University of Dayton Law Review

Volume 43 | Number 1 Article 2

1-1-2018

Intellectual Property: The Role of Congress and Executive Agencies in 21st Century IP Regimes

Davis S. Olson
Boston College

Sandra Aistars
George Mason School

John Duffy
University of Virginia

Arti K. Rai
Duke University

Thomas B. Griffith

INTELLECTUAL PROPERTY: THE ROLE OF CONGRESS AND EXECUTIVE AGENCIES IN 21ST CENTURY IP REGIMES

The following is a transcript of a 2015 Federalist Society panel entitled Intellectual Property: The Role of Congress and Executive Agencies in 21st Century IP Regimes. The panel originally occurred on November 14, 2015 during the National Lawyers Convention in Washington, D.C. The panelists were: Davis S. Olson, Associate Professor of Law, Boston College Law School; Sandra Aistars, Clinical Professor, George Mason School of Law and Sr. Scholar and Director, Copyright Policy & Research Center for the Protection of Intellectual Property; John Duffy, Samuel H. McCoy II Professor of Law, University of Virginia School of Law; and Arti K. Rai, Elvin R. Latty Professor of Law and Co-Director of the Duke Law Center for Innovation Policy, Duke University School of Law. The moderator was the Honorable Thomas B. Griffith of the U.S. Court of Appeals, D.C. Circuit.

[RECORDING BEGINS]

Hon. Judge Thomas Griffith: Let us begin. Welcome. I'm Tom Griffith of the D.C. Circuit, and it's my pleasure to moderate a discussion that I think we'll all find lively and informative: The Role of Congress and Executive Agencies in 21st Century IP [Regimes].

The panel has met ahead of time, and we've decided we're going to do it this way. I will give short, very brief introductions. The bios for our distinguished panel are available to you, but I'll just highlight a couple things, just so that we can all appreciate how fortunate we are to have this group with us. And then, after I introduce all, I will retire to my seat, and the order that we've decided upon—let's make sure I've got this right. I think we're going to go this way around the table. We're going to go with Professor Olson and end up with Professor Rai.

So, if we can begin, I'll begin with my introductions. David Olson is an associate professor at Boston College Law School. He teaches patents, intellectual property, and antitrust. Professor Olson researches and writes primarily in the areas of patent law and copyright. He came to BC from Stanford Law School's Center for Internet and Society, where he researched patent law and litigated copyright fair use impact cases. Before entering academia, Professor Olson practiced as a patent litigator at Kirkland & Ellis. And, perhaps most importantly before that, he clerked for Judge Jerry Smith

of the U.S. Court of Appeals for the Fifth Circuit, who is with us today.

Following Professor Olson, we'll have the pleasure of hearing from Professor Sandra Aistars, a clinical professor at George Mason, leading the law school's Arts & Entertainment Advocacy Program. She also serves as a Senior Scholar and Director of Copyright Research and Policy at the law school's Center for the Protection of Intellectual Property. Immediately prior to joining Mason, Professor Aistars was the Chief Executive Officer of the Copyright Alliance, a nonprofit, public interest organization that represents the interests of artists and creators across the creative spectrum. While at Mason, she continues to collaborate with the Copyright Alliance as a member of its Academic Advisory Board. She also previously served as Vice President and Associate General Counsel at Time Warner, Inc. She began her legal career in private practice at Weil, Gotshal. Professor Aistars will discuss proposals to restructure and reform the Copyright Office. That's our copyright side of the panel.

Now we'll shift to the patent side of the panel, and we're privileged to have Professor John Duffy, the Samuel H. McCoy II Professor of Law at the University of Virginia School of Law. Professor Duffy joined the law school in 2011 after serving on the faculty at GW and most recently as the Oswald Symister Colclough Research Professor of Law. Professor Duffy teaches torts, administrative law, patent law, and international intellectual property law. In the field of intellectual property, Professor Duffy has been identified as one of the twenty-five most influential people in the nation by The American Lawyer, and one of the fifty most influential people in the world by the U.K. publication Managing Intellectual Property. He was named a legal "visionary" by the Legal Times and has been profiled in BusinessWeek. Professor Duffy will speak of the historical rise of use of equity in deciding patent cases and the more recent rise of executive adjudication.

And, finally, we will have—Professor, I have misplaced your bio. I'm sorry. Professor Arti Rai, the Elvin R. Latty Professor of Law and the Co-Director of the Duke Law Center for Innovation Policy. She is an internationally recognized expert in intellectual property law, administrative law, and health policy. She has also taught at Harvard, Yale, and the University of Pennsylvania Law Schools. From 2009 to 2010, she served as the Administrator of the Office of External Affairs at the U.S. Patent and Trademark Office. As External Affairs Administrator, she led policy analysis of the patent reform legislation that ultimately became the America Invents Act and worked to establish the USPTO's Office of the Chief Economist. She will share with us some of her empirical and theoretical work on PTAB. For those of you who don't know the lingo, and I was just introduced to it this morning, that's the Patent Trial and Appeal Board.

So, with that, we will begin with Professor Olson.

Prof. David Olson: So, this almost became a panel on tort liability as we tried to manage ourselves around that rather small stage. Thank you, Judge Griffith, for the introductions and for moderating our panel, and for my fellow members of the IP Executive Board for helping to come up with the idea and put together this panel, and to the panelists, the distinguished panelists who are here to talk to us about intellectual property law regimes in the 21st century and the role of Congress executive agencies, thereto.

So, what I am going to do for my remarks is start with some brief background information about the historic role Congress, executive agencies, and the courts have played in these two areas of law, and then I am going to give some brief remarks about one area of copyright law, music licensing, where we see all three types of entities present and give a couple of thoughts on those, but then my time will be up, and we'll move along and maybe talk more during the question-and-answer period.

So, to start with, let me just say that unlike some other powers that are discussed on other panels here at this convention this week and weekend, the federal governmental powers that are to be discussed on this panel, copyright and patents, are specifically granted to Congress in the Constitution. So, there's no talk of overreach here at least when it comes to exercising those powers.

Second, the executive agencies that we're going to be discussing here were created almost a hundred years before the New Deal, so there is some real history here. This isn't the story of, kind of, the modern administrative state; although that, of course, has had quite an effect.

So, let's start with the Constitution. This seems a good group for which to start with this document. The Constitution specifically vests power in Congress to grant copyrights and patents. Article I, Section 8, Clause 8 of the Constitution says, Congress shall have power "[t]o promote the [p]rogress of [s]cience and useful [a]rts, by securing for limited [t]imes to [a]uthors and [i]nventors the exclusive [r]ight to their respective [w]ritings and [d]iscoveries[.]"[1] From this grant of power to give these exclusive rights, the first Congress quickly passed both Copyright and Patent Acts.[2] The Copyright Act allowed copyrights to be granted automatically for those who registered their works, and patents were to be examined by the Secretaries of State, Secretary of War, and the Attorney General.[3]

Let me just say that this is a great topic for this convention because we're going to get to contrast two areas of law: patent law, which after statutory enactment and reenactment, a lot of it was developed substantively

[1] U.S. CONST. art. I, § 8, cl. 8.
[2] Patent Act of 1790, 1 Stat. 109; Copyright Act of 1790.
[3] Copyright Act of 1790.

by the courts and by administrative agencies, I should say, at least the procedural parts, whereas copyright has been developed more primarily by Congress who has felt more comfortable taking an active role.

So, when it comes to patent law, as you'd probably be unsurprised to learn, the Cabinet officers and the Attorney General soon tired of examining patents at the end of their long workdays. Secretary of State Thomas Jefferson at the time had some complaints about this very task, and so three years later in 1793, they replaced the system with what was effectively an automatic registration system for patents. So, you send your patent in or your model to the Patent Office, and you would get a patent without any substantive examination.

