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Thomas G. Field Jr

Franklin Pierce Law Center, tfield@piercelaw.edu

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Zurko Raises Issue of Patentability Standards

[Thomas G. Field Jr.](#), Special To *The National Law Journal* (Feb. 8, 1999, at C2.)

High court to rule on whether agency deference should apply to PTO patentability decisions.

LAST AUGUST, IT WAS reported here that "the nation's dependence on technological innovation has pushed the once-obscure U.S. Court of Appeals for the Federal Circuit center stage."^[1] The article quoted several critics of the court and questioned whether the court serves the purposes for which it was designed. It also noted that the Supreme Court rarely second-guesses the Federal Circuit.

The last was soon confirmed. In *Pfaff v. Wells Electronics Inc.*,^[2] the Supreme Court did indeed unanimously affirm a unanimous Federal Circuit decision. Several intellectual property professors nevertheless speculated about the reason certiorari was granted.^[3]

Professor Rochelle Dreyfuss, of New York University School of Law, said, "I think *Pfaff* was granted [cert.] because the [court] takes a good hard look at each circuit from time to time."^[4] *Pfaff* itself confirms that view, stating that certiorari was granted because other circuits, before the creation of the Federal Circuit in 1982, had reached a contrary conclusion.^[5] Surely, pointing out disagreement among circuits without jurisdiction over an issue shows interest in something besides reducing circuit conflicts.

Some might find an even stronger signal of Supreme Court interest in the Federal Circuit as such sent by the grant of certiorari in *Lehman v. Zurko*.^[6] The solitary opinion on review, after all, was joined by the entire circuit *en banc* -- and there is little, if any, direct authority to contradict it.

Yet, *In re Zurko*^[7] isolated one of the oldest U.S. agencies from mainstream administrative law because the Federal Circuit has chosen to review the U.S. Patent and Trademark Office more as it would a federal district court. The case is important, if only because the Supreme Court rarely treats the PTO as an agency.^[8] Also, regardless of whether the issue or the Federal Circuit itself is the primary target, the decision could have a major effect on the type of case

most commonly encountered by that court.

A Long Struggle

Simply stated, the issue in *Zurko* is whether, after passage of the Administrative Procedure Act (APA) in 1946, an approach different from any set forth in that act is permissible for reviewing PTO patentability decisions, possibly despite that standard's being used for a substantial, if debatable, period of time.

The issue came to be addressed *en banc* only after what the Federal Circuit aptly characterized as an "aggressive" PTO campaign^[9] to have decisions of its Board of Patent Appeals and Interferences reviewed according to the standards set forth in the APA. When the office pressed the issue earlier, the appellant in *In re Kemps* complained of being "a bystander to some long-running dispute to which he really is not a party."^[10] Yet, no one challenging a PTO patentability decision should complain of being a bystander with regard to either standards of patentability or court review.

The 1966 *Graham* trilogy^[11] remains pre-eminent on patentability standards. The primary decision involved patents held by two different firms. Justice Tom C. Clark, in turn harking back to the dawn of the U.S. patent system, stressed the early influence of Thomas Jefferson. He pointed out that Jefferson, the first patent administrator and author of the Patent Act of 1793, was initially hostile to patents.

That Jefferson's hostility was eventually overcome is best shown in 1980's landmark *Chakrabarty* decision, particularly its quoting of his conclusion that "ingenuity should receive a liberal encouragement."^[12] Yet, he continued to wrestle with the difficulty of drawing a line between those inventions "worth to the public the embarrassment of an exclusive patent, and those which are not."^[13]

That difficulty did not abate. Rather, it became more complex between the 1790s and the passage of the 1952 Patent Act. The act was found to have effected little change in patentability as it had developed in the previous century. Yet, Justice Clark flagged "a notorious difference between standards applied by the Patent Office and by the courts."^[14]

Although *Graham* also acknowledged the challenging nature of the office's task, that is unlikely to have afforded the PTO much solace. Two of the three patents considered in the trilogy were held invalid. Indeed, that one was upheld in the companion case, *U.S. v. Adams*,^[15] is more remarkable. According to Professor Martin Shapiro, of the University of California at Berkeley School of Law (Boalt Hall), the court had "held only two patents valid on their merits" and "did not reverse a single lower-court finding of invalidity"^[16] in a span of more than three decades before *Graham*.

It is, nevertheless, doubtful that the office was at fault. Nor should much be made of the fact that Justice Clark said that "the primary responsibility for sifting out unpatentable material lies in the Patent Office."^[17] On the contrary, the Office seemed to have been caught between the Scylla of pre-grant reversal in the Court of Custom and Patent Appeals (CCPA), a predecessor appellate court (after unsatisfied applicants appealed), and the Charybdis of post-grant "reversal" in many other courts (after infringers attacked patents' validity).

