Podcast Transcript

How Administrative Law Became the Hottest Topic in Patent Disputes at the Federal Circuit

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Kattman: What comes to mind when you think of hot topics in patent law: subject matter eligibility, obviousness, damages? Quietly, administrative law has moved to the top of the list of issues that consume the attention of the Court of Appeals for the Federal Circuit, and the Supreme Court in patent cases. I am Amy Kattman and you are listening to BakerHosts.

During this podcast, patent litigator John Murphy will explain how that happened, what to expect in the future and what lessons we can learn and apply in patent disputes. John, welcome to the show.

Murphy: Thank you for having me.

Kattman: To begin, I would like you to tell us about administrative law, and what does it have to do with patent law.

Murphy: Sure. Administrative law is not a typical practice group at a law firm, but it is a class that is found at most law schools. It is the law of government – or, maybe it is better to call it the law of governing. And it arises because of the United States Constitution. So, in our constitutional plan, there is a separation of powers among the three branches of government. So, the Constitution divides up governmental powers in these broad but also specific ways, and the Constitution says which people in the government can do which things, sets out the rules of the road and how those people get their power in the first place. And so, this administrative law arose out of the constitutional plan and, for the most part still today, that is the deep underlying basis of most of administrative law. Even when you are
getting buried underneath all of the modern-day complications of the U.S. code, still has the heartbeat of the Constitution underneath of it.

Administrative law also requires that the federal government provide due process. It prohibits the federal government from taking actions that would impair certain rights. And years ago, over 100 years ago, legal thinkers started to put all of these concepts together under an overall umbrella that came to be called administrative law. And that is all still true, but especially coming up through the middle of the 20th century. There was this giant expansion of the role of federal government, as well as all of the administrative machinery, that is necessary to perform this greater role. And that machinery constitutes the hundreds of administrative agencies that were created by Congress and that they are run by the president. Those agencies actually do the day-to-day work of the government. Those agencies are what come into contact with individual people, with businesses. Those agencies give things away, they take things away, they regulate.

So, what happens when you have that type of circumstance? Well, lawyers are going to show up at the party, and legal questions arise. Were these agencies created properly? Are they operating properly? Are the agencies respecting our rights? And so on. The struggle really exploded between the courts and FDR’s new government agencies in the mid-20th century, and that is when administrative law really came into its own. And the courts were being so active that eventually -- long story short -- Congress steps in and issues what is sort of a compromise in 1946 and it is called the Administrative Procedure Act. It is still here today, essentially the same way. Title V, Section 500 and up, 700 and up, and so on. And what the APA does is it sets universal standards that apply to all administrative agencies, instead of each agency having its own standards. And the standards are supposed to structure and categorize different administrative agency actions. For example, there is rulemaking, there is adjudication. These actions have to happen in certain ways; have to be key steps taken; notice; opportunity to be heard; judicial review available; and according to certain standards.

And so, that brings us to the patent office. What is the patent office? Well, it is an administrative agency. If you interact with the patent office, you know that it makes rules; it interprets statutes; it interprets case law; it issues valuable property rights, patents and trademarks, of course. It has a special court inside of it, staffed by judges, and those patent judges deal with very difficult and conflicted cases and, in the process, those judges interpret statutes, case law, they decide the fate of valuable property rights, and the work of the patent office is then reviewed by the courts. So, there is 600 appeals per year from the patent office to the federal circuit. So, it only makes sense that we should be looking at the patent office as an administrative agency and applying administrative law principles to it.

Kattman: Absolutely. Can you tell me what makes you say that administrative law has become the hottest topic in patent appeals?
Murphy: Sure, I think it is a little bit of an intentionally provocative statement. There is probably other things that you could say are the hottest topic, like patent eligibility and other issues. But here is my data to support my claim: On some level of generality, all of the federal circuit’s en banc cases. Which, what an en banc case is, is when the entire federal circuit decides they need to vote on an issue, and so all 12 judges will rule. It is done for major cases when there needs to be a change in the law, or something along those lines. Anyway, all of the federal circuit en banc patent decisions in the past four years, on some level, were administrative law decisions, some more classically administrative law, maybe some more on the fringes. But these cases -- like Click-to-Call (Thryv v. Click-to-Call Technologies), NantKwest (Peter v. NantKwest), Wi-Fi One (Wi-Fi One, LLC v. Broadcom Corp.), Aqua Products (Aqua Products, Inc. v. Matal) -- all of them, and there really haven’t even been any exceptions from that. The federal circuit has not ruled in substantive patent law en banc in the last few years. They’re only focused on these administrative law issues. It’s also become the Supreme Court’s focus in reviewing federal circuit decisions.