Well, over the next forty years or so, concerns grew about the validity of registered patents and about patent litigation and holdup, kind of a story that you may read again in the news these days, and this led to the creation in 1836. This led to a new Patent Act and creation of the Patent Office, and with that an introduction of the patent examination system in a form that's very familiar to us today.[4] The Patent Office was given an important task regarding determining the validity of patents and issuing patents, perhaps chiefly among those determining whether a patent was actually new, whether it was obvious, and therefore deserving of a patent.

After the 1836 Act, Congress was relatively inactive in the development of patent law. Patent doctrine was primarily developed by the courts, and the Patent Office primarily was responsible for developing the kinds of procedures that we see when it comes to applying for prosecuting patents.[5] The PTO does not have substantive rulemaking authority, only procedural authority, and when it oversteps, the courts and the federal circuit have been quick to point this out to the Patent Office.

So, in 1952, Congress enacts the modern patent statute, but it mainly codifies the judicial development of patent law that has already happened.[6] So, it's only in 1952 we get an explicit provision on obviousness or non-obviousness, for instance, but that had developed through judicial case law on its own.

In 2011, Congress jumped back into patent law and gave us our biggest revision of the statute since 1952 and made some policy choices of its own. The America Invents Act, as it was called, revised substantive patent doctrine, most prominently by changing us from a first-to-invent system, where the person who can first prove they invented gets the patent.[7] We changed from that to a first-to-file system, where the first one who races to

[4] Patent Act of 1836, 5 Stat. 117.
[5] *Id.*
[6] 35 U.S.C. (2012)
[7] Leahy-Smith America Invents Act, 125 Stat. 284 (Enacted Sept. 16, 2011).

the Patent Office and files a patent gets the patent. Now, there are some details and exceptions to that, but for the most part, that's how it works.

The America Invents Act also revised Patent Office procedures, and in a question we could have, if it was more of a procedural panel, about substance versus policy, it came up with new policies that are having a very substantive effect, most prominently the ability to challenge patents, both as they're pending and after they have been granted in a post-grant review or inter partes review procedure, and this is getting quite a lot of press these days as patent owners—at least some patent owners feel that this procedure is being deleterious to their patent rights.[8] Others, of course, think that it's working well to get rid of what were invalid patents.

So, in patent law, I would suggest the division of labor between these different groups seems to have worked fairly well as each institution played to its own strengths. Congress set out these kinds of broad categories of law and then let the judiciary develop patent law in a very much common law kind of process, left to the administrative agency the procedural aspects, and has only kind of entered when Congress has thought that it needs to change the statute to have new policy prescriptions. Now I'll put a footnote there, as a question of whether this continues, although it's worked well historically, whether this continues to be the case, as now we seem to have a lot of what some people call stakeholders and other people, special interests, really involved in lobbying and in the Congressional lawmaking process, perhaps in a way that wasn't.

So, when it comes to copyright law, Congress has been active since the first Congress. The copyright statute is somewhere around ten times longer than the patent statute. Congress feels very comfortable getting into the details. What accounts for these differences? Well, conventional wisdom is maybe that patents are intimidating and many Congresspersons don't feel as comfortable, whereas copyright seems like something anyone can understand. You know, how long should it be before I can reprint your book without having to pay you? And, a look at the statutes illustrates this. The patent statute is written in broad terms that delegates many decisions to courts and executive agencies like the Patent Office.[9]

For example, the patent statute says that to be patent eligible, inventions have to be new and non-obvious and to enable others in the field to make the invention, and the courts have had to flesh this out, for instance, deciding whether—what are the rules and processes by which we decide whether a new cheese slicer is different enough from what's come before to be patented.[10] The copyright statute by contrast is incredibly detailed. It

[8] *Id.*
[9] 35 U.S.C. (2012).
[10] 35 U.S.C. §§ 102–03.

delves into such fine issues as whether a restaurant or bar can play music from the radio for its patrons, setting out limits on the square footage of the restaurant, how many speakers can be used, and where. So, Congress seems quite comfortable taking on itself the minutia of copyright law.

There's one area of copyright law, however, where Congress has delegated substantially to the courts, and this is the area I wanted to bring up, and where the Executive Branch also plays a substantive role, and that's music licensing. So, when it comes to licensing the composition copyright and sound recording copyright, and copyrights to these songs can be played on the radio, digital streaming, people can do cover versions of songs, Congress sets the rules and they set very complex rules, but then has delegated some of its authority. For instance, Congress says there are compulsory licenses for copyright, so if someone wants to cover Taylor Swift's new song, they can do their own version and Taylor Swift can't say no. But, then where there's a disagreement as to what Taylor should be paid, the Congress has delegated to rate-setting court, you know, how to determine these rate-setting issues.

We also have the Executive Branch in as a player. The Department of Justice is a player because under its antitrust authority, it has consent decrees with the ASCAP and BMI, the major music licensing organizations, and under these, the DOJ really helps regulate the way in which music is licensed.[11] So, I don't have time to get into it, but it's interesting to think about what approach—whether the division of labor works as well here in copyright as it does patent law.

Here, it would suggest the institutions aren't really playing to their strengths. Congress is setting very complex rules and then delegating to courts to do market-type decisions, you know, set the fair—the rate of exchange here, and courts don't necessarily have specialty in figuring out the market rates. Although antitrust law is deeply important in these areas, the DOJ comes in as in effect a regulator without, of course, the accountability back to Congress and without necessarily special confidence in the same way that we see the Patent Office with patents.

So, this kind of sets up the discussion hopefully, and I'll turn the discussion over now to Sandra Aistars for some more substantive copyright comments.

Prof. Sandra Aistars: Well, I've successfully navigated the obstacle course, so that's a good start. Good morning. Thank you very much for inviting me to participate here with this panel and this talk. During last year's meeting, I witnessed a panel of experts discussing the ongoing copyright review process, that began in Spring of 2013. So, I won't rehash the themes that were addressed last year, but instead, I'll focus my remarks on Copyright

[11] Broadcast Music, Inc. v. Columbia Broadcasting System, 441 U.S. 1, 11–12 (1979).

Office modernization, why it's important, and what is currently happening in this regard.

So, to set the stage, as I mentioned, since Spring of 2013, the House Judiciary Committee has been engaged in a comprehensive series of copyright review hearings in order to determine whether changes to the Copyright Act are needed.[12] They've heard from 100 witnesses in twenty different hearings over a two-year period. That procedure was followed by extensive consultations with counsel for the House Judiciary Committee, and the House Judiciary Committee is currently engaged in multi-city listening tours to ensure that they get the broadest possible input on these issues, including from affected industry players and the public who weren't able to testify.[13]

But, despite all of this work, it seems to me unlikely that major substantive changes to the Act itself will be made – at least in the short term. Copyright promoters and copyright skeptics alike have expressed some reluctance to engage in the total overhaul of the Act, and the Senate has not been conducting any hearings at all on the Act, so it's uncertain what the appetite for major revisions to the Act might be on the Senate side.

So, against this backdrop, the issue of U.S. Copyright Office modernization has been now becoming a topic of significant interest for the Congress, because if it can be handled in a non-politicized fashion—and I'll emphasize if it can be handled in a non-politicized fashion—it should benefit all stakeholders and the general public alike.

There are currently a number of bipartisan proposals on how to modernize the Copyright Office circulating on the Hill.[14] There's a discussion draft from Representatives Marino and Chu[15], which suggests creating an independent agency. There is another outline of a proposal from Representatives Chaffetz and Deutch that suggests more autonomy and resources for the U.S. Copyright Office, but leaves it in its current configuration as a department of the Library of Congress. And, there have been rumors that Subcommittee Chairman Darrell Issa is also interested in putting forward a proposal, perhaps even to appoint a Cabinet-level Secretary who would oversee Copyright Office and PTO functions. That's a rumor, so we'll see if that actually comes to pass as discussions go forward.