Later the same year, a commission appointed by the Johnson administration put the real power -- if not also the responsibility -- elsewhere. It found the "notorious difference" cited by Justice Clark to have come about in part "because the CCPA... to a large extent determines the standards applied."^[18]

Recommending an approach specifically rejected by the Federal Circuit in *Zurko*, the Johnson Commission suggested that the CCPA not "substitute its own judgment." It urged, instead, that courts "determine only whether the Patent Office had reasonable basis for its decision, not whether a different decision logically could have been reached on the same record."^[19] It is indeed ironic that the Johnson Commission and the Federal Circuit each characterize their respective, but fundamentally opposite, approaches as "clearly erroneous" review.^[20]

The commission further recommended, significantly presaging in 1966 the

1982 creation of the Federal Circuit, that CCPA decisions be reviewable in the D. C. Circuit, at the behest of either the applicant or the PTO. Those recommendations, however, did not find a place in the statute.

Thus, a half-dozen years later, Judge Eugene Worley could chide fellow CCPA judges by citing continuing estimates that "80% of contested patents are being held invalid in other federal courts." He, too, blamed the CCPA for the disparity, accusing his colleagues of passing out patents "like party favors."[\[21\]](#)

'Differing Guesses'

No doubt, as observed by Professor Shapiro, "differing guesses of administrators and Supreme Court justices over whether liberal issuance of patents on balance encourages or discourages technological development"[\[22\]](#) had much to do with such disagreements. Still, it is doubtful that "differing guesses" fully explains apparent differences in standards.

How much disparity would result from nothing more than applicants' having more money for appeals than the office had to support refusals to issue patents of desired scope? That question has particular vitality today. Congress diverted at least \$ 92 million from PTO user fees into the general treasury in 1998, and at least \$ 71 million more is earmarked for the general treasury in 1999.

Further, any attempt to determine whether patentability standards differed in fact as well as in perception should take stock of the comparative resources available to applicants and infringers. How often do the latter, knowing full well the worth of patents that block them from mature markets, muster more to defeat patents than innovators could have spent sooner to patent technologies with an uncertain future -- and how much more?

It would be naive to expect that anything like the same level of scrutiny achieved in district courts can be obtained within the PTO at much less cost. Also, in the mid-1960s, prior art in the hands of applicants, for example, was not always considered before infringement litigation.[\[23\]](#)

Because the invalidity rate is now lower than it was between the 1930s and the 1960s, some suspect federal circuit judges, even those not formerly on the CCPA, of being unduly "pro-patent." Former corporate patent counsel seem to be particularly suspect. Yet such suspicions are difficult to reconcile with *Pfaff*, for example. The Federal Circuit did, after all, invalidate a patent that apparently would have been upheld by other circuits had they retained jurisdiction.

More basic, such suspicions would be difficult to reconcile with the notion of patents as both sword and shield. Why would former patent attorneys, much less corporate lawyers, favor low patentability standards? Commercial parties, in particular, are as apt to be infringers as to be patentees. Indeed, most could easily find themselves in both roles simultaneously. Thus, it is difficult to see how experience as a corporate patent counsel could lead to unsuitable bias in judging whether an invention, either before or after the fact, warrants the "embarrassment of an exclusive patent."

The Johnson Commission recommended possible appeals to the D.C. Circuit because CCPA judges might have unduly narrow perspectives. To the extent that the CCPA might have been blindsided by seeing only direct appeals, however, that recommendation might have accomplished little over the long haul. Few, if any, infringement appeals go to the D.C. Circuit.

Although the Federal Circuit initially suffered from a similarly narrow perspective, it has now grappled with all infringement appeals for more than 16 years. Having circuit-level jurisdiction over all patent cases, it should eventually discover any rules that are overly deferential to patent applicants.

There is no guarantee, of course, that all such rules will be discovered in infringement litigation. Yet, the chances are better than under virtually any other scheme for evolving, with reasonable speed, complex standards that make sense both before and after patent grants.

In fact, the Federal Circuit partly justified its approach in *Zurko* as promoting "consistency between our review of the patentability decisions of the board and the district courts in infringement litigation" and as helping to "avoid situations where board fact finding on matters such as anticipation... become[s] virtually

unreviewable."[\[24\]](#) The court therefore confirmed its intention to continue reviewing under the clearly-erroneous standard.

The court, however, did not explain how consistency would be achieved over the full range of patentability cases. While district court bench trials are reviewed under the clearly-erroneous standard of F.R.C.P. Rule 52(a) (not necessarily the standard embraced in *Zurko*), fact-finding by juries and the International Trade Commission (ITC) is reviewed under the more deferential substantial-evidence standard. That option, belatedly urged by the PTO in *Zurko*, was explicitly rejected by the court.

Hence, the Federal Circuit has chosen not to review PTO fact-finding as it reviews that of the ITC, other agencies or even the PTO itself in different contexts.[\[25\]](#) Further, in a stark, unambiguous departure from mainstream administrative law, it refused to review on the Board of Patent Appeals and Interferences' own reasoning.

Instead, it said, "By making it clear that we review... on our own reasoning, we hope the board understands that we are more likely to appreciate and adopt reasoning similar to its reasoning when it is both well articulated and sufficiently founded on findings of fact."[\[26\]](#)

As in *Pfaff*, the Supreme Court may affirm *Zurko*. If not, what difference will it make?

