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# Policy Tailors and the Patent Office

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*Unlike most administrative agencies, which frequently tailor regulatory policies to the needs of specific industries, the U.S. Patent and Trademark Office (“USPTO” or “Patent Office”) has played a more ministerial role in the patent system. Commentators have long viewed the USPTO as lacking the authority and institutional competence needed for effective policymaking. They also have presumed the agency is overly susceptible to agency capture. This Article analyzes these objections to USPTO policymaking and concludes they are no longer persuasive in light of recent patent reforms. I argue that the courts should give the USPTO broad flexibility to use its statutory authority, and that the USPTO can and should use this flexibility to tailor patent policy to the needs of different types of inventors and industries. By doing so, the agency will create economies of scale for the patent system and help fill a long overdue void in innovation policy.*

## TABLE OF CONTENTS

INTRODUCTION .....	489
I. INSTITUTIONAL POWERS .....	496
A. <i>Policymaking Potential</i> .....	497
B. <i>Judicial Review</i> .....	501
II. POLICY TAILORING AT THE PATENT OFFICE.....	506
A. <i>Policymaking Capacity</i> .....	507
1. <i>A History of Prioritization</i> .....	508
2. <i>Congressional Encouragement</i> .....	515
B. <i>Tailored Patent Law Standards as Economies of Scale</i> .....	517

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1. Economies of Scale .....	517
2. A Long Overdue Need.....	523
C. <i>Agency Capture</i> .....	525
1. Harms of Capture .....	526
2. Relative Susceptibility to Capture .....	527
3. Public Benefits of Capture.....	529
CONCLUSION.....	532

## INTRODUCTION

For almost eighty years, broad congressional delegations of authority have empowered administrative agencies and other institutions to craft flexible policy measures for their constituents.<sup>1</sup> Commentators have disputed whether Congress should be entitled to delegate its responsibility for policy choices,<sup>2</sup> what criteria the delegates should consider in making policy decisions,<sup>3</sup> and what role the courts should play in constraining agency discretion.<sup>4</sup> Yet the

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<sup>1</sup> See Lisa Schultz Bressman, *Schechter Poultry at the Millennium: A Delegation Doctrine for the Administrative State*, 109 YALE L.J. 1399, 1405 (2000) (discussing how, since 1935, the Supreme Court has upheld congressional delegations of authority that involved “vague statutory standards”); Richard J. Pierce & Sidney A. Shapiro, *Political and Judicial Review of Agency Action*, 59 TEX. L. REV. 1175, 1179 (1981) (“Almost five decades of heavy reliance on administrative government have resulted in . . . Congress [finding] that it can solve many of our social problems only by relying on delegations of authority that are broad and vague, rather than clear and specific.”).

<sup>2</sup> Compare DAVID SCHOENBROD, *POWER WITHOUT RESPONSIBILITY: HOW CONGRESS ABUSES THE PEOPLE THROUGH DELEGATION* 3-21 (1993) (“When the lawmakers we elect have others make the law, the people lose.”), Peter H. Aranson, Ernest Gellhorn & Glen O. Robinson, *A Theory of Legislative Delegation*, 68 CORNELL L. REV. 1, 7, 63-67 (1982) (proposing to “deprive the legislature of its ability to shift responsibility” for policy making), Ernest Gellhorn, *Returning to First Principles*, 36 AM. U. L. REV. 345, 347-52 (1987) (“The constitutional problem that underlies the current dissatisfaction is that Congress has not fulfilled its constitutional responsibilities.”), Marci A. Hamilton, *Representation and Nondelegation: Back to Basics*, 20 CARDOZO L. REV. 807, 819-20 (1999) (asserting that “the nondelegation doctrine serves crucial constitutional ends when applied against delegations to the President and against delegation to administrative agencies”), and Gary Lawson, *Delegation and Original Meaning*, 88 VA. L. REV. 327, 333 (2002) (arguing that the Constitution contains “a discernible, textually grounded nondelegation principle that is far removed from modern doctrine”), with David Epstein & Sharyn O’Halloran, *The Nondelegation Doctrine and the Separation of Powers: A Political Science Approach*, 20 CARDOZO L. REV. 947, 950 (1999) (arguing that delegation has served as “a vehicle for good public policy” when it was clearly defined and targeted at problems that the legislative process handles poorly), Jerry L. Mashaw, *Prodelegation: Why Administrators Should Make Political Decisions*, 1 J.L. ECON. & ORG. 81, 99 (1985) (discussing how delegation to administrative experts can be interpreted “as a form of consensus building that, far from taking decisions out of politics, seeks to give political choice a form in which potential collective agreement can be discovered and its benefits realized”), and David B. Spence, *A Public Choice Progressivism, Continued*, 87 CORNELL L. REV. 397, 398 (2002) (presenting a public choice argument for delegation); David B. Spence & Frank Cross, *A Public Choice Case for the Administrative State*, 89 GEO. L.J. 97, 101-02 (2000) (same).