As I'll discuss a little bit later, numerous conservative organizations,

---

[12] *Congressional Hearings and Statements to Congress*, U.S. COPYRIGHT OFF. https://copyright.gov/laws/hearings/ (last visited Sept. 20, 2017).

[13] H.R. JUDICIARY COMM. GOODLATTE & CONYERS ANNOUNCE COPYRIGHT REVIEW LISTENING TOUR, https://judiciary.house.gov/press-release/goodlatte-conyers-announce-copyright-review-listening-tour/ (2015).

[14] *Legislative Developments*, U.S. COPYRIGHT OFF. http://www.copyright.gov/legislation/ (last visited on Sept. 13, 2017).

[15] Copyright Office for the Digital Economy Act, H.R. 4241, 114th Cong. (1st Sess. 2015), https://www.congress.gov/bill/114th-congress/house-bill/4241?q=%7B%22search%22%3A%5B%2,2copyright+office%22%5D%7D&resultIndex=1; (last visited on Sept. 13, 2017).

who are advocates for small government, have actually expressed support for many of these ideas, even ideas in which a new agency would be created, because they recognize that these are "good government"-style reforms that should bring various economic and efficiency benefits to the way that the Copyright Office operates.

So, why modernize the Copyright Office, and why do it now? To my mind, copyright is an increasingly important issue for the digital economy. It is the foundation of a thriving and ever-expanding market of cultural, educational, and scientific works which contribute more than a trillion dollars to the U.S. economy yearly and which result in more than 5.5 million workers being directly employed by the industries. But, more importantly perhaps, with the rise of digital technologies and the ability of individuals to more easily create, manipulate, and share works of authorship, copyright law is having a broader impact on all of our daily lives and impacting the public in ways that it never has before.

So, ensuring that the Copyright Office has the resources that it needs to serve stakeholders, whether they're authors or entrepreneurs or the general public, and that the copyright law and regulations continue to keep pace with technological developments is critical. But, unfortunately, with its current structural constraints, the Copyright Office is facing challenges at even meeting some of the most basic needs that parties demand from it, like timely processing of registration and recordation requests and, in fact, keeping a reliable online presence.

So, the U.S. Copyright Office has recently issued a strategic plan for the coming four years, and it's seeking comments from the public on that plan. The underlying theme that the Copyright Office has put forward is that it must be a model for 21st century government, meaning that "it must be lean, [it must be] nimble, results-driven, and future-focused."[16] The plan sets out a variety of goals and strategic priorities that should be uncontroversial, but at the moment, since the office is saddled with its current structure, my fear is that those plans by the Office may thus be described as aspirational.[17]

Let me say a few words about the origins and the challenges that are inherent in the Copyright Office's current structure. The Office and the position of Registrar of Copyrights was created in 1896, and at that time, the role of the Copyright Office was largely ministerial. As a result of lobbying by then Librarian of Congress, Ainsworth Spofford, who wanted to add copies of works that were submitted for registration purposes to the Library's collections, the Library was situated within the Library of Congress, and the

[16] *Strategic Plan 2016-2020 Positioning the United States Copyright Office for the Future*, U.S. Copyright Off. (2015), http://copyright.gov/reports/strategic-plan/USCO-strategic.pdf.

[17] *Strategic Plan 2016-2020 Positioning the United States Copyright Office for the Future*, U.S. COPYRIGHT OFF. (Dec. 1, 2015), http://www.copyright.gov/reports/strategic-plan/sp2016-2020.html.

structure has continued to exist that way to this day, despite the fact that the Copyright Office's duties have vastly grown and evolved over time.

Despite the fact that the Copyright Office is serving a much more significant role today compared to what it did in the 1890s, the Office is still entirely reliant on the Library for all of its resources, whether those be budget resources, IT infrastructure, hiring authority, and this is creating a number of inefficiencies, waste, and gaps in authority for the Copyright Office's operations. Some of the problems with the structure include that because the Copyright Office is not led by a presidential appointee, even though it carries out very important functions, it reports directly to the Librarian of Congress, which is a position that has historically had little accountability and no set term of office. The Copyright Office raises at least a portion of the funds that are required to fund its own operations from users, but its budget is nevertheless set by the Library, and the Library often has other priorities rather than the Copyright Office's functions.

The Copyright Office doesn't have the ability, currently, to raise fees for capital improvements or to create a reserve fund to fund its operations in the case of government shutdowns or other critical situations, and so the Copyright Office has also been unable to invest in improving its IT infrastructure and separating it from the Library of Congress. And, this is increasingly problematic because the Copyright Office has a very market-driven function, whereas other departments of the Library have quite different approaches and needs from an IT perspective.

Why do I raise the IT issue? The reliance on the Library of Congress' IT structure is a huge problem for the Copyright Office now. Also, the Librarian of Congress has been sharply criticized for mismanagement and longstanding failure to implement IT recommendations in a report issued by the GAO earlier this year.[18] And, there have recently been major IT failures at the Library level that have affected the U.S. Copyright Office's core operations. The Office, as you might know, was offline for almost ten days this Fall as a result of the Library of Congress being unable to bring its systems back up after routine maintenance. And, not only were the registration functions down, but the U.S. Copyright Office's ability to access its own work and its own systems was compromised.

The Copyright Office has no consultation or control over the means used to back up its files during system maintenance, and since these aren't just random business files, if you end up with a faulty database of registrations and recordations, it can affect ownership of works, effective registration dates, and impact licensing as well as litigation and the ability to recover

[18] U.S. GOV'T ACCOUNTABILITY OFF., GAO-15-315, LIBRARY OF CONGRESS: STRONG LEADERSHIP NEEDED TO ADDRESS SERIOUS INFORMATION TECHNOLOGY MANAGEMENT WEAKNESSES (2015).

damages.

I am running out of time, so I will close just by noting a few of the organizations that have stepped up and suggested that the Copyright Office should be updated to reflect the needs of the digital economy. There are a variety of such organizations on the right of center side. The Americans for Tax Reforms said that the potential of a modern Copyright Office would be to reduce friction in the marketplace for copyrighted works and to incentivize creativity in innovation and investment in jobs. The American Conservative Union and the Citizens Against Government Waste have also supported a 21st century Copyright Office. And, there was recently a white paper published by the Hudson Institute that noted that the Copyright Office is perhaps the best investment in government, with a more than 70,000-to-1-dollar return on taxpayer funds.

So, in my view, the bottom line is this. Responsibility for such important functions that the Copyright Office serves that affect such a large part of the economy must go hand in hand with proper authority and accountability for the execution of these functions. The U.S. Copyright Office and the Registrer are doing the type of work that should be handled at the highest levels of government by a presidential appointee, and they should have the authority and accountability that comes with that role. The office should have the tools and the resources appropriate to meet the needs of the digital economy, and it should operate in a lean, nimble, results-driven, and future-focused way, as it has set forth in its strategic plan. Thanks for your attention.

Prof. John Duffy: I would like to thank the Federalist Society for inviting me to this panel on a very important issue about how Congress and the executive agency should interact with this very important property rights system that is increasingly important in our modern economy. I'm going to be talking about a subset of the topic, which is the use of executive agencies to adjudicate property rights in the patent area specifically, and I think that the reason I'm focusing on that is because there's been an enormous expansion in the last third of the century of executive adjudication of patent rights obviously in the patent system.

And, my major thesis in this is that this expansion is not due to a desire to have more politics in a property rights system known as the patent system. No one in Congress ever said, "What we really want to do is expand executive adjudication because we want more political input into the validity of patent property rights." Instead, I think that what has occurred—and this is, I think, unnoticed perhaps—is that the expansion of executive adjudication is a reaction to a tremendous transformation, an enormously important transformation in the judicial system that has largely gone unnoticed and that

was a deviation from more than a century of precedent, and that the rise of executive adjudication is in some ways an attempt to get back to a system that's quite similar to the older system that we had.