Most people would agree that continued economic health in the information age requires that we provide adequate opportunity for innovators to recoup risk capital while avoiding the competitive burden of unwarranted patents. Yet assigning primary responsibility for striking that balance on a day-to-day basis is surely as vital. Will it go to the Federal Circuit or to the PTO?

More than once, the Supreme Court has said that the office has primary responsibility for separating the wheat from the chaff.[\[27\]](#) Lawyers will soon learn exactly what that means.

Practical Effects

Oral argument at the Federal Circuit briefly addressed whether and how much the reversal rate would change if the PTO's patentability decisions were reviewed with the same deference accorded other agencies. While some numbers were mentioned, there is no guarantee of any effect.

If the Federal Circuit's tendency to reverse drops, surely potential appellants will consider that in deciding whether to appeal. Moreover, depending on how the scope of review is framed, the tendency to reverse may not change at all.

If any difference occurs, it will most likely be in a direction already urged by Judge Paul R. Michel, of the Federal Circuit[\[28\]](#) -- toward requiring fuller articulation of the Board of Patent Appeals and Interferences' grounds for decision. If so, the office may find itself unable to meet that conventional administrative demand.

Indeed, efforts to meet such a demand would present a major challenge. Former PTO Solicitor Nancy Linck recently noted that the board has a backlog of 9,000 appeals.[\[29\]](#) She wondered how that backlog could be reduced if the board were required to write more thorough opinions. The only possible answer seems to be "with more people." That means more money. Where would it come from?

Those familiar with the patent system should have no problem answering. Most already see a critical need to staunch multimillion-dollar diversions of user fees that amount to a hefty tax on innovation. Should the Supreme Court reverse in *Zurko*, perhaps the biggest practical effect will be to increase pressure to keep those fees within the PTO. If so, many would see that alone as salutary.

[\[1\]](#) See Victoria Slind-Flor, "Federal Circuit Judged Flawed," *NLJ*, Aug. 3, 1998, at A1.

[\[2\]](#) 119 S. Ct. 304 (1998) (an invention need not be actually "reduced to practice" to be barred from patentability if it is offered for sale more than a year before a patent application is filed).

- [3] On the IPProfs e-mail list, hosted at Franklin Pierce Law Center.
- [4] *Id.*
- [5] *Pfaff, supra* n.2, at 308.
- [6] *Dickinson v. Zurko*, 119 S. Ct. 401 (mem. 11/8/98).
- [7] 142 F.3d 1447 (Fed. Cir. 1998).
- [8] An interesting instance is *Butterworth v. Hoe*, 112 U.S. 50 (1884) (the Secretary of the Interior, who then supervised the Patent Office, was found without general power to review its patent decisions).
- [9] 142 F.3d at 1449.
- [10] 97 F.3d 1427, 1431 (Fed. Cir. 1996) (quoting appellant's brief).
- [11] *Graham v. John Deere Co.*, 383 U.S. 1 (1966), was essentially two cases; the third was *U.S. v. Adams*, 383 U.S. 39 (1966).
- [12] *Diamond v. Chakrabarty*, 447 U.S. 303, 309 (1980) ("statutory subject matter 'include[s] anything under the sun that is made by man'").
- [13] As quoted in *Graham, supra* n.11, at 9.
- [14] *Id.* at 18 ("trademark" did not become part of the Office's name until 1975).
- [15] 383 U.S. 39.
- [16] Martin Shapiro, *The Supreme Court and Administrative Agencies* 165 (1968).
- [17] 383 U.S. at 18.
- [18] The President's Commission on the Patent System, "To Promote the Progress of... Useful Arts" in an Age of Exploding Technology 29 (preliminary printing 1966).
- [19] *Id.* at 31.
- [20] *Id. Compare* 142 F.3d at 1449.
- [21] *In re Arkley*, 455 F.2d 586, 593 (CCPA 1972) (dissenting). *See also* *In re Nixon*, 470 F.2d 1374, 1401 (CCPA 1973) ("supplemental opinion" -- his "swan song" as chief judge).
- [22] Martin Shapiro, *supra* n.15, at 156.
- [23] *See, e.g., Digital Equipment Corp. v. Diamond*, 653 F.2d 701 (1st Cir. 1981) (one of the final episodes in the PTO's efforts to address that problem by imposing internal sanctions for failure to disclose).
- [24] *Zurko*, 142 F.3d at 1458.
- [25] *See, e.g., Klein v. Peterson*, 696 F. Supp. 695 (D.D.C. 1988), *aff'd* 866 F.2d 412 (Fed. Cir.), *cert. denied*, 490 U.S. 1091 (1989) (reviewing sanctions imposed on a practitioner).
- [26] *Zurko*, 142 F.3d at 1458.
- [27] *Kewanee Oil Co. V. Bicron Corp.*, 416 U.S. 470, 488 (1974) (citing above-quoted language from *Graham*).
- [28] *See, e.g., Gechter v. Davidson*, 116 F.3d 1454 (Fed. Cir. 1997).
- [29] Comments to the author's administrative process class at the Franklin Pierce Law Center, Fall 1998.

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Two White Street • Concord, NH 03301 • 603.228.1541

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