³ Members of the public can file amicus briefs in an attempt to sway the Federal Circuit on a particular decision.¹³⁴ And in at least one case, the Federal Circuit reversed a decision because of public backlash.¹³⁵ This type of public participation, however, is less effective than public

¹²⁸ Ryan G. Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 76 MO. L. REV. 733, 747 (forthcoming 2012), available at http://www.ssrn.com/abstract_id=1781277.

¹²⁹ Vacca, *supra* note 126, at 747.

¹³⁰ *See id.* at 748–49.

¹³¹ [add cite]

¹³² *See* U.S. CONST. art. III, § I (“The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behavior, and shall, at stated Times, receive for their Services a Compensation which shall not be diminished during their Continuance in Office.”); S. REP. NO. 275, 97th Cong., 1st Sess. 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 twelve other courts of appeal.”).

¹³³ I leave aside the possibility of capture in the Federal Circuit, given that capture allows only interest group participation, as opposed to the public at large.

¹³⁴ *See* Vacca, *supra* note 122.

¹³⁵ *See* Kumar, *supra* note 2, at 1607–8, discussing *Enzo Biochem v. Gen-Probe*, 285 F.3d 1013 (Fed. Cir. 2002), vacated, 323 F.3d 956, 970 (Fed. Cir. 2002).

input during agency rulemaking. With judicial rulemaking, the public never knows which appeal will give rise to a bright-line rule. In contrast, the notice-and-comment process is transparent regarding what rule the agency is considering. Moreover, filing an amicus brief is a more onerous task than filing a comment regarding a proposed rule on a government website.

In contrast to judicial rulemaking, agencies are subject to rigid procedural requirements.¹³⁶ Agencies are required to provide all relevant information and data to the public to ensure full participation.¹³⁷ With regard to public comments, the 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.”¹³⁸

Agencies also have access to greater amounts of information than appellate courts do. In issuing a bright-line rule, the Federal Circuit may only rely upon the briefs submitted by the parties. In contrast, agencies can have access to numerous sources of information.¹³⁹

But is the Federal Circuit really at fault? By virtue of failing to grant the PTO substantive rulemaking over the major provisions of the Patent Act, Congress implicitly delegated interpretive authority of the statute 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 that was granted to the court by Congress.

In Part V, I will explore a new theory of why the Supreme Court is choosing to intervene, and discuss the effect of this intervention on the Federal Circuit’s ability to successfully administer the Patent Act.

¹³⁶ See 5 U.S.C § 553 (West 2011) (establishing procedural requirements for rulemaking); 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).

¹³⁷ The Third Circuit recently noted that to ensure the public has been “fairly apprised of a 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.* (quoting *Home Box Office, Inc. v. FCC*, 567 F.2d 9, 35-36 (D.C. Cir. 1977) (emphasis omitted)).

¹³⁸ *Navistar Int. Trans. Corp. v. EPA*, 941 F.2d 1339, 1359 (6th Cir. 1991) (quoting *Action on Smoking and Health v. C.A.B.*, 699 F.2d 1209, 1216 (D.C. Cir. 1983)).

¹³⁹ Frank H. Easterbrook, *Judicial Discretion in Statutory Interpretation*, 57 OKLA. L. REV. 1, 3 (2004).

IV. FEDERAL CIRCUIT ADJUDICATION

The PTO has historically been a weak agency. Though section 2(a)(1) of the Patent Act states that the PTO “shall be responsible for the granting and issuing of patents,”¹⁴⁰ it fails to grant the PTO substantive rulemaking authority over the provisions of the Patent Act that govern patentability requirements and infringement.¹⁴¹ Instead, the agency is merely limited to creating procedures for implementing the statute.¹⁴²

Whatever mistrust that 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 attempts 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 ALJ then a federal court reviewing an executive branch agency.¹⁴³ This is particularly interesting, given the Federal Circuit’s review of non-patent agencies is quite deferential.

In section A of this Part, I look at the Federal Circuit’s attempts to disregard the judicial review provision of the APA with regard to the PTO. In Section B, I discuss the Federal

¹⁴⁰ 35 U.S.C. 2(a)(1) (2006)

¹⁴¹ See Sarah Tran, *Patent Powers*, 25 HARVARD J. L. TECH. XX (2012) (discussing how limitations in the PTO’s substantive rulemaking authority emerged out of the Federal Circuit) (*citing* *Animal Legal Defense Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991)).

¹⁴² Lisa Vertinsky, *Comparing Alternative Institutional Paths to Patent Reform*, 61 ALA. L. REV. 501, 535 (2010).

¹⁴³ There is one notable exception: *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 quotations omitted); see also *Bowles v. Seminole Rock & Sand Co.*, 325 U.S. 410, 414 (1945) (“But the ultimate criterion is the administrative interpretation, which becomes of controlling weight unless it is plainly erroneous or inconsistent with the regulation.”). This type of deference is known as *Auer* or *Seminole Rock* deference.