<sup>3</sup> See Stephen G. Breyer et al., *ADMINISTRATIVE LAW AND REGULATORY POLICY: PROBLEMS, TEXT, AND CASES* 28 (7th ed. 2011) (discussing how courts have been “invalidating agency action as insufficiently responsive to the new interest in quantitative analysis, tradeoffs, and smart tools”).

<sup>4</sup> *Id.* at 17-29 (discussing the evolving attitudes towards the relationship between

presence of administrative bodies capable of tailoring policy to the needs of specific industries remains a fundamental justification for the administrative state.<sup>5</sup> Congress lacks the resources, time, incentives, and foresight to attend to these tasks itself.<sup>6</sup> Among countless other examples of constructive policy tailoring by agencies, the Federal Energy Regulatory Commission has developed an innovative pilot program to encourage the development of renewable energy projects in coastal waters.<sup>7</sup> The Food and Drug Administration has promoted research of drugs that benefit at-risk subgroups in the population, including pediatric patients and minorities.<sup>8</sup> Similarly, the Environmental Protection Agency has imposed regulations on different industries, such as coal-fired power plants and chemical manufacturing plants, based on industry-specific characteristics.<sup>9</sup>

Given the prevalence of beneficial policy tailoring in other areas of the law, it is unsurprising that commentators have increasingly lamented the patent system's lack of an institution that is willing and able to tailor innovation policy to the needs of different types of

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courts and agencies from 1875 to present). One area that has been particularly controversial has been the question of how courts should discern the breadth of congressional delegations of authority. *See, e.g.*, Lisa Schultz Bressman, *Chevron's Mistake*, 58 *Duke L.J.* 549, 555 (2009) ("Rather than focusing heavily or exclusively on the relative clarity of statutory language, courts [should] examine the sorts of considerations that positive political theorists and legal scholars have identified as indications of legislative intent to delegate interpretive issues to agencies.").

<sup>5</sup> *See, e.g.*, Epstein & O'Halloran, *supra* note 2 at 950 (asserting that "legislators will delegate those issue areas where the normal legislative process is least efficient relative to regulatory policymaking by executive agencies"); Mashaw, *supra* note 2, at 99 ("[D]elegation to experts [is] a form of consensus building that, far from taking decisions out of politics, seeks to give political choice a form in which potential collective agreement can be discovered and its benefits realized.").

<sup>6</sup> *See* Margaret H. Lemos, *The Consequences of Congress's Choice of Delegate: Judicial and Agency Interpretations of Title VII*, 63 *VAND. L. REV.* 363, 365 (2010).

<sup>7</sup> *See, e.g.*, Press Release, Federal Energy Regulatory Commission, FERC Issues First License for Hydrokinetic Energy Project (Dec. 20, 2007), available at <http://www.ferc.gov/media/news-releases/2007/2007-4/12-20-07-H-1.asp> (creating a short-term, conditioned licensing process for wave, tidal, and ocean current projects to give the hydrokinetic industry, a nascent renewable energy industry, a boost).

<sup>8</sup> *See, e.g.*, U.S. FOOD AND DRUG ADMIN., STRATEGIC PRIORITIES: 2011-2015 9 (Draft Sept. 29, 2010), available at <http://www.fda.gov/downloads/AboutFDA/ReportsManualsForms/Reports/StrategicActionPlan/UCM226907.pdf> (discussing the agency's intent to prioritize technologies that aid pediatric patients, women, and minorities, as these groups have been historically underrepresented in clinical trials).

