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COMPETING WITH THE “PATENT COURT”: A NEWLY ROBUST ECOSYSTEM

Arti K. Rai*

INTRODUCTION

In her elegant and lively address, Chief Judge Wood suggests exposing the Court of Appeals for the Federal Circuit, created in 1982 to hear all appeals from patent cases, to competition from other appellate courts.¹ Under Judge Wood’s proposal, parties would have the choice of seeking review either in the regional circuit in which the district court was located or in the Federal Circuit.² Judge Wood indicates that the Federal Circuit would likely “still play a leading role in shaping patent law,” with regional courts simply allowing room for new ideas and allowing for fuller development of issues before they reach the Supreme Court.³ Judge Wood would also institute consolidation procedures to address concerns about parties filing different appeals in different circuits over the same patent.⁴ In some respects, therefore, Judge Wood’s proposal could be seen as relatively modest.

In patent circles, by contrast, proposals to give regional courts any role in the development of patent law have generally been viewed as modest only in the Swiftian sense. Where Judge Wood sees beneficial competition and experimentation, many patent lawyers see unsustainable levels of uncertainty.

Patent lawyers won the debate in the early 1980s. Congress was convinced of the need to promote greater uniformity and certainty through centralization.⁵ In general, proponents of uniformity and predictability have on their side elements of historical tradition that equate patents not simply with property, but with a very specific vision of inviolable tangible property.⁶

* Copyright © 2014 Arti K. Rai. Elvin R. Latty Professor, Duke Law School; Director, Duke Law Center for Innovation Policy. Thank you to Daniel Mandell for helpful comments.

¹ See Hon. Diane P. Wood, *Is It Time to Abolish the Federal Circuit’s Exclusive Jurisdiction in Patent Cases?*, 13 CHI.-KENT J. INTELL. PROP. 1 (2013).

² *Id.* at 9–10.

³ *Id.* at 10.

⁴ *Id.*

⁵ See, e.g., S. REP. NO. 97-275, at 5 (1981) (“the creation of the Court of Appeals for the Federal Circuit will promote desirable uniformity . . .”).

⁶ See, e.g., Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. REV. 689 (2007) (discussing cases in which nineteenth century courts applied Takings Doctrine to patents).

Although these historical accounts are in tension with post-realist understandings of how property law works,⁷ and arguably in tension with the utilitarian goals of patent law, they enjoy considerable appeal nationally and are regularly deployed by U.S. government actors in international fora.⁸ Considerations of political economy are not on Judge Wood’s side.

Legislative prospects aside, Judge Wood’s proposal does pose sharply the normative question of whether (and to what extent) the Federal Circuit needs competition. In this response, I argue that competition is indeed desirable. Whether such competition is best provided through additional appellate courts is unclear, however. In any event, given our current structure, the more tractable approach is to improve competitive input from sources that have already emerged. These include dissenting Federal Circuit judges, parties and amici who are not “patent insiders,” and perhaps, above all, the executive branch.

I. WHY COMPETITION IS DESIRABLE

The United States Court of Appeals for the Federal Circuit (CAFC) has taken seriously the vision of uniformity and predictability articulated by Congress in 1982. The court’s often formalistic jurisprudence⁹ and its frequent emphasis on *stare decisis*, arguably promote the Congressional vision. Additionally, where panels have diverged significantly, or where dissents in three-judge panels have called out important differences of opinion among judges, the CAFC has often convened *en banc* panels in an attempt to iron out differences.¹⁰ In fact, even where the CAFC has created *vertical* uncertainty—for example, by reviewing *de novo* factual questions already decided by district

⁷ Michael A. Carrier, *Cabining Intellectual Property Through a Property Paradigm*, 54 DUKE L.J. 1, 1 (2004) (discussing the many ways in which property law “is not as absolute as is often claimed”); Carol M. Rose, *Canons of Property Talk, or, Blackstone’s Anxiety*, 108 YALE L.J. 601, 603 (1998) (noting that “Blackstone himself was thoroughly aware of . . . pervasive and serious qualifications on exclusive dominion.”); cf. Adam Mossoff, *The Use and Abuse of IP at the Birth of the Administrative State*, 157 U. PA. L. REV. 2001 (2009) (criticizing legal realists’ arguments against Lockean theory, including arguments based on patents).