In a recent opinion authored by Judge 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 in a different manner. *In re Lovin*, 652 F.3d 1349, 1356 (Fed. Cir. 2011). 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 *National Cable & Telecomms. Ass’n v. Brand X Internet Servs.*, 545 U.S. 967, 982 (2005)). The Federal Circuit could have tried to split hairs and distinguish between *Chevron* and *Auer* deference, but it instead appropriately deferred to the PTO.

Circuit's practice of construing questions of fact as those of law, so it can review such issues *de novo*. In Section C, I argue that the Federal Circuit has deliberately misinterpreted Supreme Court precedent so they can affirm PTO decisions on alternate grounds. Finally, in Section D, I discuss how the Federal Circuit's non-deferential treatment of patent agencies extends to the ITC.

A. *Applicability of the Administrative Procedure Act*

The PTO, like all agencies, is bound by the APA. Although the PTO was exempt from the 1939 Walter-Logan bill,¹⁴⁴ President Roosevelt vetoed it in 1941.¹⁴⁵ The PTO was the sole agency to seek an exemption to the three bills relating to agency regulation that were introduced in 1941. The agency was denied the exemption¹⁴⁶ and those bills later failed to pass.¹⁴⁷ An early version of the McCarran-Sumners bill excluded patent cases from the judicial review chapter;¹⁴⁸ however, Congress struck that exemption before passing the bill in 1946. Later becoming the Administrative Procedure Act, the final version of the McCarran-Sumners bill contained no individual agency exceptions.¹⁴⁹

The Federal Circuit, like the CCPA before it, refused to recognize that the APA had altered the judicial review standard for PTO decisions.¹⁵⁰ Although the CCPA never explicitly held that the APA was inapplicable to appeals from the PTO's Board of Patent Appeals and Interferences ("BPAI"),¹⁵¹ it neither applied the statute nor acknowledged

¹⁴⁴ When the Walter-Logan Bill was proposed in 1939, the Patent Office secured itself an exemption, along with more than twenty other agencies. S. 915, H.R. 6324, 76th Cong., 3d Sess. (1939) at XX.

¹⁴⁵ *Presidential Veto Message, Walter-Logan Bill, reprinted in* 86 Cong. Rec. 13942–43 (1940).

¹⁴⁶ Administrative Procedure: Hearings on S. 674, S. 675, and S. 918 Before a Subcomm. of the Senate Comm. on the Judiciary, 77th Cong., 1st Sess. 201 (1941) (testimony of Conder C. Henry, Assistant Commissioner of Patents).

¹⁴⁷ George B. Shepherd, *Fierce Compromise: The Administrative Procedure Act Emerges From New Deal Politics*, 90 Nw. U. L. REV. 1557, 1638 (1996) ("In stark contrast to earlier years' hearings on other bills, only one agency, the Patent Office, sought exemption from the bills. It appears that agencies understood—and that the Roosevelt administration had made clear to them—that some form of procedural reform was inevitable. . . . Instead of opposing all reform, agencies now sought to shape it and soften it.")

¹⁴⁸ McCarran-Sumners Bill, S. 7, H.R. 1203, 79th Cong., § 9 (1945).

¹⁴⁹ Congress enacted the APA "in part to stem the abuses of power by agencies seemingly unchecked by requirements for procedural rigor," *In re Zurko*, 142 F.3d 1447, 1450 (Fed. Cir. 1998), *rev'd*, *Dickinson v. Zurko*, 527 U.S. 150 (1999). The PTO fought hard to be exempted, but it ultimately failed. *See* Shepherd, *supra* note 144, at XX. The greatest irony of the PTO's fight is that the APA provided the agency with far greater autonomy than the Federal Circuit saw fit to bestow. The supporters of the APA likely did not foresee the day when the APA would be used to shield agencies against aggressive reviewing courts.

¹⁵⁰ *See, e.g.*, *In re Lueders*, 111 F.3d 1569, 1574–77 (Fed. Cir. 1997) (holding that history does not support applying the APA's more deferential standards of review to findings of fact).