<sup>9</sup> *See, e.g.*, National Emission Standards for Hazardous Air Pollutants for Chemical Manufacturing Area Sources, 40 *C.F.R.* § 63.1 (2009) (promulgating rules for chemical manufacturing process units that produces certain hazardous air pollutants).

inventors and industries.<sup>10</sup> Mark Lemley and Dan Burk have urged that “[t]he evidence is overwhelming that, at virtually every stage of both the innovation and patent processes, different industries have different needs and experience the patent system differently.”<sup>11</sup> Scholars have viewed the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”), which holds exclusive jurisdiction over appeals from all district court cases arising under the patent laws<sup>12</sup> and “makes broad pronouncements of law that set or change patent policy,”<sup>13</sup> as the most promising actor to tailor innovation policy to the needs of specific industries.<sup>14</sup> Commentators have presumed the administrative agency responsible for the patent system, the U.S. Patent and Trademark Office (“USPTO” or “Patent Office”), is unfit for the task. They have espoused three reasons for keeping the USPTO out of policymaking: (1) its limited authority; (2) its lack of institutional competence for policymaking; and (3) its susceptibility to agency capture.<sup>15</sup> In contrast to the Federal Circuit, commentators have viewed the USPTO as having only a ministerial role to play in the patent system —

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<sup>10</sup> See, e.g., WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 306-07 (2003) (arguing that academic incentives, rather than patent rights, promote basic research by universities); Arti K. Rai & Rebecca S. Eisenberg, *Bayh-Dole Reform and the Progress of Biomedicine*, 66 *LAW & CONTEMP. PROBS.* 289, 291 (2003) (asserting that intellectual property rights “may [paradoxically] hinder rather than accelerate biomedical research”).

<sup>11</sup> Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 *VA. L. REV.* 1575, 1595 (2003) [hereinafter Burk & Lemley, *Policy Levers*].

<sup>12</sup> 28 U.S.C. § 1295 (2010).

<sup>13</sup> Ryan Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 76 *MO. L. REV.* 733, 734 (2011); see also Michael J. Burstein, *Rules for Patents*, 52 *WM. & MARY L. REV.* 1747, 1757 (2011) (“Originally created to bring national uniformity to patent law, the Federal Circuit has become the most important expositor of the substantive law of patents in the United States. Indeed, the Federal Circuit has generally declined to give any legal weight to the PTO’s substantive interpretations of patent law rendered in the process of granting or denying patent applications.”) (citing Craig Allen Nard & John F. Duffy, *Rethinking Patent Law’s Uniformity Principle*, 101 *NW. U. L. REV.* 1619, 1620 & n.3 (2007); Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 *N.Y.U. L. REV.* 1, 74 (1989)).

<sup>14</sup> See Burk & Lemley, *Policy Levers*, *supra* note 11, at 1579.

<sup>15</sup> See, e.g., DAN L. BURK & MARK A. LEMLEY, *THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT* 168 (2009) [hereinafter Burk & Lemley, *THE PATENT CRISIS*] (dismissing the USPTO’s capacity to tailor patent policy based on its limited authority, lack of institutional capacity for policymaking, and susceptibility to capture); Vacca, *supra* note 13, at 754-55 (explaining that the USPTO makes a poor candidate to set patent policy due in significant part to its lack of institutional competence for policymaking and to the Federal Circuit’s narrow interpretation of the USPTO’s rulemaking authority).

examining patent applications and issuing patents for new inventions.<sup>16</sup>

Amid increased calls for policy tailoring in the patent system, the lopsided relationship between the Federal Circuit and the USPTO has ignited concerns about the peculiar institutional structure of the patent system. The Supreme Court,<sup>17</sup> a faction of Federal Circuit judges,<sup>18</sup> and an assortment of eminent scholars<sup>19</sup> have supported a

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<sup>16</sup> See, e.g., BURK & LEMLEY, *THE PATENT CRISIS*, *supra* note 15, at 167-68 (describing the PTO's limited role in the patent system).