And, you could summarize my thesis as saying that modern policymakers and modern commentators who are looking at this new thing, this new executive adjudication of patent property rights, could learn a lot from the past and a lot from history, which is obviously a very deeply conservative thesis, but I guess I'm sort of in the right place with the right audience to sort of market that thesis.

So, that's the overall summary, and obviously, you want to know what legal transformation occurred that led to this rise of executive adjudication. And, the transformation was the demise of a relatively fast, relatively expert system of adjudication that existed in the Article III courts. And, that system was the system of equity procedures, which was the dominant way in which patent cases were adjudicated for more than a century in this country, and I think relatively successfully in the sense that you can't ever—there's always complaints about the patent system, there's always controversies, but you did not hear the types of complaints that we've heard in the last third of a century about the extraordinary expense and extraordinary delay that patent trials are causing in the lower courts.

Now, equity procedures had certain features that I actually think are quite similar to the features that we are now seeing in the executive adjudication. First of all, no jury. That's enormously important, because to run a jury trial in patent law, you have to teach through judicial instructions some degree of patent law to jurors who are ordinary people drawn off the street. Now, I teach patent law to law students who are very smart and who have already begun their training in law school. I teach them patent law for months and then I give an exam, and I find out I'm not perfectly successful. So, that is a very important point about the system that did exist.

The second thing that I'll stress is that equity did not require oral testimony. You could have an equity trial entirely on the paper. Again, that's something we're seeing in the Executive Branch as well. The third important thing is the reduced importance of a law/fact distinction. Equity cases, all the issues in the case would be decided by either a district judge or a special master—and I'm going to get to that in a minute—and that meant that you didn't have to really figure out, at least at the trial level, whether something was law or fact. And, since a lot of issues in patent law are mixed questions of law and fact, this is very important. And, even on appeal for most of equity's history— and people forget about this—facts were reviewed de novo in part because it was a paper record. I can give you cites to prove it. I actually was surprised when I did my research of this fact, but it is, in fact, true. I thought, gee, that's a strange way to engage in appellate review, but it

was the tradition in equity.

And, finally, you could have expertise with special masters, and I think there's a desire to have expertise in the patent system so that you're not just trying to get people from no knowledge of the patent system up to speed so that they can adjudicate the patent system. And, the way the equity system did that is it gave judges discretion to appoint a special master who could then adjudicate that, and the special masters were often patent practitioners who knew a lot about patent law. And, we're seeing that in the Executive Branch adjudication today. We have administrative patent judges who are appointed specifically to be adjudicators in the Patent Office. They're not actually administrative law judges who can sort of float between agencies; they are specifically dedicated to the patent system. So, that's the first thing I want to tell you, that there's a lot of similarity between the old system and the executive adjudication. It was relatively inexpensive, relatively fast, and had some degree of relative expertise.

Now, what caused the demise? And, that was caused by a change that the Supreme Court made into a specific rule about equity. It used to be, for this hundred-year period, that if you sought equitable relief like an injunction, which most patent-holders seek traditionally, if you seek an injunction, then the entirety of the trial could be governed by equity, even though there may also be a claim for legal relief of damages.

The Supreme Court changed that rule in 1959 and reaffirmed its change in 1962 in an antitrust case called Beacon Theaters v. Westover and then in a trademark case called Dairy Queen v. Wood.[19] It said that if there's any legal claim, the legal claim dominates and you must have a jury trial. So, that meant that the equity practice was on the demise. An interesting thing is, it took more than a decade for the patent law practitioners to get the memo on this, and I think it's partly because they didn't believe that it could possibly be true that the Supreme Court wanted juries to decide hard patent cases. So, for example, a decade after—more than a decade after the first of these decisions, the Fourth Circuit had to mandamus a judge and tell the judge, no, the law is changed and you really do have to hold a jury trial in this patent case. And, indeed, jury trials did not go above ten percent of patent cases until the mid-1970s.

As jury trials go up, almost immediately there is a reaction. The first major authorization for executive adjudication of the validity of issued patents was the installation of ex parte re-examination in the Patent Office by statute in 1981.[20] That's just a few years after the number of jury trials exceeded ten

[19] Beacon Theatres v. Westover, 359 U.S. 500, 508 (1959); Dairy Queen, Inc. v. Wood, 369 U.S. 469, 472–73 (1962).

[20] U.S. Pat. and Trademark Off., Ex Parte Reexamination, https://www.uspto.gov/web/offices/pac/mpep/s2209.html (last modified Nov. 4, 2015).

percent in this country. And, since then, there have been progressively larger authorizations of more executive adjudication in this field. And, I think this was a reaction to the problems of cost. Jury trials are notoriously expensive, particularly when you have to teach the jury a significant amount about the technology and about the law, the lack of expertise in both the jurors and the judges who would be deciding these issues.

It also gave rise to new issues that led to uncertainty in patent law. For example, one of the major Supreme Court cases—and there's been actually two cases about this issue—was the allocation of power between the judge and the jury in interpreting patent claims. Now when that case came up, I was kind of curious, why has this issue suddenly come up now? We've had patent claims for a century, more than a century, and yet it did not come up to the Supreme Court until the 1990s. And, the answer was, of course, there were no jury trials until about a decade, two decades before that case, so it was a relatively new issue.

The last point I want to make, because I see I'm close to the time and I want to keep to time, is what does this history give us—what insights can this give us for the future, and I think that it gives us insights both for what the agency should do and what the courts should do. With respect to both of them, I think they should look at this fairly successful past practice and try to bend their procedures back to this successful practice.

With respect to the agency, I think that means that they should use the same interpretive methods that courts use, rather than using different interpretive methods in interpreting patents. I think that they, and litigants, should begin to think of ways to get a presumption of validity into the administrative adjudication, rather than to have patents start with no presumption of validity, and I think also they should be more free to allow people to gain evidence which they have been very hesitant to authorize, even subpoenas on basic questions about evidence necessary to prove patent validity. The agency has been extraordinarily hostile to that, and that is not necessary for them to do.

The courts, I think, can actually be good competitors to the patent system. They now have a Supreme Court decision, Teva v. Sandoz, just decided earlier this year, which allows a procedure to decide not only the meaning of patents, but also the validity of patents in cases that are mixed questions of fact and law and to decide these all by judge, without the presence of a jury.[21] I think this opens up a tremendous opportunity to reform the judicial system and bring it back to something that was successful for about a century.

I also think that—well, there's other suggestions, but I will close on

[21] *See,* Teva Pharms. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831 (2015).

that thought because I think it's important to leave a lot of time for questions. Thank you.

Prof. Arti Rai: So, thank you so much to the Federalist Society and to Professor Olson for inviting me. I am honored to follow Professor Duffy and talk about some of the same issues. He has really teed up the questions very nicely by providing some historical perspective. I will talk about some of the questions that Judge Griffith alluded to, empirical questions regarding how the PTAB, as the adjudication agency within the PTO is called, is doing. I am going to give a little bit of theoretical background before I talk about the empirics from the data that I have collected, though, because I think the theoretical background is important.

I think for reasons that Professor Duffy has suggested, the Article III system was perceived as failing as early as the 1980s, or at least the late 1980s, so there were successive attempts to put in some sort of administrative adjudication.[22] But, quite frankly, none of those administrative adjudications proved particularly attractive for a variety of reasons that we can get into in the Q&A, if necessary.

The administrative adjudication that has proved attractive is the one that Congress set up in the America Invents Act of 2011.[23] And, Congress clearly intended this PTAB, as it's called, to be the alternative to Article III judicial evaluation of patent validity. They only address validity, not infringement, but validity is where the problems of the Article III judicial system become particularly salient.