¹⁵¹ If an inventor's patent application is denied by a patent examiner, she first appeals to the Board of Patent Appeals and Interferences or BPAI. If she loses before the BPAI, she can then appeal either directly to the Federal Circuit, or appeal initially to the District of the District of Columbia.

the possibility of its applicability.¹⁵² 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.”¹⁵³ The court observed that it could not change its standard without the full court’s review.¹⁵⁴

The opportunity for en banc review of the Federal Circuit’s practice came in the 1998 decision *In re Zurko*.¹⁵⁵ The unanimous Federal Circuit acknowledged that the PTO Commissioner “campaigned aggressively” for the court to review the BPAI’s factual findings underlying its patentability determinations under the substantial evidence standard from section 706 of the APA. The court then dealt the PTO a harsh blow, holding that the “clearly erroneous” standard was appropriate for reviewing issues of patent validity appealed from the BPAI.¹⁵⁶

The Federal Circuit relied on section 559 of the APA to support the position that the Patent Office was exempt from the APA.¹⁵⁷ 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.”¹⁵⁸ 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.¹⁵⁹

¹⁵² See, e.g., *In re Kunzmann*, 51 C.C.P.A. 927, 930 (C.C.P.A. 1964) (upholding the examiner’s findings because the appellant “failed to demonstrate that the examiner’s findings in this regard was clearly erroneous”).

¹⁵³ *Lueders*, 111 F.3d at 1574–75.

¹⁵⁴ *Id.*

¹⁵⁵ *In re Zurko*, 142 F.3d at 1447.

¹⁵⁶ *Id.* at 1459.

¹⁵⁷ *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.”).

An interesting point is that the legislative history that the Federal Circuit used to support the *Zurko* decision is that the history 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, citing to the Supreme Court’s decision in *Citizens to Preserve Overton Park v. Volpe*, 401 U.S. 402 (1971), the CCPA held that their past 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, 1218 n. 7.5 (C.C.P.A. 1981), *overruling* *Waterman Steamship 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.

¹⁵⁸ 5 U.S.C. § 559 (West 2012).

¹⁵⁹ *In re Zurko*, 142 F.3d at 1452.

Even if this interpretation of section 559 is correct, the court's attempt to frame the common law established 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 patents from the APA.¹⁶⁰ 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."¹⁶¹ This language, however, referred to the early version of the bill that contained an explicit exception;¹⁶² no such language appeared in the final version of the bill that passed.¹⁶³

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 section 559.¹⁶⁴ The court disregarded the fact that most agencies gave up on seeking exemptions not because of statutory redundancy, but because procedural reform was inevitable.¹⁶⁵

The Federal Circuit also supported its position based on the history of the Patent Act, which set no standard of review.¹⁶⁶ The court further observed that the CCPA never applied section 706 judicial review standards in reviewing the PTO. 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.¹⁶⁷ It furthermore made a stare decisis argument based upon the fact that the CCPA had never applied standards from section 706, even though the CCPA had failed to consistently apply any other standard.¹⁶⁸

Ultimately, the Supreme Court reversed the Federal Circuit.¹⁶⁹ 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

¹⁶⁰ *Id.*

¹⁶¹ *Id.* at 1451, quoting Staff on Senate Commission on the Judiciary, 79th Congress, Administrative Procedure Act, Legislative History 1944-46 (1946) at 22.

¹⁶² 92 Cong. Rec. 2149-50 & 2163-64 (1946), reprinted in *Staff of Sen. Comm. on the Judiciary, 79th Congress, Administrative Procedure Act, Legislative History 1944-46* (1946).

¹⁶³ See Administrative Procedure Act, Pub. L. 79-404, 60 Stat. 237 (1946) (making no reference to "patent").

¹⁶⁴ *In re Zurko*, 142 F.3d at 1452.

¹⁶⁵ See Shepherd, *supra* note 144, 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.")

¹⁶⁶ See *In re Zurko*, 142 F.3d at 1453-57 (examining the history of the Patent Act).

¹⁶⁷ *Id.* at 1454.

¹⁶⁸ *Id.* at 1457-58.

¹⁶⁹ *Dickinson v. Zurko*, 527 U.S. 150 (1999) (reversing *In re Zurko*).

‘recognized’ only as ambiguous.”¹⁷⁰ It observed that the CCPA failed to apply a consistent judicial review standard, and found the CCPA’s failure to apply the APA to not be dispositive.

Chief Judge Rehnquist, joined by Justices Kennedy and Ginsburg, dissented, arguing that the APA raised the minimum standard of review for agencies, and that courts could establish more searching standards.¹⁷¹ 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 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.¹⁷²

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 dissent did not explore the possibility that agencies are entitled to deference, in part, because they are part of a co-equal branch of government. This fallacy of viewing deference as being solely an issue of expertise is further illustrated by the Federal Circuit’s application of the *Chenery* doctrine, discussed below.¹⁷³

Even after the Supreme Court’s intervention, the Federal Circuit continued to minimize deference to the PTO. Questions of fact in informal proceedings are supposed to be reviewed under the highly deferential arbitrary and capricious review standard.¹⁷⁴ In contrast, questions of fact from formal adjudication or rulemaking are reviewed under the slightly less deferential substantial evidence standard, where the court focuses on the formal record.¹⁷⁵

PTO proceedings are informal, in that they do not comply with sections 556 and 557 of the APA. Nevertheless, the Federal Circuit announced that the substantial evidence standard was appropriate, despite the lack of formal process.¹⁷⁶ The reasoning for the

¹⁷⁰ *Zurko*, 527 U.S. at 155.