<sup>17</sup> The Supreme Court has taken a dim view of the Federal Circuit's efforts to craft special rules in patent cases. See *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 136 (2007) (rejecting the Federal Circuit's declaratory judgment test); *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 392-94 (2006) (rejecting the Federal Circuit's special test for issuing permanent injunctions in patent cases); *Dickinson v. Zurko*, 527 U.S. 150, 161-65 (1999) (reprimanding the Federal Circuit for crafting a special review standard for USPTO decisions and thereby isolating its review of patent appeals from administrative law); see also *Mayo Found. v. United States*, 131 S. Ct. 704, 713 (2011) (emphasizing that administrative law should be applied uniformly including to tax law, which was one of the last strongholds of special administrative law rules). *But see Kappos v. Hyatt*, 132 S. Ct. 1690, 1700 (2012) (upholding the Federal Circuit's de novo standard of review for fact findings rather than the APA's more deferential "substantial evidence" standard when a patent applicant submitted evidence to a district court in a 35 U.S.C. § 145 action that had not been previously submitted to the USPTO).

<sup>18</sup> See *Hyatt v. Kappos*, 625 F.3d 1320, 1342 (Fed. Cir. 2010) (Dyk, J., dissenting) (asserting that the en banc court's holding that 35 U.S.C. § 145, which entitles patent applicants to file civil actions in district courts to determine whether they should be entitled to receive a patent, does not limit the applicant's right to introduce new evidence before a district court "denigrates the important expertise of the PTO, is contrary to established principles of administrative law, finds no support in the language of the statute, and is contrary to decisions of at least five other circuits"), *aff'd*, 132 S. Ct. 1690 (2012); *Tafas v. Doll*, 559 F.3d 1345, 1366 (Fed. Cir. 2009) (Bryson, J., concurring) (agreeing with the USPTO that the Federal Circuit should not confine the agency's authority by distinguishing between invalid substantive rules and valid procedural rules).

<sup>19</sup> See Burstein, *supra* note 13, at 1747 (proposing that Congress restructure the patent system to allow the USPTO to engage in full substantive rulemaking so that the USPTO could tailor patentability to diverse circumstances); John M. Golden, *Patentable Subject Matter and Institutional Choice*, 89 TEX. L. REV. 1041, 1041 (2011) (arguing "that the enterprise of regulating patentable subject matter should be primarily entrusted to the USPTO, rather than, as it is now, to the courts"); Jonathan S. Masur, *Regulating Patents*, 2010 SUP. CT. REV. 275, 279 (2010) [hereinafter Masur, *Regulating Patents*] (proposing that Congress endow the USPTO with substantive rulemaking authority so that the USPTO could craft "intelligent patent policy . . . [and] design rules that respond to particular technological developments in specific fields"); Arti K. Rai, *Growing Pains in the Administrative State: The Patent Office's Troubled Quest for Managerial Control*, 157 U. PA. L. REV. 2051, 2056-57 (2009) [hereinafter Rai, *Growing Pains*] (suggesting "ways in which the current trend toward [bringing substantive patent law into conformity with administrative law] could be

variety of reforms that would shift greater power to the USPTO. Another group of scholars has begun to explore ways in which the USPTO has already worked behind the scenes to play a bigger role in shaping patent law policy than once appreciated. Clarisa Long has asserted, for instance, that the USPTO successfully lobbied Congress for more control over its operations and the Supreme Court for greater judicial deference for its factual findings.<sup>20</sup> Melissa Wasserman and Jonathan Masur have argued that the USPTO has indirectly influenced the scope of patentability through its issuance of individual patents and preparation of internal guidance documents.<sup>21</sup>

The freshly enacted Leahy-Smith America Invents Act (“America Invents Act”) gives the USPTO opportunities to play a much larger role in policymaking than ever before.<sup>22</sup> Among other reforms that clearly expand the USPTO’s authority, the Act stipulates that the Patent Office may promulgate regulations prioritizing the examination of applications of importance to the national economy or national competitiveness<sup>23</sup> — a power I call the USPTO’s “Prioritization Authority.” Even more significantly, the Act empowers the USPTO to set standards for the first time for its new and fortified trial-like proceedings, including derivation, post-grant review, and inter partes review proceedings, in which patent rights may be strengthened or terminated.<sup>24</sup> In promulgating the standards for post-grant review and inter partes review, the USPTO must weigh broad policy considerations, including “the effect of any such regulation on the

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mirrored in the area of procedure”).

