

## How Eliminating Agency Deference Might Affect PTAB And ITC

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More than 30 years ago, in *Chevron U.S.A. Inc. v. Natural Resources Defense Council Inc.*, the U.S. Supreme Court held that, with regard to judicial review of an agency's construction of a statute which it administers, if Congress has not directly spoken to the precise question at issue, the question for the court is whether the agency's answer is based on a permissible construction of the statute. And, 20 years ago, in *Auer v. Robbins*, the Supreme Court extended this "Chevron deference" principle to an agency's interpretation of its own rules and regulatory schemes. These two decisions — Chevron and Auer — have had widespread implications in administrative law, including with respect to deference afforded the U.S. Patent and Trademark Office in creating and interpreting its own rules. Indeed, just last year, the Supreme Court upheld the USPTO's application of the broadest reasonable interpretation standard in inter partes review as a "reasonable exercise" of authority under Chevron.



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Now, with a Republican-controlled government, Chevron and Auer have gotten a lot of attention as symbols of an overly regulated state. Newly sworn-in Supreme Court Justice Neil Gorsuch penned a now-famous concurrence in August 2016 questioning whether Chevron and other deference doctrines are consistent with constitutional separation of powers. More recently, the U.S. House passed legislation, introduced by Rep. Bob Goodlatte, R-Va., to eliminate many applications of Chevron and Auer deference, effectively along party lines. This article examines the potential impact on patent law if Chevron and Auer deference are eliminated, with particular focus on post-grant review proceedings before the Patent Trial and Appeal Board and Section 337 investigations before the U.S. International Trade Commission.



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### Chevron and Auer: Deference to Administrative Agencies

The Supreme Court has "long recognized that considerable weight should be accorded to an executive department's construction of a statutory scheme it is entrusted to administer." [1] In the landmark Chevron decision, the Supreme Court adopted a two-part test to determine whether an agency is entitled to deference in its statutory interpretations. First, the court must determine "whether Congress has directly spoken to the precise question at issue." [2] "If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." [3] However, if the court determines "the statute is silent or ambiguous with respect to the specific issue," the court continues to a second step and asks "whether the agency's answer is based on a permissible construction of the statute." [4]

Subsequently, the Supreme Court in *Auer* applied Chevron deference to interpretations of an agency's own regulations, holding that an agency's interpretation is "controlling unless 'plainly erroneous or inconsistent with the regulation.'" [5]

More recently, some justices have begun to question agency deference. For example, in his 2013 dissent in *Decker*, Justice Antonin Scalia — who authored *Auer* — queried: "For decades, and for no good reason, we have been giving agencies the authority to say what their rules mean, under the harmless-sounding banner of 'defer[ring] to an agency's interpretation of its own regulations.'" [6] Supreme Court Justice Neil Gorsuch has also questioned Chevron in a concurrence recently penned while on the Tenth Circuit. He stated, "the fact is Chevron and *Brand X* permit executive bureaucracies to swallow huge amounts of core judicial and legislative power and concentrate federal power in a way that seems more than a little difficult to square with the Constitution of the framers' design." [7] Nonetheless, Chevron and *Auer* remain the law, and courts frequently give considerable deference to and uphold (at times questionable) agency interpretations. As Justice Anthony Kennedy writing for the majority in *Decker* put it: "It is well established that an agency's interpretation need not be the only possible reading of a regulation — or even the best one — to prevail." [8]

### **Congressional Action: The Regulatory Accountability Act of 2017**

On Jan. 11, 2017, the House passed, by a 238-183 vote, the Regulatory Accountability Act of 2017, which, among other reforms, is intended to eliminate Chevron and *Auer* deference. [9]

The current proposed legislation provides that the reviewing court shall "decide de novo all relevant questions of law, including the interpretation of constitutional and statutory provisions, and rules made by agencies." [10] And, it specifically eliminates any deference currently afforded to administrative agencies: "If the reviewing court determines that a statutory or regulatory provision relevant to its decision contains a gap or ambiguity, the court shall not interpret that gap or ambiguity as an implicit delegation to the agency of legislative rule making authority and shall not rely on such gap or ambiguity as a justification either for interpreting agency authority expansively or for deferring to the agency's interpretation on the question of law." [11]

On Jan. 12, 2017, the Senate received the proposed legislation and referred it to the Committee on Homeland Security and Governmental Affairs.