¹⁷¹ *Id.* at 171 (Rehnquist, C.J. dissenting).

¹⁷² *Id.*

¹⁷³ See Part IV.3.

¹⁷⁴ 5 U.S.C. § 706(2)(A); Arti K. Rai, *Ideas Into Action: Implementing Reform of 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.”).

¹⁷⁵ 5 U.S.C. § 706(2)(E) (West 2012); Rai, *supra* note 155, at 916.

¹⁷⁶ *In re Gartside*, 203 F.3d 1305, 1311–15 (2000).

court's decision hinged on the language of section 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."¹⁷⁷

The Federal Circuit focused on the second part of the phrase. The court maintained that section 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 and Trademark Office"¹⁷⁸ and that the substantial evidence standard was therefore appropriate.¹⁷⁹ In drawing this distinction, the court claimed that substantial evidence is much less deferential than arbitrary and capricious review.¹⁸⁰

Yet the Supreme Court in *Zurko* disagreed with this, citing to a D.C. Circuit case with the parenthetical that there is "no difference" between the two standards "as applied to court review of agency factfinding."¹⁸¹ The Court's perceived lack of distinction between the two standards may be the reason why they declined to reach the question of which of the standards applied.¹⁸²

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. When a court reviews a question of law, it does so de novo, granting no deference to the agency.¹⁸³ In contrast, as noted above, questions of fact are reviewed deferentially, and are affirmed by courts at a high rate.¹⁸⁴

The Supreme Court has recognized that the nature of the distinction between law and fact

¹⁷⁷ 5 U.S.C. §706(2)(E) (West 2012).

¹⁷⁸ 35 U.S.C. § 144.

¹⁷⁹ *In re Gartside*, 203 F.3d at 1313.

¹⁸⁰ *Id.* at 1312.

¹⁸¹ *In re Zurko*, 527 U.S. at 158 (citing *Association of Data Processing Service Orgs., Inc. v. Board of Governors of Federal Reserve System*, 745 F.2d 677, 683–684 (D.C. Cir. 1984)).

¹⁸² See Rai, *supra* note 171, 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 the several Justices during oral argument indicated that arbitrary and capricious review might be most appropriate).

¹⁸³ Caleb Nelson, *Adjudication in the Political Branches*, 107 COLUM. L. REV. 559, 616–17 (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.").

¹⁸⁴ See FRANK B. CROSS, *DECISION MAKING IN THE COURTS OF APPEALS*, 53 (Stanford U. Press 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.

is “vexing,”¹⁸⁵ and that “the appropriate methodology” for distinguishing such questions “has been, to say the least, elusive.”¹⁸⁶ Scholar Craig Nard observed that law and fact often overlap, resulting in a third category of mixed questions of law and fact.¹⁸⁷ More problematic than the fuzzy dividing lines is the ability of courts to exploit the distinction to reduce deference to agencies.

Scholar Arti Rai and others have highlighted the fact that the Federal Circuit exploits the law/fact distinction to minimize deference to the PTO.¹⁸⁸ Facts are central in patent law to issues such as infringement, claim scope, and validity.¹⁸⁹ Questions of fact in informal proceedings, like those in the PTO, should be affirmed unless “arbitrary, capricious, [or] an abuse of discretion.”¹⁹⁰ Yet the Federal Circuit engages in what Rai refers to as “alchemy” by turning facts into law.¹⁹¹ It achieves this by construing questions that involve mixed issues of law and fact, such as claim construction, as pure questions of law.¹⁹² The court then reviews the agency decision *de novo* instead of granting proper deference to PTO factfinding.

One may argue that the Federal Circuit should be reviewing factfinding *de novo*, given its comparative expertise. But of the ten active judges currently on the bench, only four appear to possess technical degrees: Judges Newman (Ph.D. Chemistry), Lourie (Ph.D. Chemistry),¹⁹³ Linn (B.S.E.E.),¹⁹⁴ and Moore (M.S. Electrical Engineering).¹⁹⁵ This still leaves large gaps in scientific knowledge, such as computer science, biology, and physics.¹⁹⁶ In contrast, all PTO examiners possess at least a technical undergraduate

¹⁸⁵ Pullman-Standard v. Swint, 456 U.S. 273, 287 (1982).

¹⁸⁶ Miller v. Fenton, 474 U.S. 104, 113 (1985).

¹⁸⁷ Nard, *supra* note 43, at 1424.

¹⁸⁸ Arti K. Rai, *Specialized Trial Courts: Concentrating Expertise on Fact*, 17 BERKELEY TECH. L.J. 877, 883 (2002) (discussing the Federal Circuit’s “alchemy” 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”).