Going back to just four or five years ago in Cuozzo (Cuozzo v. Lee), and then the cases that followed that have been some of the biggest headline patent cases: SAS (SAS Institute v. Lee), Oil States (Oil States Energy v. Greene’s Energy), Return Mail (Return Mail v. USPS) and, most recently, Thryv (Thryv v. Click-to-Call Technologies). You have to go back two or three years to see the last really big deal, substantive patent law case from the Supreme Court -- you know, maybe like a TC Heartland (TC Heartland v. Kraft Food) or WesternGeco (WesternGeco v. ION Geophysical), or Lexmark (Impression v. Lexmark); those were years ago. We have not just the rise of administrative law issues but also the lack of activity in substantive patent law areas. The federal circuit and the Supreme Court isn’t diving into traditional patent law doctrines in the way they’re looking at these admin law offices. I think it’s coming out of the appeals in the patent office. An appeal from the patent office is subject to a lot of deference, right? So, if there’s a final rejection, or novelty issue, or whatever it might be, the court applies a very large amount of deference when reviewing those issues. But sort of the flip side of that, in order to get around that, a lot of appellants from the patent office are arguing issues of administrative regularity. Was the process fair and correct? It’s designed to avoid, that kind of argument is designed to avoid that tough standard review. As a result, these issues are getting a lot of attention.

Kattman: So, what’s changed, such that administrative law has become so important?

Murphy: Ok, the patent office goes way back: 1790. In the beginning, there was maybe only one employee, and it grew from there. It wasn’t long before the patent office started making rules, presiding over disputes. The earliest patent disputes were interferences, which are becoming a thing of the past, but they’ve always had disputes. Even if you look at the DNA of the oldest interference, practices and rules is still buried deep within the current trial rules for IPRs. The patent office never forgets, in some ways. The patent office was an old-fashioned administrative agency. You can think of it like an assembly line; so, patent applications come in and patents go out. Congress gives a pretty detailed roadmap on the steps and requirements for this, and then leaves it to the patent
office to figure out what shapes to make the stamps and how to sign the papers. That’s pretty much it. If you look, even today, at the statute that governs the patent office, they have a substantive authority. But that authority, for the most part, is limited to their own conduct, governing their own conduct. To really understand what I’m talking about, I have to put it into contrast.

Take the EPA. Everyone knows who the EPA is: They help keep the environment clean. And if you look at the Clean Water Act and you say, “Okay, what does the Clean Water Act say?” Well, I’m going to paraphrase it, but I’m not paraphrasing by much. The Clean Water Act says, “We, Congress, deem it our national policy to have clean water. So, EPA, go forth and develop comprehensive programs for cleaning all the waters in the United States; go ahead and do that.” That’s a delegation of power. It’s a big delegation of power and if we were running the patent system the same way that the EPA cleans the water, then Congress would, instead of the Patent Act we have, Congress would issue a Patent Act that says, “We, Congress, deem it in our national policy to encourage innovation. So, patent office, go forth and develop comprehensive program for issuing patents and enforcing them. Go ahead.”

Right? And the patent office would make all the patent laws. That’s not how it is at all. The patent office and the EPA are wildly different and administrative law thinkers didn’t look at the patent office, and courts didn’t think about it that way, and litigants didn’t think about the patent office that way. It started to change in 1999 when the Supreme Court issued the Zurko (Dickinson v. Zurko) case, and there, the Supreme Court held that the APAs standard of review framework, the substantial of evidence applied to appeals in the patent office. When you think now, if you were a new patent lawyer just learning the ropes now, you’d think “Well, that’s, like, crazy. How could anyone think that the APA wouldn’t apply to appeals in the patent office?” But that’s how it was. Since then, since about the turn of the century, the number of times the federal circuit references the APA has been climbing drastically, and then it really got big when the AIA came along in 2012. That created the IPRs, the PGRs, CBMs -- those procedures for revoking patents.

When that happened, Congress did a couple things. Number one, is they delegated more power to the patent office for setting up the procedures they use, and that’s been something the federal circuit has looked at; that’s an APA issue. But the bigger one is that, if you’re revoking someone’s patent, you have to apply substantive patent law in order to decide whether the patent claims ought to be canceled or not, and when you do that, inevitably, there’s going to be gaps in the law. That’s what the patent trial and appeal board judges do: They interpret the law. They answer novel legal questions, just like courts, and that’s really gotten the federal circuits attention, because there’s this huge sucking of power out of the court system, into the executive branch. That always gets a court’s attention. Now, that’s what Congress wanted with the AIA. Fair enough, right? But when Congress does that, the courts will look to make sure the administrative agencies are doing it right and within the limits of their congressional power delegation. That’s what the APA does and that’s why it’s become so important.
Kattman: What are some examples of administrative law issues that come up at the patent office?

