Title

Administrative Law and Intellectual Property

Ryan L. Frei, Ph.D.

September 26, 2023

Klarquist

Is the USPTO an Administrative Agency?

Is the USPTO an Administrative Agency?

- 1790 – The Patent Board was established by the first Congress with Thomas Jefferson serving as one of the examining board members
- 1802 – Commissioner of Patents Established
- 1836 – Patent Act rewritten; “patent examiners” established
- 1872 – First Edition of the Official Gazette
- 1920 – First MPEP Published
- 1946 – Administrative Procedure Act (“APA”) passed
- 1952 – Patent Act
- 1975 – Patent Office Renamed as the “United States Patent and Trademark Office”
- 2011 – Leahy-Smith America Invents Act

Is the USPTO an Administrative Agency?

- 1790 – The Patent Board was established by the first Congress with Thomas Jefferson serving as one of the examiners
- 1802 – Commissioner of Patents Established
- 1836 – Patent Act rewritten; “patent examiners” established
- 1872 – First Edition of the Official Gazette
- 1920 – First MPEP Published
- 1946 – Administrative Procedure Act (“APA”) passed
- 1952 – Patent Act
- 1975 – Patent Office Renamed as the “United States Patent and Trademark Office”
- **1999 – Dickinson v. Zurko**
- 2011 – Leahy-Smith America Invents Act

Does Administrative Law Matter To IP Lawyers?

IP lawyers should care about Administrative Law *Right Now*

- **Administrative law is in flux at the Supreme Court:**
  - Nondelegation
    - Possible impact on Congress's ability to give flexibility to agency decision making
  - Appropriations
    - Possible impact on USPTO fee-based funding
  - Removals
    - Possible impact on for-cause removal protections of APJs
  - Statutory Interpretation (i.e., *Chevron* deference)
    - Could change the standard of review for all agency regulations

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. **Congressional control (e.g, nondelegation)**
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Congressional Control: Nondelegation

- "All legislative powers herein granted shall be vested in a Congress of the United States…" U.S. Const., Art. I, Sec. 1.
- How much responsibility can Congress and the President give to agencies?
  - "Intelligible principle" test. *J.W. Hampton v. United States*, 276 U.S. 394 (1928)
  - There are limits on who power can be delegated to. *A.L.A. Schechter Poultry Corp. v. United States*, 295 U.S. 495 (1935)

Congressional Control: Nondelegation

- *Gundy v. United States, 139 S. Ct. 2116 (2019)*
  - Affirmed that giving power to attorney general to determine whether the Sex Offender Registration and Notification Act applied to those who offended before it was enacted
  - But Gorsuch, Roberts, Thomas, and Alito made clear they're willing to revisit the non-delegation doctrine (Kavanaugh recused)
- ***SEC v. Jarkesy*, No. 22-859 *(this term)***
  - Question: Whether too much is deference given in allowing SEC to choose between internal SEC adjudications and district court actions.
- PRACTICE TIP: The outcome of this case could cause a significant number of disputes over how much delegation is allowable.

Congressional Control: Major Questions Doctrine

- *West Virginia v. EPA* (2022)
  - Overturned 2015 Clean Power Plan ruling that the EPA needed "clear congressional authorization"
- *Biden v. Nebraska* (2023)
  - Overturned student loan forgiveness program

Congressional Control: Appropriations Clause

- ***Consumer Financial Protection Bureau v. Community Financial Services Association of America, Ltd., No. 22-448 (this term)***
  - Can the CFPB be funded directly from the Federal Reserve without Congress making a specific appropriation?

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Executive Control: Appointment of Agency Officials

- Article II, Section 2, Clause 2:
  - *[A]ll other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.*

Executive Control: Appointment of Agency Officials

- Article II vests the "executive Power" in the president.
  - But Article II also creates a rather complex array of relationships between the Congress, President, and appointed officials which define their respective authorities.
  - Recent case law on Article II's Appointments Clause has been rather ambiguous.
- Who is an "officer of the United States"?
  - Principal vs. Inferior Officers

Executive Control: Principal vs. Inferior Officers

- United States v. Arthrex, Inc., 141 S. Ct. 1970 (2021)
  - Challenge of PTAB Administrative Patent Judges ("APJs")
    - Judges did not fit into prior case law on inferior officers
  - APJs have some unreviewable authority (decision whether to institute IPRs)
    - Inferior officers cannot wield unreviewable authority
  - Resulted in court-created ability for the PTO Director to review institution decisions
- PRACTICE TIP: Who is making the decision? Is there review by a Principal Officer who is confirmed by Congress?