¹⁸⁹ *Id.*

¹⁹⁰ 5 U.S.C. § 706(2)(A) (West 2012).

¹⁹¹ Rai, *supra* n.185, at 884.

¹⁹² *Id.*

¹⁹³ <http://www.iphandbook.org/handbook/authors/A132/> (last visited Jan. 16, 2012).

¹⁹⁴ <http://www.cafc.uscourts.gov/judges/richard-linn-circuit-judge.html> (last visited Jan. 16, 2012).

¹⁹⁵ <http://www.cafc.uscourts.gov/judges/kimberly-a-moore-circuit-judge.html> (last visited Jan. 16, 2012).

¹⁹⁶ *See* Arti Rai, *supra* note 168, at 888 (noting how only a few Federal circuit judges have technical training and that there are gaps in their expertise).

degree,¹⁹⁷ and administrative law judges on the BPAI additionally possess a J.D. and “comprehensive patent experience” in a desired technical area.¹⁹⁸

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, one might prefer that the Federal circuit aggressively construes issues as questions of law, in order to trigger de novo review.¹⁹⁹

But even if the Federal Circuit is motivated by limiting the power of unskilled trial court judges, it is also taking power from the executive branch. Consider, for example, the issue of claim construction. In the Supreme Court’s *Markman v. Westview Instruments* decision, the Court held that claim construction is an issue for the jury.²⁰⁰ In dicta, however, the Court noted that claim construction is a “mongrel practice.”²⁰¹ 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.”²⁰² Here, the Court noted, judges “are the better suited to find the acquired meaning of patent terms” than juries,²⁰³ and argued that this would promote uniformity in patent law.²⁰⁴

Many scholars have argued that the Supreme Court’s decision supports the idea that claim construction is a mixed question of law and fact,²⁰⁵ which leads to the observation

¹⁹⁷ See *Patent Examiner Positions*, <http://www.uspto.gov/web/offices/pac/exam.htm> (stating that the requirement for an entry-level GS-5 position for an engineer, chemist, microbiologist, physicist, biologist or design is completing all requirements for a bachelor’s degree, with several fields requiring a minimum number of hours of coursework in the major).

¹⁹⁸ See, e.g., job listing for ALJ, <http://www.usajobs.gov/GetJob/ViewDetails/306360900>; see also 35 U.S.C. § 6 (2000) (“The administrative patent judges shall be persons of competent legal knowledge and scientific ability”).

¹⁹⁹ Note, however, that even a non-expert district court judge will have the benefit of having heard testimony first-hand, 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 coupling special trial court judges modeled after the bankruptcy system with a strong patent agency with full rulemaking authority.

²⁰⁰ 517 U.S. 370 (1996).

²⁰¹ *Id.* at 378.

²⁰² *Id.* at 388 (quoting *Miller v. Fenton*, 474 U.S. 104, 114 (1985)).

²⁰³ *Id.* at 388.

²⁰⁴ *Id.* at 390–91.

²⁰⁵ See, e.g., Rochelle C. 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); Judges Kathleen M. O’Malley, Patti Saris, and Ronald H. White, *Claim Construction from the Perspective of the District Judge*, 54 CASE W. RES. 671 (2004) (arguing that under *Markman*, the Supreme Court deemed claim construction to be a mixed question of law and fact).

that judges should receive deference for such decisions.²⁰⁶ 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.²⁰⁷

A direct consequence of the *Cybor* decision is that ITC claim construction is reviewed de novo. This is 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 away power away from the district courts, but also from the executive branch.

By construing mixed questions as ones of pure law, the Federal Circuit acts more like the top level of an agency than like an Article III court. Commissioners that head agencies often have wide discretion to reverse administrative law judge decisions. For example, Commissioners of the ITC can reverse an ALJ’s decision on any ground, without deference.²⁰⁸ The Federal Circuit appears to want this level of discretion for itself, but without the limitations that agencies have.

C. *The Chenery Doctrine*

In the 1940s, the Supreme Court decided two cases, known as *Chenery I* and *II*, that set a new standard for courts that affirm agency decisions.²⁰⁹ 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,²¹⁰ notwithstanding a recent case where the Federal Circuit circumvented the decisions to minimize deference to the PTO.²¹¹

1. *The Chenery Decisions*

When an appellate court reviews a district court decision, the appellate court is permitted

²⁰⁶ See Rai, *supra* note 188, at 887–89 (discussing why de novo review of fact-laden decisions harms uniformity).

²⁰⁷ 138 F.3d 1448, 1454 (1998).

²⁰⁸ 19 C.F.R. § 210.45(c) (West 2012) (stating that the Commission may “affirm, reverse, modify, set aside or remand” an ALJ’s initial determination for further proceeding).