⁸ Arti K. Rai, *U.S. Executive Branch Patent Policy, Global and Domestic*, in PATENT LAW IN GLOBAL PERSPECTIVE 85, 88–91 (Ruth L. Okediji & Margo A. Bagley, eds., 2014).

⁹ See, e.g., Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2, 75–81 (2010) (contrasting the Supreme Court’s “holistic” jurisprudence with Federal Circuit formalism).

¹⁰ See, e.g., Ryan Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 76 MO. L. REV. 733, 736–39 (2011) (finding that the Federal Circuit takes patent cases *en banc* more frequently than other appellate courts take their *en banc*).

courts,¹¹ it has defended itself by invoking *horizontal* certainty. Under this argument, de novo review of both legal and factual issues promotes horizontal certainty by ensuring that the CAFC resolves in a uniform fashion any divergence that emerges from evaluation of the same patent by different district courts.¹² Although the CAFC's arguments are, in my view, ultimately flawed, the CAFC is hardly unaware of the virtues of certainty.

How well the court has done on other desirable goals—most notably, setting up a regime that, within the limits of statutory language, promotes innovation—is less clear. Although formalism, uniformity, and predictability can promote innovation, they can also retard it.

Consider the one-time Federal Circuit requirement that proof of non-obviousness require a “teaching, suggestion, or motivation” (TSM) to combine prior art. By the late 1990s, the Federal Circuit was not only employing this test regularly, but it was often employing a particularly formalistic version of the doctrine that required a written TSM. Although the results of such a doctrine may have been uniform and predictable, the equally predictable result of reducing non-obviousness to mere novelty was a proliferation of trivial patents. More generally, as the court's jurisprudence of non-obviousness has shown, expertise in the “law” of patents does not imply expertise in relevant economic and scientific questions.

For its part, the Patent and Trademark Office (PTO) vigorously contested the Federal Circuit's application of a written TSM requirement. In a wave of cases, the PTO unsuccessfully defended before the Federal Circuit examiner decisions that invoked common knowledge rather than written TSM as their basis for combining prior art.¹³ However, the agency did not immediately position itself as a clear competitor to the Federal Circuit. It declined to appeal its losses to the Supreme Court. As Judge Wood's analysis might suggest, and as Craig Nard and John Duffy have explicitly argued,¹⁴ the agency may have been reluctant to directly challenge a court with a monopoly on intermediate appellate scrutiny. Historically, the PTO's position has been particularly weak because it has not been given *Chevron* deference on questions of substantive law.

¹¹ See, e.g., Paul R. Gugliuzza, *The Federal Circuit as a Federal Court*, 54 WM. & MARY L. REV. 1791, 1830–41 (2013) (discussing the Federal Circuit's active role as a fact-finder).

¹² The majority and dissent in the Federal Circuit's most recent en banc opinion on patent claim construction respectively argue the case for horizontal certainty and vertical certainty. *Lightning Ballast Control LLC v. Philips Elec. N. Am. Corp.*, 744 F.3d 1272 (Fed. Cir. 2014) (en banc).

¹³ See, e.g., *In re Zurko*, 258 F.3d 1379 (Fed. Cir. 2001); *In re Sang-Su Lee*, 277 F.3d 1338 (Fed. Cir. 2002).

¹⁴ Craig Allen Nard & John F. Duffy, *Rethinking Patent Law's Uniformity Principle*, 101 NW. U. L. REV. 1619, 1641 (2007) (“[T]he PTO is, as a practical matter, subordinate to the court. This routine relationship may make the PTO hesitant to challenge the Federal Circuit frequently or vigorously.”).