If passed and signed by President Donald Trump, the legislation could have a profound effect on many areas of patent law, including post-grant proceedings before the PTAB, Section 337 investigations before the ITC, and prosecution practice before the USPTO.

### **Deference in Post-Grant Proceedings Before the PTAB**

Since the America Invents Act created in September 2012 new post-grant proceedings (chief among them, inter partes reviews), the Federal Circuit and Supreme Court have often deferred to the statutory and regulatory interpretations of the PTAB. Below are a few of the more significant rulings applying Chevron and *Auer*, each of which may have to be revisited upon passage of the Regulatory Accountability Act of 2017.

### ***Broadest Reasonable Interpretation of Claims***

In *Cuozzo*, the Supreme Court cited *Chevron* to uphold the PTO's use of the broad reasonable interpretation claim construction standard during the prosecution of patent applications and administrative proceedings challenging issued patents (as opposed to the Phillips standard used in district court litigations). According to the court, "[n]either the statute's language, nor its purpose, nor its legislative history suggests that Congress decided what standard should apply in inter partes review." [12] In *Chevron* step two, the court found BRI "a reasonable exercise of the Patent Office's rulemaking authority." [13] The court reasoned that BRI "helps ensure precision in drafting claims and prevents a patent from tying up too much knowledge, which, in turn, helps members of the public draw useful information from the disclosed invention and understand the lawful limits of the claim." [14]

### ***Motions to Amend***

The AIA provides authority to the PTO to "prescribe regulations" "governing inter partes review" and to "set[] forth standards and procedures for allowing the patent owner to move to amend the patent." [15] With respect to motions to amend, the PTO created two relevant regulations. First, 37 C.F.R. § 42.20, which governs motions practice "generally," requires "prior authorization" for all motions, and places on the moving party "the burden to establish that it is entitled to the requested relief." Second, 37 C.F.R. § 42.121, which governs motions to amend specifically, requires that "[a] motion to amend may be denied where: (i) The amendment does not respond to a ground of unpatentability involved in the trial; or (ii) The amendment seeks to enlarge the scope of the claims of the patent or introduce new subject matter." In its 2013 "informative" *Idle Free* decision, the PTAB set forth the specific amendment procedure, which places the burden on the patent owner to show patentability:

A patent owner should identify specifically the feature or features added to each substitute claim, as compared to the challenged claim it replaces, and come forward with technical facts and reasoning about those feature(s), including construction of new claim terms, sufficient to persuade the Board that the proposed substitute claim is patentable over the prior art of record, and over prior art not of record but known to the patent owner. The burden is not on the petitioner to show unpatentability, but on the patent owner to show patentable distinction over the prior art of record and also prior art known to the patent owner. [16]

The Federal Circuit in *Microsoft v. Proxyconn* upheld the PTAB's test because, under *Auer*, the PTAB's interpretation of the PTO's regulations was not "plainly erroneous or inconsistent with the regulation." [17] While acknowledging that "[s]ome question the wisdom of the PTO's approach" of placing the burden on the patentee to show patentability of the amended claims, the Federal Circuit determined that the PTAB "has reasonably interpreted [the PTO's regulations]."

The Federal Circuit's deference on motions to amend is not without limits. The Federal Circuit held in *Adidas v. Nike* that, where there was no allegation of "conduct violating the duty of candor," the PTAB was wrong to require that a patent owner cannot carry its burden of establishing patentability "over prior art not of record but known to the patent owner" with nothing more than a simply confirmatory statement. [18] And, the Federal Circuit is currently reconsidering en banc the PTAB's test in *In re Aqua Products*, asking the question: "When the patent owner moves to amend its claims under 35 U.S.C. § 316(d), may the PTO require the patent owner to bear the burden of persuasion, or a burden of production, regarding patentability of the amended claims as a condition of allowing them? Which burdens are permitted under 35 U.S.C. § 316(e)?" [19] Unsurprisingly, the PTO heavily relies in its briefing on the *Chevron* and *Auer* deference afforded to administrative agencies. [20]

### ***IPR Institution on Less-Than-All Grounds***

As discussed above, the AIA directs the PTO to prescribe regulations for IPRs. The AIA further mandates that the PTO “consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings.”[21] The Federal Circuit held in *Harmonic* that the PTO’s regulations as set forth in 37 C.F.R. § 42.108 (providing discretion to the PTAB to institute or deny institution on “some or all” grounds) “is a reasonable interpretation of the statutory provision governing the institution of inter partes review” as it provides for efficient administration and timely completion of IPRs.[22]