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 decisions. *Freytag v. Comm. of Internal Revenue*, 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.

²⁰⁹ See generally *SEC v. Chenery*, 318 U.S. 80 (1942) (hereinafter “*Chenery I*”); *SEC v. Chenery*, 332 U.S. 194 (1947) (hereinafter “*Chenery II*”).

²¹⁰ The only scholarly discussion of the *Chenery* doctrine in relation to patent law is in an amicus brief that was filed in *Dickenson v. Zurko* and was later republished. See Thomas G. Field, Craig A. Nard, & John F. Duffy, *Dickenson v. Zurko: An Amicus Brief*, 4 MARQ. INTEL. PROP. L. REV. 49, 57–60 (2000) (observing that the Federal Circuit’s decision in *In re Zurko* violates the *Chenery* doctrine).

²¹¹ See *In re Comiskey*, 554 F.3d 967, 971 (Fed. Cir. 2009).

to affirm the decision on grounds other than what the district court considered.²¹² The district court's basis for its decision is not dispositive. Likewise, a court reviewing the constitutionality of a statute need not explore why Congress thought the statute was constitutional.²¹³

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 the management of a corporation owes a fiduciary duty to all of its securities holders to be affected.²¹⁴ The SEC determined that although the management does not hold stock in trust for the shareholders, it owes them a duty of fair dealing.²¹⁵

The Court then sharply distinguished between reviewing district court decisions versus 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.'"²¹⁶ 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.²¹⁷

Thus, the Court allowed appellate courts to affirm lower courts on a different basis than what the lower court used for reasons of judicial economy.

In contrast, the Court did not find judicial economy to be 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: "[t]he grounds upon which an administrative order must be judged are those upon which the record discloses that its action was based."²¹⁸ It then articulated what has been characterized by scholars as a "fundamental principal of administrative law".²¹⁹

²¹² *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)).

²¹³ *U.S. R.R. Ret. Bd. v. Fritz*, 449 U.S. 166, 179 (1980) ("Where, as here, there are plausible reasons for Congress' action, our inquiry is at an end. It is, of course, constitutionally irrelevant whether this reasoning in fact underlay the legislative decision, because this Court has never insisted that a legislative body articulate its reasons for enacting a statute.") (citation and quotations omitted).

²¹⁴ *Chenery I*, 318 U.S. at 87.

²¹⁵ *Id.*

²¹⁶ *Id.* at 88 (quoting *Helvering v. Gowran*, 302 U.S. 238, 245 (1937)).

²¹⁷ *Id.*

²¹⁸ *Id.*

²¹⁹ Elizabeth McGill and Adrian Vermeule, *Allocating Power Within Agencies*, 120 *YALE L.J.* 1032, 1039 (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.²²⁰

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.”²²¹ 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,²²² and has been applied to agency decisions that arise from informal adjudication.²²³

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

In the past, the Federal Circuit occasionally paid heed to the *Chenery* decisions. For example, the *In re Thrift* court found that the BPAI did not provide an adequate basis for rejecting a claim.²²⁴ The court then vacated and remanded the decision back to the BPAI. Although the PTO 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 cannot be the basis for affirmance.²²⁵

Likewise, in the Veterans Appeals case *Mayfield v. Nicholson*, the court found that the agency’s decision could not be affirmed on other grounds, even though most of the facts were undisputed.²²⁶ The government argued that the Veterans Court 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

²²⁰ *Id.* 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.” *S.E.C. v. Chenery* (hereinafter “*Chenery II*”), 332 U.S. 194, 196 (1947).

²²¹ *S.E.C. v. Chenery Corp.* (“*Chenery II*”), 332 U.S. 194, 196 (1947).

²²² *See* *Gonzales v. Thomas*, 547 U.S. 183, 186 (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”) (quotations and citations omitted); *Motor Vehicle Mfrs. Ass’n v. State Farm Mut. Auto. Ins.*, 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.”)

²²³ *See, e.g.,* *Camp v. Pitts*, 411 U.S. 138, 139, 143 (1973) (applying the *Chenery* doctrine to informal adjudication).

²²⁴ *In re Thrift*, 298 F.3d 1357, 1366 (Fed. Cir. 2002).

²²⁵ *Id.* at 1367.

²²⁶ *Mayfield v. Nicholson*, 444 F.3d 1328, 1334-35 (Fed. Cir. 2006).

make.”²²⁷ 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.²²⁸ An agency’s decision, instead, “turns on what inferences the agency draws from the facts before it.”²²⁹ In other words, the issue was not a pure question of law, even though it had undisputed facts.