That said, the executive branch as a whole, speaking through the Solicitor General, did ultimately assert itself forcefully as a competitor to the Federal Circuit. In response to the Court’s “call for the views of the Solicitor General” (CVSG) in the 2007 *KSR Int’l Co. v. Teleflex Inc.* case,¹⁵ the government argued in favor of a certiorari grant on the grounds that the PTO should “be allowed to bring to bear its full expertise—including its reckoning of the basic knowledge and common sense possessed by persons in particular fields of endeavor—when making the predictive judgment whether an invention would have been obvious to a person of ordinary skill in the art.”¹⁶ In keeping with the government’s position, the Supreme Court not only granted certiorari but ultimately held that “[r]igid preventative rules that deny [factfinders] recourse to common sense are neither necessary under, nor consistent with, this Court’s case law.”¹⁷

How might the case have come out differently under Judge Wood’s proposed regime? Under Wood’s proposal, a competitor court might have adopted a position that diverged from that of the Federal Circuit. A divergent ruling by a competitor appellate court might have forced the *KSR* issue upon the Supreme Court more quickly. Additionally, once the Supreme Court took the case, it would have had the benefit of opinions, and perhaps even a certain amount of litigation practice, under two different regimes.

As Judge Wood herself notes, however, under her proposal “[t]he absolute number of patent cases that would return to the regional courts would not be large.”¹⁸ By definition, then, any given circuit would probably see a very small number of patent cases. Under those circumstances, no circuit would be likely to emerge as a forceful or nimble competitor. For this reason, Professors Craig Nard and John Duffy, who have also argued for appellate competition (and who Judge Wood cites), suggest an “optimization” strategy under which two or three appellate courts would compete to develop patent law.¹⁹

II. WOULD ADDITIONAL APPELLATE COURTS BE WORTHWHILE?

In 1982, two or three appellate courts might have been an option worth considering, particularly if any uncertainty posed by such an option had been countered through greater centralization and development of expertise at the trial level. As discussed in Part III, however, competition in the appellate process is not an obviously superior choice for marshalling relevant evidence. In any event, over thirty years later, the cost-benefit analysis is different. Even without

¹⁵ Supreme Court docket for *KSR Int’l Co. v. Teleflex, Inc.*, SUPREME COURT OF THE UNITED STATES, <http://www.supremecourt.gov/Search.aspx?FileName=/docketfiles/04-1350.htm> (last visited May 27, 2014).

¹⁶ Brief for the United States as Amicus Curiae Supporting Petitioner at 26, *KSR Int’l Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007) (No. 04-1350), 2006 WL 2453601.

¹⁷ *KSR Int’l*, 127 S. Ct. at 1732.

¹⁸ Wood, *supra* note 1, at 10.

¹⁹ See Nard & Duffy, *supra* note 14, at 1637–41.

circuit splits, the Supreme Court now takes at least a few patent cases every year. This pattern emerged in 2006, and it currently shows no sign of abating.

In lieu of circuit splits, the Supreme Court appears to rely on the presence of vigorous participation by industry amici at the certiorari stage,²⁰ dissents in three-judge panel and en banc Federal Circuit decisions,²¹ and perhaps, above all, the views of the executive branch. Indeed, in his recent work, Professor Duffy highlights the role of the Solicitor General in counseling the Court regarding which issues to take and how to rule on those issues.²² I have built on Professor Duffy's work to show how, in various important cases, the Solicitor General represents not simply the PTO, but also a number of other agencies with interests in patent questions.²³ Unlike the PTO, these other agencies are not likely to see themselves as subordinate to the Federal Circuit. Moreover, while the PTO has sometimes been accused of having "pro-patent" tendencies, executive branch agencies like the National Institute of Health and the Antitrust Division of the Department of Justice (not to mention independent agencies like the Federal Trade Commission) cannot be viewed as "pro-patent."

The executive branch's role as a very significant competitor of the Federal Circuit is now clear. From 1996 through June 2013, the executive branch participated either as a party or an amicus in twenty-three of twenty-six cases taken by the Court. Of the fourteen cases in which the executive branch disagreed with the Federal Circuit, the executive branch's position prevailed in all but two.

For purposes of promoting diverse views in patent litigation, one of these executive branch victories, the 2007 Supreme Court case of *MedImmune, Inc. v. Genentech, Inc.*,²⁴ may be particularly notable. While *MedImmune*'s affirmation

²⁰ For example, in *Microsoft Corp. v. i4i Limited P'ship*, 131 S. Ct. 1843, 1843 (2011), which addressed the "presumption of validity" accorded to granted patents, the Court may have been influenced by industry amicus briefs criticizing the rule enunciated by the Federal Circuit. The Court granted certiorari in that case even without any apparent dissent within the Federal Circuit or from the executive branch.