Executive Control: Removal of Agency Officials

- What conditions can Congress place on removal of executive officers?
- For-cause removal statues are constitutional:
  - *Humphrey's Executor v. United States*, 295 U.S. 602 (1935)
- Two-layer insulation is not constitutional:
  - *Free Enter. Fund v. Pub. Co. Acct. Oversight Bd.*, 561 U.S. 477 (2010)
- ***SEC v. Jarkesy*, No. 22-859 *(this term)***
  - Argues that all Administrative law judges must be removable at will by the president
  - Patent examiners are not ALJs, and the Court already rejected the opportunity to remove for-cause protections for APJs in *U.S. v. Arthrex*

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Procedural Due Process

- *Goldberg v. Kelly*, 397 U.S. 254 (1970)*:* Right to an evidentiary hearing for recission of welfare benefits
  - Procedural Due Process requires the ability to get a hearing:

    1. Need not be judicial, but must give notice and reasons with the ability to defend

    2. Must be allowed to retain counsel if desired

    3. Decision must be based "solely on the legal rules and evidence adduced at the hearing."

    4. Decision maker need not make formal findings, but should cite the reasons and evidence supporting the decision

    5. Decision maker must be impartial (can have been involved in previous aspects of the case, as long as they did not participate in the decision)

Procedural Due Process at the USPTO

- Patentee must have enough opportunity to respond to a challenger's theory
  - *E.g., In re Biedermann*, 733 F.3d 329 (Fed. Cir. 2013)
    - Examiner's motivation to combine: prior art has "a limited number of threads that could be used and that a square thread was the most efficient"
    - Board's motivation: prior art "teaches avoiding splaying with saw-tooth threads; that saw-tooth threads are buttress threads; that Steinbock groups together the square threads and buttress threads; and that square threads avoid splaying"

Procedural Due Process at the USPTO

- Procedural Due Process is a Constitutional right and applies to all agency actions

- PRACTICE TIPS:
  - As applicant or patent owner: Review final decisions for new grounds that you could not have responded to
  - As a challenger: Make sure not to lead the Board to introduce new grounds that the PO is not allowed to respond to

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Rulemaking

- Two types:
  - Notice & comment rulemaking
  - Informal rulemaking

Notice & Comment Rulemaking

- For "legislative" rules
- Substantive and have the force of law
- Usually to amend the Code of Federal Regulations
- *Portland Cement Ass'n v. Ruckelshaus*, 486 F.2d 375 (D.C. Cir. 1973)
  - Notice must disclose the technical data and studies that the formed the basis for the proposed rule
- PRACTICE TIP:
  - If a regulation is unfavorable, don't just accept it as given.

Notice & Comment Rulemaking

- Notice & Comment Process:
  1. Agency drafts a rule
  2. Presidential review (by the Office of Information & Regulatory Affairs) before publication
  3. Must publish the proposed rule for public comment (typically 30-60 days). Generally published in the Federal Register.
  4. Second presidential review (by OIRA)
  5. Agency may or may not republish the rule before final rulemaking (and incorporation into CFR)

Informal Rulemaking

- What is informal rulemaking?
- Four part test, asking:
  - "(1) whether in the absence of the rule there would not be an adequate legislative basis for enforcement action or other agency action to confer benefits or ensure the performance of duties,
  - "(2) whether the agency has published the rule in the Code of Federal Regulations,
  - "(3) whether the agency has explicitly invoked its general legislative authority, or
  - "(4) whether the rule effectively amends a prior legislative rule. If the answer to any of these questions is affirmative, we have a legislative, not an interpretive rule.
- "If the answer to any of these questions is affirmative, we have a legislative, not an interpretive rule."
  Am. Min. Cong. v. Mine Safety & Health Admin., 995 F.2d 1106, 1112 (D.C. Cir. 1993)

Informal Rulemaking

- Interpretive rulemaking doesn't require the same processes as legislative notice & comment rulemaking
- The interpretive rule or policy statement must not set new legal standards or impose new requirements.
- Guidance Documents that do not contain amendments to the CFR and are not subject to the notice and comment process.

Informal Rulemaking at the USPTO

- Commonly used documents are largely informal rulemaking:
  - MPEP
  - PTAB Trial Guide

- PRACTICE TIP: Watch for informal rules that:
  - fill legislative gaps
  - invoke legislative authority
  - effectively amend legislative rules

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Adjudication: Scope of Authority

- Agencies have broad powers of review
  - Investigator, judge, and jury: *Withrow v. Larkin*, 421 U.S. 35 (1975)

Adjudication: Formal vs. Informal

- Formal Adjudication
  - Only applies when statutes require the adjudication to be "on the record after opportunity for agency hearing." APA § 554
  - Formal adjudications must be an oral, trial-type proceeding
  - (Not often used)
- Informal Adjudication
  - Subject only to Due Process clause, statutes, and agency regulations

Adjudication at the USPTO

- *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018)
  - Question: Is the PTO allowed to rescind patents once they're granted?
  - Patents grant *public* rights, meaning they can be authorized and deauthorized
  - Private rights must be adjudicated in courts, but public rights can be granted and rescinded by agencies
- But note that patents are *private property* as determined in *United States v. Bell Telephone Co.*, 167 U.S. 224 (1897), which the government itself cannot petition to rescind