So, these proceedings are extremely widely used. They have pretty much become the second most popular forum, if you will, for bringing challenges to patents. The most popular forum remains the Eastern District of Texas because plaintiffs like to assert in the Eastern District of Texas and defendants then challenge validity as a consequence there. But the PTAB is extremely popular. It gets between 140 and 160 inter partes review petitions per month, and that is the procedure that I'm going to focus on. There's an alphabet soup of procedures, but that's the most important, and that's what I'll focus on in my short time today.

So, the theoretical argument for this administrative alternative, Professor Duffy has put out quite nicely. Because of jury trials, primarily, patent litigation in Article III courts is extremely costly. So, just to throw out some figures from the latest biennial survey of the American Intellectual Property Law Association, even for the lowest stakes challenges where less than a million dollars is at stake, median litigation costs can run $700,000.

[22] U.S. CONST. art. III, §§1-2.
[23] Leahy-Smith America Invents Act, 125 Stat. 284 (Enacted Sept. 16, 2011).

That's seventy percent of what is at stake, an absurd situation, it seems to me. For the highest stakes litigation, where more than $25 million is at stake, median litigation costs run $5.5 million, which is less absurd but still a very high percentage of what's at stake. So, that can't possibly be an efficient way to run a railroad.

Now, this high litigation cost would perhaps be a tad less problematic if these great expenditures yielded great accuracy, but for the reasons that Professor Duffy has elucidated so nicely, because of the presence of juries and even, quite frankly, some of the federal judges, dealing with a very, very hard area of law and some hard science in some cases, we don't necessarily get great accuracy. And, by accuracy in this case, I just mean the simple, most basic non-jurisprudential view of accuracy; that is, to the fullest extent possible, is the current law being applied to the facts accurately? So, we don't get accuracy. We get great cost, so that's not a recipe that anyone would endorse.

There's also a third, kind of sophisticated, economic reason we can get into for why Article III patent litigation might not be particularly a good way to go, and that has to do with collective action problems and estoppel. And, for reasons of time, I'm not going to get into the details of that very sophisticated economic argument that I've participated in in my writing and others have as well, but if people are curious, we can talk about it. There's essentially a collective action problem, primarily because of cost, but also because of other reasons related to estoppel in challenging patents in Article III contexts.

So, for all those reasons, Congress created the PTAB. The judges at the PTAB, as Professor Duffy has indicated, are not ordinary ALJs, but are rather required to be, quote, "persons of competent legal knowledge and scientific ability," unquote.[24] It's really quite remarkable the people who have been attracted to these jobs. They're former law firm partners in the main, people who have given up extremely lucrative salaries to become PTAB judges, and one of the issues I want to explore at some point is exactly how is this administrative adjudication able to get such great people as contrasted with the lack of human capital in other administrative adjudications. That's not the subject of my current empirical research; however, it will be at some point.

Okay. So, data. Let me just talk about what's happening. Is the substitution that Congress intended occurring? So, my data set is a data set of all petitions that have been filed in all parallel district court litigation, so a huge data set. Almost fifteen percent of patents asserted in Article III litigation are now the subject of a PTAB petition. So, it's not everything, but

[24] Patent Trial and Appeal Board, 35 U.S.C. § 6 (2012).

it's not an insignificant portion either. And, substitution is occurring. Seventy—seven, zero—percent of petitioners in PTAB proceedings are prior defendants in district court litigation. So, that's the top-line simple story from my empirical results so far.

So, let's get into a little more complexity. We do have thirty percent of petitioners who are petitioning and challenging validity even before they have been sued. Some of them are never sued; some of them are sued later. So, what's going on there? Is that harassment of the patent owner, or is it something else? It could be harassment. Certainly, harassment was something that was very much discussed in the lead-up to the America Invents Act.[25] The very thing that makes administrative adjudication pose less of a collective action problem, i.e., the low cost, creates the potential for harassment, of course. It's the double-edged sword, if you will.

So, my coauthors and I are extremely interested in this harassment issue, and that's what we're studying right now, and I wish I could say we had final results on that question. Unfortunately, we don't. Empirical work is extremely slow, and we don't. That said, I can say the following, that some of this does look like harassment. There is a lot of serial petitioning going on in the same patent, sometimes even on the same claims. But, some of it is also what could be considered useful collective action. In other words, potential defendants are joining up with people who have already been sued to get a final resolution of the validity of particular claims, and that is, I think from an economic standpoint, most people would agree, probably useful collective action to have a final result with respect to anyone who could be a potential defendant. And, the joinder provisions of the A.I.A. allow that, and in addition, there seems to be some collective action, even without the use of joinder.[26]

Okay. So, a larger conclusion. Well, as with all empirical work, there's no crisp yes or no answer. It's not as if these proceedings are perfect or that they're terrible. They're a mixed bag, but I think they do provide, and our empirical data show, an interesting crucible through which to view the question of how patent validity should be judged. And, I think one clear answer from my perspective is that expertise certainly helps, and the lack of juries certainly helps.

Now some people would argue that the expertise is actually too much expertise, that as a consequence of the great expertise of these judges, the standard for non-obviousness is so high that nobody can survive a challenge on non-obviousness. There are some statistics that would suggest that the judges are perhaps, as a former Chief Judge of the Federal Court of Appeals of the Federal Circuit put it, out to kill property rights, but I think there's a

[25] Leahy-Smith America Invents Act, 125 Stat. 284 (Enacted Sept. 16, 2011).
[26] *Id.*

selection bias problem, too, again, to use the economic lingo. The first patents that were challenged at the PTAB were probably the low-hanging fruit, and our data show that the institution rate for these challenges has gone down substantially over time, and that would suggest that it's not necessarily that the non-obviousness standard is too high because these judges are, quote/unquote, too expert.

So, I have run out of time, and like Professor Duffy, I want to leave a lot of time for questions, so thank you very much and I look forward to your questions.

Hon. Judge Thomas Griffith: Thank you, Profession Rai. So, what we've decided is that, for the next segment, we'll allow the panelists to have a dialogue between each other—among each other, about their presentations, and then at the end, we'll leave some time for questions from the audience. But, I'll turn it over to the panel to react to one another's comments.

Prof. David Olson: So, I had one thought as I listened to the very interesting talks, and we seem to all, on this panel, have accepted the benefit of delegation, congressional delegation and administrative agencies here, or be encouraging more of that. And, I wonder if, for people who are worried about congressional delegation and that sort of thing, is it—do the traditional worries just apply and we don't buy them, or is IP special? Is it that there's less worries about the, kind of, same need for democratic accountability, or it's too technical for Congress, or there's particular advantages to these administrative agencies coming in here that we don't see maybe as widespread? So, I think that might be interesting for the audience to consider that for a moment.

Prof. John Duffy: Well, I have a reaction to that. I don't think there's very much delegation from Congress to the agencies in the intellectual property area, much less than there is in other areas. In the copyright area, traditionally the Copyright Office was just a registration agency. Its duties have slightly expanded, but it does have some rulemaking powers, and now some adjudicatory powers, but it traditionally was just a registration agency. And, a lot of the things that Congress wants it to do is to keep a good register of property rights and perhaps who owns them and other things like that that are not so much delegation of lawmaking authority.

With respect to the patent system, there's still no delegation of law defining power with respect to the property rights themselves. There is an adjudicatory delegation which is expanded, as I articulated, in the last third of

a century, but that is a little bit different than the traditional argument against delegation. Usually, the nondelegation argument is that the Executive Branch agencies are engaged in core policymaking, which I don't think that the agency has the ability to say, "well, this field will have more patent rights and this other field will have fewer patent rights." They're not able to do that.