²¹ See, e.g., *Ass'n for Molecular Pathology v. U.S. Patent and Trademark Office*, 653 F.3d 1329, 1373 (Fed. Cir. 2011) (Bryson, J., dissenting); *Hyatt v. Kappos*, 625 F.3d 1320, 1341 (Fed. Cir. 2010) (Dyk, J., dissenting); *Novo Nordisk A/S v. Caraco Pharma. Labs., Ltd.*, 601 F.3d 1359, 1368 (Fed. Cir. 2010) (Dyk, J., dissenting); *CLS Bank Int'l v. Alice Corp., Pty. Ltd.*, 717 F.3d 1269, 1273 (Fed. Cir. 2013) (per curiam) (multiple concurrences and dissents).

²² John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 519 (2010) ("The innovative jurisdiction structure of the new appellate court has fostered a unique relationship between the Federal Circuit and the Solicitor General's Office and has, in a subtle but meaningful way, shifted power over the development of patent law to the executive branch of the government.").

²³ Arti K. Rai, *Patent Validity Across the Executive Branch: Ex Ante Foundations for Policy Development*, 61 DUKE L.J. 1237, 1244-48 (2012).

²⁴ *MedImmune, Inc. v. Genentech, Inc.*, 127 S. Ct. 764 (2007).

of licensee standing to sue for patent invalidity does not throw open the courthouse doors to all who might wish to challenge patents, it does suggest a greater openness to new types of challengers. In addition to patent skeptics from the information technology industry,²⁵ new voices such as the American Civil Liberties Union, which represented the Association of Molecular Pathologists in the 2013 *Association for Molecular Pathology v. Myriad Genetics, Inc.*²⁶ gene patent case, are likely to make non-traditional arguments. One doesn’t have to agree with those arguments (and I do not)²⁷ to agree that they deserve consideration. Indeed, in the case of the patent eligibility of genes, a significant problem was that the litigating parties in the pre-*MedImmune* era, all of whom had gene patents, had no incentive to make arguments that gene patents, as a category, failed to promote innovation. Thus, these arguments arose only decades after the PTO started granting patents on genes, with the perhaps predictable result that Federal Circuit judges invoked stare decisis and retroactivity as reasons for upholding even patents that they might not allowed “on a blank canvas.”²⁸

III. ASSESSING THE EXECUTIVE BRANCH ROLE

Of course, competition from the executive branch is not the same as competition within Article III courts. Only competition from another appellate court can create a “laboratory” in which different approaches to patent law are tested. Indeed, Judge Wood’s brief reference to random assignment of appeals hints at the possibility of a true natural experiment.²⁹

Absent competing appellate courts that might provide a “real world” variation that the Supreme Court could analyze, some have suggested that the Court’s role should be relatively circumscribed.³⁰ I am not so sure. The Court

²⁵ See generally Colleen V. Chien, *Patent Amicus Briefs: What the Courts’ Friends Can Teach Us About the Patent System*, 1 U.C. IRVINE L. REV. 395, 421–22 (2011) (finding that in Federal Circuit and amicus briefs, only 5% of briefs filed by high-technology firms favored the patentee, as contrasted with 98% filed by patent holding firms).

²⁶ *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 133 S. Ct. 2107 (2013).

²⁷ Arti K. Rai, *Biomedical Patents at the Supreme Court*, 66 STAN. L. REV. ONLINE 111, 114–15 (Oct. 11, 2013), available at <http://www.stanfordlawreview.org/sites/default/files/online/articles/RaiSLR.pdf>.

²⁸ *Ass’n for Molecular Pathology v. Myriad Genetics, Inc.*, 689 F.3d 1303, 1343 (Fed. Cir. 2012) (Moore, J., concurring) (“If I were deciding this case on a blank canvas, I might conclude that an isolated DNA sequence that includes most or all of a gene is not patentable subject matter.”).