In 2009, however, the court changed its approach. In *In re Comiskey*, the BPAI affirmed the patent examiner’s finding that a method was unpatentable under section 103 of the Patent Act.²³⁰ On appeal, the Federal Circuit affirmed the BPAI, but on the basis that section 101 was not met.²³¹

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.”²³² 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.²³³ The Federal Circuit omitted the fact that the Supreme Court was making a distinction between the review of district court decisions versus 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.”²³⁴ 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 it would be “wasteful to send’ the case back to the agency for a determination as to patentable subject matter.”²³⁵ The court supported its position using only Federal Circuit caselaw.

At no point, however, has the Supreme Court distinguished among questions of fact,

²²⁷ *Id.* at 1335 (quotations omitted).

²²⁸ *Id.*

²²⁹ *Id.*

²³⁰ 554 F.3d 967, 971 (Fed. Cir. 2009).

²³¹ *Id.* at 973. Oddly, Judge Michel signed onto the opinions in both the *Mayfield* and *In re Comiskey* panels.

²³² *Id.*

²³³ *Id.* (citing *Chenery I*, 318 U.S. at 88).

²³⁴ *Id.* at 974 (quoting *Chenery I*, 318 U.S. at 88) (emphasis added by Federal Circuit).

²³⁵ *Id.* at 975 (quoting *Chenery I*, 318 U.S. at 88).

mixed questions of fact and law, and pure questions of law in holding that agency decisions cannot be affirmed on alternative grounds. Nor does the precedent of any other court of appeals support the Federal Circuit’s position.²³⁶ Rather, the *Chenery* doctrine is inapplicable only when an agency’s action is compelled by statute,²³⁷ and as the *Mayfield* decision illustrates, having a question of law does not automatically lead to this.²³⁸

The key issue is whether the BPAI was compelled to hold that the invention at issue in *In re Comiskey* was not patentable under section 101 of the Patent Act or whether its decision turned on inferences that it drew 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.”²³⁹ Neither section 101 nor its legislative history provide guidance for what constitutes a process, machine, manufacture, or the like.²⁴⁰

As the Supreme Court’s fractured opinion in *Bilski* illustrated, what constitutes patentable subject matter is far from a mechanical comparison of the claim at issue to section 101.²⁴¹ 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.²⁴² It is thus

²³⁶ The only comparable appellate court case is a 1987 D.C. Circuit case *Overseas Educ. Ass’n, Inc. v. Fed. Labor Relations Auth.*, 827 F.2d 814, 818 n.1 (D.C. Cir. 1987) (stating that “[i]t 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.”). However, the BPAI was not doing anything that the law forbid in *In re Comiskey*. However, the BPAI was not doing anything that the law forbid in *In re Comiskey*.

²³⁷ See *Koyo Seiko Co. v. United States*, 95 F.3d 1094, 1099–1102 (D.C. Cir. 1996) (affirming a Department of Commerce antidumping proceeding where the only issue was one of statutory construction, and the “plain language of the statute compel[led] the conclusion”). See also Kevin M. Stack, *The Constitutional Foundations of Chenery*, 116 YALE L.J. 952, 965-66 (2007) (discussing the limits of *Chenery*).

²³⁸ See *supra* note 221 and accompanying text.

²³⁹ 35 U.S.C. § 101.

²⁴⁰ 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 reign in the scope of patentable subject matter.”); Robert A. Kriess, *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.”).

²⁴¹ See 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) (discussing the fractured nature of the *Bilski* decision with regard to what constitutes patentable subject matter).

²⁴² The Supreme Court had initially shied away from weighing in too heavily on policy issues surrounding patentable subject matter. In *Diamond v. Chakrabarty*, the Court explicitly noted that policy concerns regarding safety concerns was best left to the legislative process. 447 U.S. 303, 317 (1980) (“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

unclear how the Federal Circuit could justify this type of decision as one that involves no policy issues.

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 it 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 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."²⁴³ 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, thereby violating 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.²⁴⁴ Consequently, if the PTO were to adopt a policy that was contrary to that of the current administration, the director would face removal by the President. If the public is displeased with the PTO's actions, it has the opportunity to vote the current President out

process involves the balancing of competing values and interests, which in our democratic system is the business of elected representatives."'). But in *Bilski*, the Supreme Court directly confronted the policy debate on how to promote innovation through defining what constitutes patentable subject matter. Compare *Bilski*, 130 S. Ct. at 3227 (Kennedy 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 *Bilski*, 130 S. Ct. at 3254 (Stevens concurrence) (arguing that business method patents do not promote innovation).

²⁴³ *Church of Scientology v. IRS*, 792 F.2d 153, 165 (D.C. Cir. 1986) (Silberman, J., concurring) ("The precept that the agency's rationale must be stated by the agency itself stems from proper respect for the separation of powers among the branches of government."'). 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."').