<sup>20</sup> Clarisa Long, *The PTO and the Market for Influence in Patent Law*, 157 U. PA. L. REV. 1965, 1966, 1974-78 (2009).

<sup>21</sup> See Jonathan S. Masur, *Patent Inflation*, 121 YALE L.J. 470, 508 (suggesting that the structural relationship between the USPTO and the Federal Circuit has inflated the boundaries of patentability); Melissa F. Wasserman, *The PTO’s Asymmetric Incentives: Pressure to Expand Substantive Patent Law*, 72 OHIO ST. L.J. 379, 385 (2011) (arguing that “the asymmetric review of PTO determinations and the USPTO’s asymmetric funding generally push the PTO’s views on substantive patent law in a patent-protective direction”).

<sup>22</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011).

<sup>23</sup> *Id.* § 25 (providing that the USPTO “may, subject to any conditions prescribed by the Director [of the USPTO] and at the request of the patent applicant, provide for prioritization of examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization, notwithstanding section 41 or any other provision of law”).

<sup>24</sup> See *id.* § 6 (granting the USPTO powers for derivation proceedings and power for post-grant review and inter partes review proceedings); *id.* § 18 (granting the USPTO powers over the transitional program for covered business method patents).

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economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete [the] proceedings.”<sup>25</sup> However, the courts, particularly the Federal Circuit and the Supreme Court, will mold the contours of the USPTO’s new authority through their powers of judicial review.

The recent legislative reforms to the USPTO’s authority suggest the time has come to rethink the USPTO’s traditional role in the patent system. This Article analyzes the three long-accepted objections to USPTO policymaking and concludes they are no longer persuasive. My basic thesis is that the courts should give the USPTO flexibility to use its statutory powers to craft intelligent patent policy, and the USPTO should use this flexibility to tailor patent policy to the needs of different types of inventors and industries.

In Part I, I discuss how the new institutional design of the patent system creates the potential for the USPTO to embrace a much larger role in setting patent policy. It is unclear whether the Federal Circuit will allow the USPTO to take on this new role, although the court appears to be trending towards recognizing the USPTO’s ability to make policy determinations and may soon be prodded along by the Supreme Court.

In Part II, I investigate the normative and theoretical grounds for expanding the USPTO’s policymaking role. I argue in Part II.A that the USPTO’s mediocre track record in examining patent applications, a ministerial task, may not signal its ability to succeed as a policy tailor. A better indicator of the USPTO’s policymaking capacity is its past involvement with more policy-oriented tasks. I assert that the USPTO has played a discreet but notable role in tailoring patent policy to specific industries over the past fifty years when it chose to expedite its review of applications relating to counterterrorism,<sup>26</sup> the “safety of research in the field of recombinant DNA,”<sup>27</sup> HIV/AIDS, cancer,<sup>28</sup>

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<sup>25</sup> *Id.* § 6(a), (d).

<sup>26</sup> 37 C.F.R. § 1.102(c)(2)(iii) (2011); MPEP § 708.02(XI) (8th ed. Rev. 7, Sept. 2008) (justifying preferential treatment for these technologies “[i]n view of the importance of developing [these] technologies” and “the desirability of prompt disclosure of advances made in these fields”).

<sup>27</sup> *See id.* § 708.02(VII) (justifying preferential treatment for inventions relating to recombinant DNA on the ground that “[r]ecombinant DNA research appears to have extraordinary potential benefit for mankind”).

<sup>28</sup> *See id.* § 708.02(X) (noting that the USPTO’s reason for expediting these technologies is “in view of the importance of developing treatments and cures for HIV/AIDS and cancer and the desirability of prompt disclosure of advances made in these fields”).

certain biotechnology inventions by small entities,<sup>29</sup> energy resources, and environmentally-beneficial technologies.<sup>30</sup> To determine which applications to prioritize, the USPTO had to judge the relative values of the underlying technologies. The USPTO then had to develop programs that would benefit the most valuable industries. Despite having scarce resources and limited authority to “govern the conduct of proceedings in the Office” and to “facilitate and expedite the processing of patent applications,”<sup>31</sup> the USPTO managed to develop programs that benefited a variety of key industries while limiting the potential for free riding by less valuable industries. These experiences provide a useful departure point for the USPTO to play a larger role in policymaking now that it has broader responsibilities and powers.