They are able to adjudicate, and that raises sort of Article III-type issues. I will say that my thesis is that the agency's adjudicators are really substitutes for special masters, and those people were themselves —not really—they weren't Article III judges; they were appointed by courts for sure. And, the earliest case that sustained some administrative adjudicators, Crowell v. Benson, actually expressly used an analogy to special masters in an area where there had traditionally not been juries, which was in that case, admiralty.[27] Here, I think you could say that, to the extent that what's going on is sort of a continuation of the tradition of equity jurisdiction, which did use special masters in the patent area as one way to get expertise into the system, that Congress is really following a tradition that it does not involve so much delegation of core policymaking authority. So, I don't think it's as troubling in the intellectual property area as perhaps in some areas where we see massive delegations of power on policymaking.

Prof. Arti Rai: So, I'm going to differ from Professor Duffy a little bit on that point. I'll agree with him that we haven't seen massive delegation in the main. I do think—and for the reasons he articulated—currently these administrative adjudications—and I'll focus on patent law because that's really where I have some expertise as it were—thus far, we have not seen these administrative adjudications being used for policymaking purposes as contrasted with presenting a much more efficient approach to applying the existing law and policy. That said, in another article on which I'm working, I think that's a curious puzzle. I do think that these administrative adjudications, particularly to the extent that the PTO Director ultimately gets involved in the adjudications—and I think that she has the ability to do so—could be the vehicles for the sorts of law and policymaking that would merit Chevron deference under conventional principles of administrative law.[28]

Now, the puzzle for me is that the Director has appeared to have no interest whatsoever in using these vehicles for those purposes, and that's part of the puzzle I'm exploring in some current work I'm doing. My suspicion is that, at the current point in time, the PTO wants to argue for deference in other contexts, not on substantive issues, but on other issues like lack of judicial review of particular decisions it makes on procedure. But, I do think that the possibility is out there, and I think it will be interesting to see if that possibility

[27] Crowell v. Benson, 285 U.S. 22, 51–52 (1932).
[28] Chevron, U.S.A., Inc. v. NRDC, Inc., 467 U.S. 837 (1984).

is ever—that potential power is ever exercised by the PTO Director.

Prof. Sandra Aistars: I'll make two comments relevant to everything that's been said so far. One is just to reflect on some of the things that Professor Olson said in his talk, commenting on the complexity of the Copyright Act, the fact that Congress has felt empowered to really resolve some pretty detailed issues within the Act itself.[29] And, I actually take a bit of issue with that, because I think as a copyright lawyer, you want an act that is actually understandable by the people who have to live up to its provisions, and I think the kindest thing I've heard said about the Copyright Act in recent memory is a comparison to the Tax Code.[30] And, there are people who say far more colorful things about the Act, comparing it "to an obese Frankensteinian monster."[31] This is one particularly colorful phrase.

So, I actually think it's a problem when you have very specific industry-negotiated compromises hardwired into the Act forever. If you look at some of the provisions that are included in the Act, there are provisions that deal with technologies arising at the very beginning of the digital age that never really took off, but yet the provisions are still in the Act. And, if you're a startup company or you are an author approaching the Act trying to live up to its obligations and you're confronted with all of this, I think that's quite a challenge, to say the least. The former Registrer of Copyrights, Mary Beth Peters, has said herself—and I don't think she was actually joking—that she doesn't have a full grasp of everything within the Act and how it should operate. So, if you've got a former Registrer saying that the Act is too complex, what does that mean for the public at large? I think it leads to a disrespect of copyright in general.

The other comment that I'll make is on the administrative adjudication point, and one issue that arises in the copyright space is that it's incredibly expensive to enforce infringement claims, particularly for individuals and small businesses. And, typically, those people are not looking to enforce claims that result in huge statutory damages awards. They're looking to get the cost of what a license would have cost and some additional recovery for the inconvenience of having to pursue the infringer. And, there's a proposal that the Copyright Office has made to establish a small claims court within the Copyright Office that would cap damages and seriously reduce procedural requirements that would make these administrative adjudications more appealing to both parties. And, I would personally be interested in Professor Rai's views on that, because I think it might also lead to a decreased

---

[29] Copyright Act of 1976, 17 U.S.C.S. § § 101 et. Seq. (2012).

[30] *Id.*

[31] Pamela Samuelson, *Preliminary Thoughts on Copyright Reform*, 2007 UTAH L. REV. 551, 557 (2007).

reliance on statutory damages in federal litigation, which I think again is beneficial for all of the affected players.

Prof. Arti Rai: So, thank you for that. That was actually at the end of my talk. I couldn't get to it because of time constraints, so I appreciate that. You read my mind.

So, I think it's very interesting. I've been fascinated by the debate of some possibility for administrative adjudication of small copyright claims, and it occurs to me that the question of that being a much more accessible forum is—obviously, the answer to that is in the affirmative in that presumably the cost of using it would be lower, just as the cost of using the PTAB for patent defendants are much lower.

So, then the accompanying question is always harassment, and here the harassment would be on the flip side on potential defendants, and frankly, I haven't thought through the issues of what the harassment might look like, if there is harassment. But, I think those are the two sides of the coin, if you will, for administrative adjudication. If, and let me—I know that Professor Duffy may say this, so let me anticipate it, if the purpose of administrative adjudication is solely to apply the law as it is. Now, the concern that I suspect some in the audience might have is that it will veer over into making law as well, and that's a separate concern, but if the goal is simply to apply the law as it is and we trust the adjudicators to be faithful to that goal.

Prof. Sandra Aistars: I don't want to step on your toes, Professor Duffy, but just one quick comment on the harassment point. That's a point that I've heard myself and heard raised by big stakeholders, big media companies in particular saying, "Well, we get a lot of sort of frivolous claims from individual rights owners over time, and we don't want to have our movie held up or whatever over something like this." And, I think the proposals from the Copyright Office anticipates that because it's a voluntary process. You don't have to go through this process. You can always have access to Article III courts, if you desire.

On the flip side, the small creators have said, "Well, how does that really help us because we're just going to be dragged back into federal court where we can't afford to litigate? And so this process isn't going to be sufficient." But, I think the key for success here in the small claims context is, if you can make the process appealing enough so that both parties want to pursue that process—and I think the cap on damages is a very effective step in the right direction probably, but I'll be curious to see whether there are other things that have been used in different contexts to help encourage resort to these sorts of administrative adjudications rather than to Article III courts.

Prof. Arti Rai: Okay. I don't want to monopolize the panel either, so, yeah, I agree, and so they were having all of these violent agreements here, and I fear that it's not very interesting for our audience. I agree that cap on damages would be a very interesting option, given that, as I understand, that the statutory damages problem is very significant. But beyond that, I actually—and this is the third paper I want to do, and this is the least developed of my thoughts, so I probably should refrain from saying anything more before I say something that is completely wrong as a matter of copyright law.

Prof. John Duffy: I'd like to say just one quick point here, is that you can have a small claims system with caps on damages that's voluntary, and you don't have to have that in an administrative state. There's nothing inherently administrative about that. You could perhaps use consent to try the case with limited damages before a magistrate judge with accelerated deadlines and reduced discovery. That sort of thing could be put in Article III as well as in the administrative stay, as long as we're not talking about the administrative stay sort of adding politics into the property right system. If that's the goal, then you have to go to some sort of administrative stay. But I would be surprised—and maybe you can correct me if I'm wrong—that the people who support the small claims say, "What we want is small claims, and we want it more political."

Prof. Sandra Aistars: Right. No, I certainly haven't heard anybody argue that they want it more political. The arguments have all been pointing to greater efficiency, but also expertise. I think that the worry is that if you take the small claims process and put it in a true small claims setting in the courts, you're going to have inconsistent or too difficult decisions. And, so that the idea of putting it in front of a body that has true expertise in the affected area of the law should result in better results.