²⁹ Wood, *supra* note 1, at 9–10.

³⁰ See, e.g., John Golden, *The Supreme Court as “Prime Percolator”: A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657 (2009) (arguing that because the Supreme Court lacks a deep foundation in patent law, it should issue limited decisions).

can obviously make important contributions in those cases where it is called upon to decide power allocation between different patent institutions, or to ensure that patent law does not become divorced from other areas of law.³¹ As for cases at the core of substantive patent law, such as non-obviousness jurisprudence, input from the executive branch can signal to the Supreme Court that the Federal Circuit's jurisprudence has veered significantly off course and suggest the type of intervention that is necessary. In general, with the notable exception of certain cases involving the notoriously difficult question of Section 101 patent eligibility,³² the Supreme Court has done a reasonable job with many questions of substantive patent law.

Notably, in at least some respects, competition from a coordinate branch may have advantages that competition from an appellate court would not yield. At least in theory, a coordinate branch, and perhaps especially the executive branch, can bring to bear expertise that no Article III court possesses. In the area of patent law, the relevant expertise is economic and scientific. Thus far, with the possible exception of cases like *Myriad* and *F.T.C. v. Actavis*,³³ executive branch briefing at the Supreme Court has not relied heavily on such expertise. In prior writing, I have proposed a more assertive White House presence on questions of innovation policy.³⁴ One of the many benefits of such a presence would be greater marshaling of agency expertise in patent cases before the Supreme Court.

A skeptic might reasonably fear that the currently productive relationship between the Supreme Court and the executive branch could wither. For example, if agencies other than the PTO were to become less interested in Supreme Court review, the PTO on its own terms might be reluctant to challenge the Federal Circuit. For this reason, it may be particularly important for the executive branch to make a convincing argument before the Court that the post-grant review proceedings set up by American Invents Act of 2011³⁵ give the PTO the authority to make substantive patent law determinations that

³¹ See, e.g., *Dickinson v. Zurko*, 527 U.S. 150 (1999) (deciding allocation of power between PTO and the Federal Circuit as well as relationship between patent law and administrative law); *eBay v. MercExchange*, 126 S. Ct. 1837 (2006) (examining the Federal Circuit's patent remedies jurisprudence).

³² See, e.g., *Bilski v. Kappos*, 561 U.S. 593 (2010); *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012).

³³ *F.T.C. v. Actavis, Inc.*, 133 S. Ct. 2223 (2013).

³⁴ Stuart Minor Benjamin & Arti K. Rai, *Fixing Innovation Policy: A Structural Perspective*, 77 GEO. WASH. L. REV. 1, 6 (2008).

³⁵ Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

merit *Chevron* deference.³⁶ For purposes of improving competition for the “patent court,” a test case raising this issue will be important to watch.

Competition through executive branch input does raise the important question of whether political considerations unrelated to (or even antithetical to) innovation could sway the executive branch. Although *Chevron* is premised in part on principles of political accountability, and innovation is hardly the only legitimate goal of government, I agree with the conventional wisdom that patent law is best understood as a regime that exists to promote innovation. To the extent that the executive branch was advancing arguments unrelated to innovation, or making abrupt changes in position following a presidential election, assertive judicial review would be important. Indeed, even if the Federal Circuit (or more likely the Supreme Court) were to accept *Chevron* as the applicable framework under certain circumstances, courts could reject certain executive branch arguments as either unreasonable under step 2 of *Chevron* or “arbitrary and capricious” within the meaning of the Administrative Procedure Act.

CONCLUSION

Judge Wood’s address is a timely and important reminder of the virtues of competition in patent law. Even if it does not result in additional appellate competition, it should prompt further consideration of how to improve the value provided by existing sources, most notably the executive branch.

³⁶ See, e.g., Melissa Wasserman, *The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY. L. REV. 1959 (2013) (arguing that certain American Invents Act procedures are sufficiently formal to merit *Chevron* deference); Stuart Minor Benjamin & Arti K. Rai, *Who’s Afraid of the APA: What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 320–28 (2007) (arguing that, as a positive and normative matter, the results of post-grant review procedures being proposed at the time should receive *Chevron* deference).