In Part II.B, I argue that giving the USPTO more opportunities to engage in policymaking could enable the USPTO to produce economies of scale for the patent system and help create better tailored innovation policy. By using the information it gathers from prioritizing technologies, such as information indicating which renewable energy industries need a regulatory boost or receive little benefit from patents, to inform its ongoing efforts to set standards for its new proceedings, the USPTO could tailor the patent system to the needs of distinct industries. In doing so, it would promote “the Progress of Science and useful Arts,”<sup>32</sup> the constitutional justification for the patent system. This suggestion carries broad implications for patent practitioners, inventors, and society at large given the increasingly widespread recognition that different industries, such as the pharmaceutical industry, government-funded research institutions, and individual entrepreneurs, have different needs and would benefit from tailored patent policy.<sup>33</sup> Yet none of the literature to date has identified a concrete way in which the USPTO could contribute to such tailored policy. This Article endeavors to resolve this conundrum, while also suggesting institutional controls that would prevent diseconomies of scale from arising.

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<sup>29</sup> See MPEP § 708.02(XII).

<sup>30</sup> See 37 C.F.R. § 1.102(c)(2)(i)-(ii); MPEP § 708.02(V)-(VI); Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. 64,666, 64,667 (Dec. 8, 2009) (providing for expedited review of certain environmentally-beneficial technologies).

<sup>31</sup> See 35 U.S.C. § 2(b)(2)(A), (C) (2006).

<sup>32</sup> U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).

<sup>33</sup> See discussion *infra* Part II.B.2.

In Part II.C, I respond to concerns about agency capture. The malleable nature of the USPTO's new powers invites the possibility that the USPTO will cave into rent-seeking actors in designing the standards for its proceedings and in selecting which applications to prioritize in its review process.<sup>34</sup> Yet there is a growing literature suggesting that the USPTO is not any more susceptible to capture than other administrative agencies and even the Federal Circuit. Additionally, giving members of the public more incentives to try to "influence" or "capture" the Patent Office may actually produce tangible benefits for the patent system. It could improve the likelihood that the USPTO would receive the information it needs to respond to changing technological and social circumstances. This benefit, as well as other benefits of USPTO policymaking, may very well outweigh any adverse harm from agency capture.

I conclude by highlighting the fact that the historic America Invents Act requires major judicial and regulatory reforms to the patent system. No time could be better for the government actors responsible for the patent system to work together to develop better and more efficient innovation policy for the nation.

#### I. INSTITUTIONAL POWERS

To analyze the USPTO's capacity to serve as a policy tailor, it is first necessary to examine the extent of its legal authority. Although the Federal Circuit has traditionally played a dominant role in the patent system, the America Invents Act could fundamentally alter the institutional relationship between the USPTO and the courts. The Act requires the USPTO, rather than the courts, to make core judgments that affect patent policy and substantive patent rights, and it gives the USPTO more flexibility to set its own fees.<sup>35</sup> The Act thereby creates opportunities for the USPTO to have a much bigger say in patent law policy than ever before. But the courts, particularly the Federal Circuit and the Supreme Court, will inevitably control just how loud the USPTO's voice actually becomes through their powers of judicial review.<sup>36</sup>

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<sup>34</sup> See, e.g., Orin S. Kerr, *Rethinking Patent Law in the Administrative State*, 42 WM. & MARY L. REV. 127, 183 (2000) (asserting that agency capture concerns would take on greater significance if the USPTO's powers were increased).

<sup>35</sup> See discussion *infra* Part I.A.

<sup>36</sup> See discussion *infra* Part I.B.