Prof. John Duffy: Well, part of my thesis is, of course, that we think of the judiciary, the Article III courts, as being sort of rigid and requiring certain sets of procedures, and my talk was designed to say that there were other procedures that were much more flexible that had expertise, that did not rely on juries, that had no oral testimony, just the written record, which dramatically reduces costs. And, that is part of our tradition, not just a small part, but a very large part of our tradition of adjudication of intellectual property claims in the country.

Prof. David Olson: So, if it was so much better, why did the parties—you know, you don't have to request a jury. What drove the big increase in jury trials? Is it because plaintiff's side? Is that the story? What's the story?

Prof. John Duffy: I think the story is the plaintiff side. It's that I think there's a core insight here, which is that, first of all, it did take a long time for patent owners or parties to begin to request juries. It wasn't their immediate instinct as soon as the Supreme Court decided the case, even though some patent practitioners wrote articles in the 1960s and said, "Why isn't everybody asking for a jury trial? Because it's clearly now available even in a case where you're seeking injunctive relief." And, I think the reason is that people began to realize that if you could get validity issues decided by a jury, with the presumption of validity attached, which the way it's articulated, especially by the Federal Circuit, was that the patent could not be declared invalid by the jury unless they found that it was—by clear and convincing evidence that it was invalid, and they tend to blend legal and factual issues into that. I think plaintiffs realized that most juries don't find anything clear in a patent case, so therefore they were going to win. And, the data tends to bear them out on that, that you think that all you have to do is confuse the jury and your patent will be valid, and I think that that was a major driver to push things into the jury system.

Prof. Sandra Aistars: I think you see similar things perhaps reflected in certain copyright cases, and the case that comes to mind is the recent controversial "Blurred Lines" decision, where the jury was given very thorough instructions on how to judge infringement, and there was a lot of speculation and probably accurately so that the jury didn't really make its decision based on what the law might have required of it but, rather, on its instincts of which of the parties was more sympathetic, resulting in a decision that a lot of people, both on the copyright owner and copyright skeptic side, criticized.[32] So, I think there's a risk in the copyright space as well of getting odd jury decisions that result in further litigation.

Prof. David Olson: That might be one insight to take is that—I mean, when I teach copyright, my students—because I recently teach IP Survey, I recently went through it, and they kind of sit back amazed saying, "Wait. So, jury members just listen to the song, and they get some testimony, and then they just decide if the protectable parts, which we're trying to figure out what those and what they aren't, are enough alike so that it seems substantially

[32] Williams v. Bridgeport Music, Inc., No., LA CV 13-06004 JAK (AGRx), 2015 WL 4479500, at 1, *16-*17 (C.D. Cal.July 14, 2015).

similar?" And, I say, "Yes, that's it."

Prof. Arti Rai: So, maybe I'll be provocative and ask us—we all seem to be beating up on juries here—are juries so much worse in this context than they are in other complex litigation contexts, say—I don't know—antitrust or other litigation contexts that would be very complex? And, I don't know the answer to that. It's a question my colleagues often ask me because they don't know anything about patent law or copyright law for that matter, and they think, well, why is patent rights IP so special that juries would be so much worse in this context than in other contexts? And, I don't know the answer to that. I can say for patent law that, at least in certain cases, the science seems sufficiently complex that I think they would be particularly badly off in that situation. But do you think that's true as well for copyright law?

Prof. Sandra Aistars: So, I think there are—as Professor Olson points out, there are various decisions that need to be made that are actually fairly complex legal determinations rather than just factual determinations. So, is that the proper province of a jury?

Prof. John Duffy: I think that's a central question that you see in both the patent and the copyright system, as I said in my talk, that there's a lot of questions that are mixed questions of law and fact. And, the Supreme Court has extensive jurisprudence on mixed questions of law and fact throughout all of law, and, suffice to say, that the Supreme Court sort of moves that line back and forth based on what they think the relative competence of the various decision-makers are. And, I think that the key thing in just this year's decision in the Teva decision, was their decision that even though things can be completely factual, they can be decided by the trial judge, even where the right to jury attaches, and decided and then reviewed deferentially but on the factual portion and de novo on the legal portion, that all that can occur without a trial—without a jury trial.[33] That, I think, is the opening up of a new kind of procedure that looks a lot like the procedure that we used to have, in which you could have just a paper record, and you could have no jury, and it could be done relatively inexpensively.

Hon. Judge Thomas Griffith: Well, with that, let's open up the conversation to the audience. If you'll come to the microphone, and if you have a question directed to a particular member of the panel, do that.

[33] Teva Pharms. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831, 835 (2015).

Otherwise, it will be a jump ball, and we'll let them decide which they want. Yes, sir.

Attendee: Not surprisingly from the patent practitioner standpoint, my clients have mixed feelings .... [Inaudible]. With respect to the Constitution, I think there is separation of powers issues and that comes from the philosophy of whether patents come from substantive rights. And, if you have an administrative agency taking away those rights without Article III courts, I was intrigued then by Professor Duffy's examination. I hadn't really thought about the idea that courts of equity in some ways have changed. And so, could it be perhaps then the next step we have to perform would actually have to be to address these, in several ways, issues that have come up including the notion the Federal Circuit has conceded the notion of validity that we see in the Baxter case.[34] The next path to perform is [Inaudible].... with or without juries, small claims versions where you would have technically qualified juries. I was curious if the panelists have thought about that level of policy or if there are clear barriers either practical or constitutional.

Hon. Judge Thomas Griffith: I think that's a jump ball. Who goes first?

Prof. Arti Rai: So, I'll speak to the practical questions, I suppose, and I would be interested in why that would be, just as a practical matter as opposed to a constitutional matter, superior to what we have now in the PTAB, because essentially we have expertise in the PTAB. I don't think—although perhaps this is where your suggestion is heading—that it's been politicized. Maybe you disagree with that; you think that the expertise has been politicized. So, then the question is a strictly constitutional one, and in my view at least, these are not private rights for which you need an Article III adjudicator, so that's my view of the constitutional question, but reasonable minds can differ, and perhaps Professor Duffy differs.

Prof. John Duffy: Well, I think that if you look back at the precedents, there is actually substantial constitutional concern about an executive agency unwinding property rights. The 19th century precedents do seem to make that point. I think unfortunately in the Teva case, Justice Thomas, I think, wrote an opinion about this issue.[35] It seemed a little sideways to the briefing, but

[34] Fresenius USA, Inc. v. Baxter Int'l, Inc., 721 F.3d 1330 (Fed. Cir. 2013).
[35] Teva Pharms. USA, Inc., 135 S. Ct. at 847.

he took the view that these are not real property rights and therefore they were—any constitutional concern was diminished. And, I think that the—I think that, generally speaking, it's not an argument that's going to win today. It is something to be, I think, concerned about.

I think your question also was, what is the next step? I think that both the judicial process needs to bend back towards more expertise and faster resolution of claims, and I think that the case law does allow that now, does say that you can adjudicate validity without a jury, you can do that relatively quickly with some degree of expertise in the courts. And, then the only reason for parties to go to the agency is that the agency's position is that there's—well, the law there is that there will be no presumption of validity. And, I think that's a major divergence between the two forums.

And, I suspect in the future that's going to be eliminated, by statute. The patent owners are eventually going to be able to say it doesn't make any sense if our history was that we originally gave a presumption of validity, in part, not just because of expertise difference between the courts and the agency, but also because we want patent rights to be property, to be somewhat solid, that you'll see some rise of a presumption of validity inside the agency.

One doctrinal way that that might occur is with the Chenery doctrine, to say that an agency has to be very clear about why it's doing what it's doing, coupled with the State Farm doctrine, which says that when an agency changes its view from one position to another, it's got to give a particularly good reason.[36] I think that might be the sort of administrative law building blocks of something like the presumption of validity which can narrow the difference between the administrative and the judicial process.