Murphy: Well, there’s many of them, and they’re becoming more prevalent. Some of them are very familiar operationally. So, a good example is usually when the patent office comes up with a new rules package, some set of rules that are going to govern something. They don’t always do the best job of this by comparison to other agencies, but they issue the rules, they put them out there so everyone can see them. They invite comment, they address the comment, and so on and so forth. The APA is, that’s why the patent office has to do it that way. That’s one example. Others are more exotic. So, for example, there’s been a big dispute about whether the administrative patent judges were even appointed in the proper way under the Constitution. That is an administrative law issue, it has to do with whether the high-level officers and administrative agency are properly exercising their power or not. There’s also the issue of court review which comes up all the time. A severely simple example is, one of the core provisions of the APA is the APA says a court has the power to set aside the action of the administrative agency if it’s found that that action is arbitrary, capricious, an abusive discretion, or not in accordance with the law. That’s not in the Patent Act; that’s the APA. So now, every patent lawyer needs to know when has the patent office done something to me that’s considered arbitrary and capricious under administrative law? If you don’t know that, well then, you don’t know that you’re being wronged.

Kattman: How does the federal circuit treat the patent office’s legal interpretations?

Murphy: This is one of the most central issues of administrative law. It comes up all the time and the answer is, it depends wildly. It depends on the type of legal interpretation, how it was done, who did it, the surrounding context of the circumstances where, when it happened. There’s no one, easy answer. When you look to an appeal on this question, one thing you will always see is the huge fight with the government about the level of deference. The government, as a rule, always wants more deference, and the challenging party wants the court to take a fresh look and, hopefully, agree with their point of view in the appeal. The doctrines that cover all these different circumstances and what level of review is appropriate, all have famous names coming from Supreme Court cases. *Chevron (Chevron U.S.A. v. Nat. Res. Def. Council, Inc.), Auer (Auer v. Robbins), Seminole Rock (Bowles v. Seminole Rock & Sand Co.), Skidmore (Skidmore v. Swift & Co.), Brand X (National Cable & Telecommunications Assoc. v. Brand X Internet Servs.),* and so on. Let me just take it at a really big-picture level, though, rather than getting into the details.

At a really broad level, what you have to look at is this action the administrative agency took. How big a deal is it? Is it substantive, does it affect substantive rights, or is it kind of like a procedural rule? How many people does it effect, and is the person who made the decision or part of the agency that made that decision, what was the law that empowered them to make that decision? Were they within the scope of that? Okay, so let me just put two points on a spectrum. A very simple example is if the patent office decides this is how you’re going to
submit drawings for patent applications in color, then a patent examiner says “Okay, I’m going to apply that in my next office action.” No court is ever going to look at that. It’s just a minor procedural detail that hardly effects any substantive rights at all, and it’s well within the patent offices power and nobody cares, right? On the flip side, what about a situation in the IPR where there’s a completely unsettled question about, for example, what happens when there is a voluntary dismissal in the district court of the complaint, but then more than a year later, someone goes to the patent office and files an IPR? Well, is that or is that not outside the one-year bar? Huge substantive question that will affect everyone profoundly, and that’s the kind of question that can get the court’s attention.

Kattman: Certainly. What about the Supreme Court? How has it been addressing administrative law issues and patent cases?

Murphy: Well, for starters -- and this is part of my support for my thesis that these issues are important -- you have to bear in mind, the Supreme Court is highly interested in administrative law. It is one of their favorite topics. Justice Brier was an incredibly famous, influential administrative law professor. So was Justice Scalia, so was Justice Kagan, and that trend’s going to keep up; it’s not going anywhere. Justice Gorsuch, new to the court, he has a history of interest. He’s written extensively on administrative law issues and he’s been writing in patent cases. *Oil States (Oil States Energy v. Greene’s Energy)* SAS (SAS Institute v. Lee) and Thryv (Thryv v. Click-to-Call Technologies) -- his opinions in those case are just laced with administrative law issues. Justice Kavanaugh came from the D.C. Circuit, which specializes in leads and administrative law doctrines. These issues all go right to the heart of the constitutional order of our government. Who decides things, who has the power. The federal circuit has been very suspicious of the patent office’s new powers. The patent office has now taken patents away. The Supreme Court though has backed the federal circuit off a bit. I think the Supreme Court, in these cases, generally has adhered to what it perceives to be Congress’ plan for the patent office. I think the Supreme Court views Congress is intending a transfer of power into the patent office, and that’s so far what’s happened. But I think the future will hold continued broad trend of suspicion for administrative agency actions. I would not, if I was the patent office, I would not rest easy yet.