### ***Same Panel for Institution and Final Decisions***

The AIA provides the PTO director the power to institute IPRs, and directs the PTAB to “issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.”[23] As a practical matter, the director delegated institution decisions to the PTAB. Although the AIA did not explicitly provide to the director such delegation powers, the Federal Circuit found in *Ethicon* that delegation is implied.[24] Moreover, the “rule itself is entitled to Chevron deference ... . The reference to ‘the Director’ in the statute is ambiguous as to whether it requires her personal participation and the regulation is a permissible interpretation of the statute.”[25] Thus, “both as a matter of inherent authority and general rulemaking authority, the Director had authority to delegate the institution decision to the Board,” and “[t]here is nothing in the Constitution or the statute that precludes the same Board panel from making the decision to institute and then rendering the final decision.”[26]

### **Potential Effects of Eliminating PTAB Deference**

If Congress eliminates administrative agency deference, unsuccessful petitioners and patent owners alike will undoubtedly seek to revisit many facets of post-grant review proceedings. The most important post-Chevron issue concerning post-grant practice might be whether the PTAB can continue to deny institution of proposed grounds of review on the basis of “redundancy” or other grounds unrelated to the merits. Requiring institution on all meritorious grounds will likely favor the petitioner — the more grounds instituted, the more likely one ground will be successful. Additionally, although the difference between the BRI and Phillips claim construction standard often makes little difference, it does in some instances result in the difference between patentability and unpatentability. Take, for example, *Google v. ContentGuard*, where the PTAB found a claim unpatentable under BRI, but the same claim patentable in the context of a motion to amend when the (narrower) Phillips construction was specifically substituted into the claim.[27] Additionally, should BRI be eliminated, it will be more difficult for a petitioner to credibly argue for a broad construction in an IPR for the purpose of patent invalidity, and a narrow construction in district court for the purpose of non-infringement.

### **Potential Effects on ITC Practice**

Elimination of Chevron and Auer could have an effect on ITC practice as well. Although the Federal Circuit has been somewhat reluctant in the past to apply Chevron and Auer, it is not without exception. For example, the Federal Circuit, sitting en banc, in the 2015 *Suprema* decision addressed the proper interpretation of Section 337’s provision declaring unlawful the importation of “articles that ... infringe a valid and enforceable United States patent” and more specifically, whether this provision covers importation of goods that, after importation, are used by the importer to directly infringe at the inducement of the goods’ seller.[28]

The patent at issue concerned technology used in biometric imaging scanners. Respondent Suprema is a Korean company that makes hardware for scanning fingerprints. It sells the scanners to Mentalix, which imports them into the U.S. and bundles and resells them with custom software created using Suprema's SDK. The administrative law judge found that Suprema's scanners, when used with the SDKs and Mentalix's software, directly infringed the claims, and recommended a limited exclusion order and cease and desist order with respect to Suprema's scanners. The commission upheld the ALJ's determination and issued an exclusion order. A divided Federal Circuit panel vacated the commission's finding, reasoning that Section 337's language, "articles that infringe," is a temporal requirement and that infringement must be measured at the time of importation. As a practical matter, the panel's ruling all but eliminated trade relief under Section 337 for induced infringement and potentially for all types of method claim infringement.

However, the en banc Federal Circuit vacated the panel opinion, holding that the commission's interpretation of Section 337 was entitled to Chevron deference and was reasonable given Congress's mandate to safeguard U.S. commercial interests at the border. Should the Regulatory Accountability Act of 2017 pass, the question of whether Section 337 extends to induced infringement and method claims would again be open. If the original Federal Circuit panel ruling is any indication, the answer would be "no."

### **Potential Effects on Patent Prosecution Before the USPTO**

The Federal Circuit has on several occasions deferred to the PTO's interpretation of statutes and its own procedural regulations, beyond just AIA post-grant proceedings discussed above. For example, in *Gilead*, the Federal Circuit held that the PTO's interpretation of 35 U.S.C. § 154, as permitting a reduction in patent term adjustment for an applicant's delay in submitting a supplemental IDS, was reasonable and entitled to Chevron deference.<sup>[29]</sup> And, in *Cooper*,<sup>[30]</sup> the Federal Circuit deferred to the PTO's interpretation of the statutory phrase "original application" in determining whether a patent was eligible for inter partes re-examination under the American Inventor's Protection Act of 1999. Clearly, legislative changes to the long-standing Chevron and Auer principles will have substantial effects on original prosecution before the PTO.