²⁴⁴ See Nathan Alexander Sales and Jonathan H. Alder, *The Rest is Silence: Chevron Deference, Agency Jurisdiction, and Statutory Silence*, 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); Margaret H. Lemos, *The Other Delegate: Judicially Administered Statutes and the Nondelegation Doctrine*, 81 S. CAL. L. REV. 405, 449 (2008) (discussing the role of accountability in executive branch agencies in comparison to courts).

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.²⁴⁵

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

D. *Judicial Review of International Trade Commission Decisions*

The Federal Circuit's agency-like behavior is not limited to judicial review of PTO patent decisions. The ITC is an independent agency that has the power to issue exclusion orders that block goods that infringe patents, copyrights, and trademarks from entering the U.S. under the Tariff Act of 1930.²⁴⁶ This power arises under section 337(a) of the Tariff Act, which was enacted to protect domestic companies against the harsh effects of free trade.²⁴⁷

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.²⁴⁸ Consequently, as I discussed in a previous article, a strong argument can be made that ITC patent validity and enforceability determinations should be entitled to deference under *Chevron v. Natural Resources Defense Council*.²⁴⁹ Under section 337 of the Tariff Act, the ITC must

²⁴⁵ See Richard A. Posner, *Theories of Economic Regulation*, 5 BELL J. ECON. & MGMT SCI. 335, 338 (1974) (noting that agencies must go to legislative appropriations committees each year and that there is competition for limited funds); Barry R. Weingast and Mark J. Moran, *Bureaucratic Discretion or Congressional Control? Regulatory Policymaking by the Federal Trade Commission*, 91 J. POL. ECON. 765, 769 (1983) (discussing how public hearings and investigations are used to police agencies that poorly function, agencies compete for limited funding, and congress exerts control over appointments).

²⁴⁶ See 19 U.S.C. § 1330 (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 ("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(d)(1) (2006) ("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..."); 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).

²⁴⁷ See Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 542–544 (2009) (discussing how the creation of the ITC reflected a compromise between free trade supporters and protectionists, wherein trade was liberalized but unfair competition by foreign entities was punished).

²⁴⁸ See 19 U.S.C. § 1337(c) ("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.").

²⁴⁹ Kumar, *supra* note 1, at 1562-85. See also *United States v. Mead*, 533 U.S. 218, 229 (2001) (noting that "a very good indicator of delegation meriting *Chevron* treatment in express congressional authorizations to engage in the process of rulemaking or adjudication that produces regulations or rulings for which

determine when an imported good infringes a “valid and enforceable patent.”²⁵⁰ That phrase, however, is undefined in the Tariff Act, and the Tariff Act fails to cross reference the Patent Act.²⁵¹

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 a Judge Newman-authored opinion, *Kinik v. ITC*.²⁵² In that case, the court stated in dicta that the ITC was entitled to *Chevron* deference when it decided that a defense under the Patent Act does not apply in ITC proceedings.²⁵³ This decision was extremely controversial and led to Senate Hearings.²⁵⁴

One important aspect of ITC adjudication is that it doesn't have preclusive effect in district courts. Two-thirds of all patent cases litigated in the ITC are also litigated in Federal Court.²⁵⁵ 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.²⁵⁶ The court based this decision on legislative history from the 1974 Tariff Act, where Congress stated that the ITC could only consider validity and enforceability for the purpose of deciding whether section 337 was violated.²⁵⁷ Consequently, even if an ITC decision leads to an undesirable outcome from the Federal Circuit's perspective, it is free to disregard it with regard to 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 principals 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 co-equal branch of government. These agencies are not the court's alter ego, but part of the executive branch that has been entrusted by Congress with

deference is claimed” and observing that the “overwhelming number” of Supreme Court cases applying *Chevron* deference involve notice-and-comment rulemaking or formal adjudication).

²⁵⁰ 19 U.S.C. § 1337(a)(1)(B)(i).

²⁵¹ Kumar, *supra* note 1, at 1576.

²⁵² *Kinik v. U.S. Int'l Trade Comm'n*, 362 F.3d 1359, 1361 (Fed. Cir. 2004).

²⁵³ *Id.*

²⁵⁴ See *Process Patents: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 86-87 (2007) (statement of Sen. Patrick Leahy) (testifying regarding controversy surrounding the *Kinik* decision).

²⁵⁵ Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 70 (2008).

²⁵⁶ *Texas Instruments, Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568-69 (Fed. Cir. 1996).

²⁵⁷ *Id.* (quoting S. REP. NO. 1298, 93d Cong., 2d Sess. 196 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7329). See also H.R. REP. NO. 93-571, at 78 (1974).

policymaking powers. By taking this power for itself, the Federal Circuit undermines separation of powers.

V. NORMATIVE IMPLICATIONS

[This Part will discuss the costs and benefits of having the Federal Circuit administer the Patent Act. It will also consider whether the model is stable, given intervention by Congress and the Supreme Court.]

VI. CONCLUSION