Hon. Judge Thomas Griffith: Thank you. Next question.

Attendee: I have two questions. One, directed specifically to John. It seems that you haven't done some of the actual number crunching that the vast expense of patent litigation comes before the jury stage, it comes at the claim constructions stage. That's where you get your expert. That's where you fight over what claims mean. [Inaudible]. Once you are done with that then often times you have, a finding of validity because parties agree [if it should come out this way or that way]. So if that's actually true, that's where the expense is, then I'm not quite sure how does your argument play out? And then question two, is more of a jump ball, ... [Inaudible] my biggest constitutional concern is that there are number of patents that have been

[36] Sec v. Chenery Corp., 318 U.S. 80, 94–95 (1943); Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29 (1983).

adjudicated in the PTAB ... [Inaudible]. [How much power does the PTAB, versus Article III courts, have to override final judgments?]

Prof. John Duffy: Well, on the first question, you asked about the expense with respect to the jury. I'll say two things. I do not have the empirical data, but from what I understand from patent litigators, that there is still an enormous expense after claim construction if the parties choose to go to a jury. And, indeed, it is true that many patent litigators or many cases will try to have the infringement issue decided by claim construction, really, because both sides want to avoid that tremendous expense. So, that the Markman hearings over the course of the last twenty-five years have expanded to really be deciding not just claim construction, but really infringement, to take that issue away from the jury, and that both sides really wanted that to occur because the additional expense of a jury trial was going to be so much.[37]

But, I'd also say that the equity procedures not just included limits—or no jury, but it also included other things like no oral testimony and other things like limits on discovery and limits, reasonable limits, I think, not quite what the Patent Office is doing, but other things that tended to reduce expense. So, I think it's the package of things that could be used in the Article III courts to reduce expense, and those weren't used over the last third of a century.

Prof. Arti Rai: And, I'll speak to—what I take, Greg, is your Fresenius v. Baxter point, I think that that's actually a really interesting question that may at some point have to be decided by the Supreme Court because I'm not at all sure that the Federal Circuit has gotten it right.[38] But, as I understand it, if there has been a final judgment, at least that judgment will stand. It's a question of whether the patent itself will stand that's a separate question.

Attendee: [How about injunctions? If there is an injunction in the court and the patent falls, wouldn't the injunction fall?]

Prof. Arti Rai: I'm not sure about that. I don't think that's what Fresenius says, if there's a final judgment with respect to—you mean because it was a continuing—[39]

[37] Markman v. Westview Instruments, 517 U.S. 370 (1996).
[38] Fresenius USA, Inc. v. Baxter Int'l, Inc., 721 F.3d 1330, 1332 (Fed. Cir. 2013).
[39] *Id.*

Prof. John Duffy: The judgment might stand.

Prof. Arti Rai: Yeah.

Prof. John Duffy: But, you could modify the injunction or dissolve the injunction, because basically it would be viewed as a change in the law or a change in the underlying facts. So, that is actually—the injunctive part is equitable, so the equity procedures are just more flexible. The judgment part of it could not be modified, the law part of the judgment, so if there is a $100 million verdict and that goes to final judgment, that check has to be written, and it's not refundable if the patent gets invalidated.

Prof. Arti Rai: But, I think the question of whether at the end of the day Judge Dietz views that because—and others on the Federal Circuit's view that because the different standards of proof and so forth, the executive agency's determination should trump that of the Article III court, so long as there has been a final judgment. I think that will be an important question that may have to go up to the Supreme Court.

Hon. Judge Thomas Griffith: Yes, sir.

Attendee: [My question is going to be directed to Professor Rai. I represent a lot of clients .... [Inaudible]. Their concern is that their patents no longer have the presumption of validity. Professor Duffy has already addressed that. The other concern is that IPR's are now a vehicle for oppression, in the sense of extortion. 'Nice little patent you have here Mr. Entrepreneur, it would be too bad if something happened to it'. Then you have the situation where you have a choice between an IPR or licensing under very unfavorable terms. Or you have a title-esque situation where you have the coupling of an IPR with the short selling of the patent itself. How would you recommend addressing this?]

Prof. Arti Rai: So, I'll speak to the standing question in particular which relates, of course, to the Kyle Bass situation. So, I don't think that at this stage we have—the data suggests that it's become such a pervasive problem that we need to think about tightening up standing, and that's part of what I've been looking at in terms of my data set. There is a lot of hue and cry over what Kyle Bass is doing, but I think it's a self-limiting phenomenon

because—or at least to the extent that hedge fund managers are challenging patents or entities like that that are good patents. I think it's a self-limiting phenomenon because now people realize that the PTAB is not going to institute if the patent challenge is a good patent. And, sometimes maybe—and this goes to the question of whether it's been politicized, maybe even if it's not a good patent.

The issue of—so I don't think currently we need to change the standing requirements for that reason. The issue I think of the reverse trolling, if you will, is a more pressing issue. I think the Kyle Bass phenomenon is sort of epiphenomenal and will limit itself. The reverse trolling, I think, is a really important question, and that does get to the presumption of validity, whether the broadest reasonable interpretation is the way to go. I think for a variety of reasons, BRI should not be the way the PTAB uses or does claim construction. So that's, I think, an easy call.

Presumption of validity, I think, would be the place I would go rather than standing in the first instance, because with standing, the concern that I have is that you don't have the ability of groups that can serve as vehicles for collective action, and I know folks don't necessarily like things like unified patents, but I think they can serve as vehicles for collective action to root out bad patents for collective action problems or prevent that from happening in the courts. And, I think there's a pretty good theoretical case to be made that in certain circumstances bad patents linger because there's a collective action problem, because of the estoppel effects of challenging them in the courts, and the huge costs associated with challenging them in the courts.

Prof. John Duffy: So, I'll just say, the broadest reasonable interpretation is actually a quite ridiculous rule. It's actually a presumption of invalidity. It goes against a sort of basic canon of interpreting patent rights, which the Supreme Court has said over and over again, is that the first canon is that the patent claim should be interpreted to save validity, not to create invalidity. I think there's actually almost, except at the Patent Office, universal condemnation of that. I expect the next administration, no matter what it is, to really reexamine that administrative process. It could be changed administratively, and it should be changed administratively, and people should tell the Patent Office that it should be changed administratively. As I've said, the presumption of validity, I think eventually we will evolve. If we keep administrative adjudications, we will evolve a presumption of validity. We'll see history repeat itself probably.

With respect to Kyle Bass, I'm going to say a kind word or two, maybe even more than a kind word. What's going on with Kyle Bass is related more generally to the phenomenon of what's sometimes called "outsider trading," the ability for somebody outside a corporation to collect up

information that might not be favorable to the corporation, take a position on the corporation's stock, and then disclose it in some public way. And, that is a way to get sort of corporate misdeeds or corporate weaknesses out into the public sooner rather than later.

And, in general, I think that process holds out great hope for a way of policing things that are not in the public interest, and I think a patent that is invalid, that is being used to charge higher prices than should be charged, that I think that's not in the public interest. I know that's very controversial to say, but I really think this is a big, big issue, and it goes not just to the patent system, it goes to outsider trading more generally.

Think, for example, if this were clearly legal, and I think it is clearly legal, but if it were more generally practiced, maybe somebody would have investigated Volkswagen. Some private person would have investigated Volkswagen, figured out they were lying years ago, and the scandal would not be as large as it is today because somebody would have made a small amount of money back then on shorting the stock and then disclosing the negative information.

Hon. Judge Thomas Griffith: Great. Well, if you'll join with me in thanking our panel for this presentation. Thank you very much.

[END RECORDING]