### **Conclusion**

Eliminating agency deference will, in many respects, have profound effects on patent-related administrative proceedings. It will effectively erase decades of jurisprudence and create substantial uncertainty (at least in the near-term) as what were once well-settled issues are relitigated. It will shift the balance of power from the administrative branch to the judicial branch. No longer will agencies be largely free to interpret the relevant statutes and the regulations which they create. Instead, agency actions will be reviewed de novo with a blank slate. All in all, just as the creation of agency deference significantly altered the course of patent-related proceedings, so too would the elimination of such deference.

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[1] *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 844 (1984).

[2] *Id.* at 842.

[3] *Id.* at 842–43.

[4] *Id.* at 843.

[5] *Auer v. Robbins*, 519 U.S. 452, 461 (1997) (citing *Robertson v. Methow Valley Citizens Council*, 490 U.S. 332, 359 (1989) and quoting *Bowles v. Seminole Rock & Sand Co.*, 325 U.S. 410, 414 (1945)).

[6] *Decker v. Nw. Env'tl. Defense Ctr.*, 568 U.S. \_\_\_, 133 S.Ct. 1326, 1339 (2013) (Scalia, J., dissenting) (quoting *Talk Am., Inc. v. Mich. Bell Telephone Co.*, 564 U.S. \_\_\_, 131 S.Ct. 2254, 2265 (2011) (Scalia, J., concurring)).

[7] *Gutierrez-Brizuela v. Lynch*, 834 F.3d 1142, 1149 (10th Cir. 2016) (Gorsuch, J., concurring).

[8] *Decker*, 133 S.Ct. at 1337.

[9] See, e.g., Republican Policy Committee, Comments on H.R. 5, Regulatory Accountability Act of 2017, available at <https://policy.house.gov/legislative/bills/hr-5-regulatory-accountability-act-2017> (“repeals the Chevron and Auer doctrines to end judicial deference to bureaucrats’ statutory and regulatory interpretations”). The House passed similar legislation in the 114th Congress.

[10] H.R. 5, Regulatory Accountability Act of 2017.

[11] *Id.*

[12] *Cuozzo Speed Techs., LLC v. Lee*, 579 U.S. \_\_\_, 136 S.Ct. 2131, 2135 (2016).

[13] *Id.*

[14] *Id.*

[15] 35 U.S.C. § 316(a)(4), (a)(9).

[16] *Idle Free Sys., Inc. v. Bergstrom, Inc.*, IPR2012-00027, 2013 WL 5947697 (PTAB June 11, 2013).

[17] *Microsoft Corp. v. Proxyconn, Inc.*, 789 F.3d 1292, 1306–07 (Fed. Cir. 2015).

[18] *Nike, Inc. v. adidas AG*, 812 F.3d 1326 (Fed. Cir. 2016).

[19] *In re Aqua Prods., Inc.*, No. 15-1177 (Fed. Cir.).

[20] Supplemental Brief on Rehearing En Banc for Intervenor-Director of the United States Patent and Trademark Office (Dkt. No. 125), filed Oct. 26, 2016.

[21] 35 U.S.C. § 316.

[22] *Harmonic Inc. v. Avid Tech., Inc.*, 815 F.3d 1356, 1367 (Fed. Cir. 2016). The Federal Circuit reached the same result in *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293 (Fed. Cir. 2016).

[23] 35 U.S.C. § 314(a) (“The Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”); 35 U.S.C. § 318(a) (“If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added under section 316(d).”).

[24] *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1033 (Fed. Cir. 2016).

[25] *Id.* at 1033.

[26] *Id.*

[27] *Google, Inc. v. ContentGuard Holdings, Inc.*, CBM2015-0040, Paper 34 (PTAB June 21, 2016).

[28] *Suprema, Inc. v. Int’l Trade Comm’n*, 796 F.3d 1338, 1340 (Fed. Cir. 2015) (en banc).

[29] *Gilead Sci., Inc. v. Lee*, 778 F.3d 1341, 1350–51 (Fed. Cir. 2015).

[30] *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330 (Fed. Cir. 2008).