Kattman: So, John, what are the hottest cases going on right now in administrative law at the patent office?

Murphy: There’s a few big ones: Arthrex v. Smith & Nephew, Facebook v. Windy City, and Thryv v. Click-to-Call Technologies. Instead of grinding through these cases, I’m going to, let me try to weave them together into a big picture, okay? Patent office has a problem. There’s cases coming up through the ranks at the Patent Trial and Appeal Board that are raising novel legal issues. Then what does a court do, it’s just like a court? Well, they decide the case, they resolve the issue. Then, the question is, what happens next? Okay, another case comes up with the same issue. Will those judges follow the precedent, so to speak, that’s been set by the first group of PTAB judges? There’s no rules for this. Congress didn’t tell the patent office when it created the AIA how to organize it’s court and how the
precedent was going to work. So, the patent office starts to make this up, mimicking the function of a federal court. Eventually, the patent office hits on this idea that we will designate some of the cases precedential, meaning that all the other panels have to follow whatever decision was made.

That’s, like, kind of mind-blowing, because now the patent office is making massive policy decisions that affect thousands of PTAB procedures, and they’re doing this all without having notice and opportunity to be heard for the public, right? There’s no period of comment; there’s no invitation for amicus briefing. All this is happening and there’s another layer on top of this, which is that’s just three judges who made that decision and then it’s blessed -- perhaps by the chief judge of the PTAB -- and determined to become precedential. But who’s in charge of that? Ultimately, who’s in charge of the patent offices? It’s the president, the executive branch, and if in accordance with the administration of the laws, if the executive branch wants patent law to go a certain direction, under the constitutional plan, the executive branch is entitled to do that.

But there’s no way to make that happen at the level of the PTAB because PTAB opinions cannot be overruled and redirected by the director of the patent office and, in turn, the Secretary of Commerce and, in turn, the President of the United States. That is viewed by the courts as a serious administrative law problem, a serious constitutional problem. That’s what happened at these collection of cases, really collectively, is the patent office is busy making these decisions and then when they are appealed to the federal circuit, they’re asking for deference. They say, “No, no federal circuit, leave us alone. We’re just doing our job, don’t look too closely at what we’re doing. Please defer to it.” And the federal circuit is very concerned about the level of deference. They’re very concerned about how these decisions get made and, ultimately, they’re concerned about whether this power is being supervised. These are big deal cases and, in particular, I would watch out for Arthrex v. Smith & Nephew, which may well get a look by the Supreme Court in the coming year.

Kattman: Those are big cases, John. As a final question, what would you say is the practical upshot of the growing importance of administrative law and patent appeals?

Murphy: Three points. First is education. Patent lawyers are not traditionally trained in administrative law. It’s not part of a typical patent law curriculum, but I think that has to change. I think all patent lawyers need to understand these principals so that we can spot the issues in our cases and use them to our clients’ advantage. Second is the concept, just generally, of notice and opportunity to be heard. It is a fundamental concept in administrative law and in these patent office procedures, like IPRs. It’s in a patent lawyer’s nature to put our nose in the books and follow every rule; that’s kind of how patent lawyers are trained to act at the patent office. That’s not how the courts are seeing it. Courts are applying general principals of administrative law that call for due process at a high level, at an APA level or constitutional level. When you’re practicing at the patent office, by all means, you should know and follow all the rules, but you also have to keep your head up high enough so that you can think about if what’s happening is fair to
your client. If you need relief, you have to ask for it, even if it’s not in the rules. If you don’t, you probably waived your rights, and if you do, you might end up getting what you’re looking for -- even on an appeal even if it’s not written in the rules.

Then, third, I’d say these issues are just beginning to evolve; they’re at an embryonic stage. There are other administrative agencies in substantive areas of law that are light years ahead of patent law on this, and the bar is catching up and the federal circuit itself is catching up. So, keep your options open. The law can and absolutely will change in this area.

Kattman: Thank you, John. If you have any questions for John, his contact information is in the show notes. We’ve also included a link to our patent litigation practice team page on the BakerHostetler website. As always, thanks for listening to BakerHosts.

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