Administrative Law Roadmap

1. Constitutional limits on agency authority
   a. Congressional control (e.g, nondelegation)
   b. Executive control (e.g., appointments, removal)
2. Agency actions
   a. Procedural due process
   b. Agency rulemaking
   c. Agency adjudication
   d. Judicial Review of Agency Actions

Skidmore Deference to Agency Interpretations of Statutes

- *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944)
  - "We consider that the rulings, interpretations and opinions of the Administrator under this Act, while not controlling upon the courts by reason of their authority, do constitute a body of experience and informed judgment to which courts and litigants may properly resort for guidance. The weight of such a judgment in a particular case will depend upon ***the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade***, if lacking power to control."
- Applies to all agency actions

Chevron Deference to Agency Interpretations of Statutes

- *Chevron, U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 843 (1984)
  - "[I]f the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency's answer is based on a permissible construction of the statute."
- Applied to formal proceedings:
  - Formal adjudications
  - Notice & comment rulemaking
- ***Loper Bright Enterprises v. Raimondo*, No. 22-451 (this term) challenges Chevron deference**

Auer Deference to Agency Interpretation of Agency Regulations

- *Auer v. Robbins*, 519 U.S. 452 (1997)
  - Agency interpretations of regulations are reviewed under "plainly erroneous" standard
  - Because the salary-basis test is a creature of the Secretary's own regulations, his interpretation of it is, under our jurisprudence, controlling unless plainly erroneous or inconsistent with the regulation." *Auer*, 519 U.S. at 461.

Statutory Interpretation at the USPTO

- *SAS Inst., Inc. v. Iancu, 138 S. Ct. 1348* (2018) (refusing to give deference under *Chevron* to the PTO's interpretation allowing institution on less than all grounds in an IPR)
- *Power Integrations, Inc. v. Semiconductor Components Industries, LLC*, 926 F.3d 1306, 1317-18 (Fed. Cir. 2019) (refusing to give Chevron deference to a PTO regulation and non-precedential PTO opinions interpreting the regulation since the regulation "merely parrots the statutory language")

Statutory Interpretation at the USPTO

- *Intra-Cellular Therapies, Inc. v. Iancu*, 938 F.3d 1371 (Fed. Cir. 2019) (affirming a summary judgment to the PTO dismissing a patentee's challenge to the PTO's patent term adjustment calculation, ruling, *inter alia*, that since the statute did not address what was "reasonable efforts" to advance prosecution in the context of responding to a final rejection, the PTO regulations addressing this issue were entitled to Chevron deference)
- PRACTICE TIP: Always review the statute that the regulation is based on (*especially if* Chevron *is overturned*).

Judicial Review of Adjudications

- Dickinson v. Zurko, 527 U.S. 150 (1999)
  - Is the USPTO:
    - an agency with review for "substantial evidence" under the APA or
    - a lower court reviewed for "clearly erroneous" evidence?
- The Federal Circuit must determine whether the PTO's decision is supported by "substantial evidence," which requires the "court to ask whether a 'reasonable mind might accept' a particular evidentiary record as 'adequate to support a conclusion.'"

Who can seek judicial review?

- "a person who is not the owner of a patent may file with the Office a petition to institute an inter partes review of the patent." 35 U.S.C. § 311
- BUT appeals to Article III courts require constitutional standing:
  - Patent Owner has standing
  - Others who can show:
    - First, the party must show that it has suffered an "injury in fact" that is both concrete and particularized, and actual or imminent (as opposed to conjectural or hypothetical).
    - Second, it must show that the injury is fairly traceable to the challenged action.
    - Third, the party must show that it is likely, rather than merely speculative, that a favorable judicial decision will redress the injury.
  - *Consumer Watchdog v. Wisconsin Alumni Rsch. Found.*, 753 F.3d 1258, 1260–61 (Fed. Cir. 2014)

Which Court Reviews PTO Decisions?

- Examinations
  - E.D. Va. (35 U.S.C. § 145)
  - Federal Circuit (35 U.S.C. § 141(a)) (waives review by E.D. Va.)
- Reexaminations
  - Federal Circuit (35 U.S.C. § 141(b))
- Post-grant and Inter Partes Reviews
  - Federal Circuit (35 U.S.C. § 141(c))
- Derivation proceedings
  - Federal Circuit (35 U.S.C. § 141(b))

Timing of Judicial Review

- After final actions by PTO:
  - 63 days to appeal to Fed. Cir. (37 C.F.R. § 90.3; 35 U.S.C. § 142)
- But the Supreme Court allowed pre-enforcement review in *Axon Enterprise, Inc. v. Fed. Trade Comm'n, 598 U.S. 175 (2023)*
  - Ruling was specific to FTC and SEC
  - *Not yet applied to the USPTO*

Takeaways

- Administrative law has been changing quickly
- This will likely be a blockbuster Supreme Court term for administrative law
- Be ready to deal with:
  - *SEC v. Jarkesy*, No. 22-859:
  - *Loper Bright Enterprises v. Raimondo*, No. 22-451
  - *Consumer Financial Protection Bureau v. Community Financial Services Association of America, Ltd.*, No. 22-448