### A. Policymaking Potential

Policymaking is not an incidental aspect of the USPTO's reformed authority. Rather, as discussed in this subpart, the America Invents Act requires the USPTO to set standards for the first time for the USPTO's new and fortified proceedings, pushes it to expedite the review of technologies of national importance, and gives it more control over its finances. With new financial freedom, how the USPTO sets standards for its proceedings and ranks technologies for prioritization may profoundly shape innovation policy.<sup>37</sup>

The USPTO's new Prioritization Authority directly authorizes it to judge the relative value of different inventions. The Act specifies that the USPTO

“may, subject to any conditions prescribed by the Director [of the USPTO] and at the request of the patent applicant, provide for prioritization of examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization, notwithstanding section 41 or any other provision of law.”<sup>38</sup>

Although one might view expediting patent applications as a pretty narrow tool, prioritizing involves complex policy-based decisions. To prioritize applications in the patent system, the USPTO must determine whether one type of patent application has greater importance for the national economy or national competitiveness than another. Is a new diaper design that could generate billions of dollars for domestic companies more important to the nation than a new hydraulic fracturing technique that could reduce the carbon footprint of drilling operations, enabling drillers to comply with state regulations while creating thousands of jobs? To what degree should the USPTO consider the negative externalities that differing technologies produce for the nation, such as the impact of diapers on landfills or of hydraulic fracturing on groundwater and land stability? Should the USPTO focus on inventors that can prove they will be most

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<sup>37</sup> See Sarah Tran, *Patent Powers*, 25 HARV. J.L. & TECH. 595, 647-50 (2012) [hereinafter Tran, *Patent Powers*] (arguing that the USPTO's new powers are incompatible with the Federal Circuit's longstanding view that the USPTO may only promulgate procedural rules).

<sup>38</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 25, 125 Stat. 284 (2011) (to be codified at 35 U.S.C. § 2(b)(2)(G)). Other applications that are not designated as being of national importance must pay a premium of \$4,800 to receive expedited review. See *id.* § 11(h)(1).

likely to create jobs or generate the highest level of revenues, or should the USPTO try to give equal opportunities to smaller businesses?

Congress did not answer these tough policy questions in the America Invents Act. The Act provides the USPTO with no guidance on the types of technologies that deserve prioritization other than that they must carry importance for the national economy or national competitiveness.<sup>39</sup> This lack of guidance was a conscious choice. The original proposal to grant the USPTO Prioritization Authority identified “green technologies designed to foster renewable energy, clean energy, biofuels or bio-based products, agricultural sustainability, environmental quality, energy conservation, or energy efficiency” as examples of technologies that could be prioritized under the USPTO’s new authority based on their potential to contribute to the growth of green jobs and reduce the nation’s reliance on foreign oil.<sup>40</sup> But before Congress approved the amendment, it deleted these examples from the text of the amendment.

As ultimately enacted, the America Invents Act gives the USPTO substantial discretion to choose how to implement the new prioritization power. Among countless other potentially relevant factors, the USPTO could prioritize technologies on the basis of a given industry’s potential to contribute to job creation, past or predicted revenue generation, or the presence of patent thickets in certain areas. Regardless of how the USPTO decides to prioritize, the core purpose of such prioritizing is to make value judgments and set policy. Those inventions that are prioritized receive a stamp of approval from the federal government on top of the benefits of expedited review, which include the possibility of earlier financing, commercialization, and the ability to stamp out competition.<sup>41</sup>

Other powers granted by the America Invents Act require the USPTO to make even more complex policy determinations with farther reaching ramifications. The USPTO’s toolbox of new or fortified proceedings in which it may weed out low quality patents now includes post-grant review, inter partes review, supplemental examination, and derivation proceedings, as well as a transitional post-

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<sup>39</sup> See *id.* § 25.

<sup>40</sup> See *id.* (granting the USPTO a new power to prioritize important technologies); 157 CONG. REC. S1052-01 (daily ed. Mar. 1, 2011) (statement of Sen. Robert Menendez) (applauding the USPTO for prioritizing green technologies in the review process).

<sup>41</sup> See Sarah Tran, *Expediting Innovation*, 36 HARV. ENVTL. L. REV. 123, 138-42 (2012) [hereinafter Tran, *Expediting Innovation*].

grant review program for certain business methods patents.<sup>42</sup> Congress has given the USPTO broad powers over these proceedings. The USPTO has the general authority to issue regulations establishing and governing the relationships between its new proceedings.<sup>43</sup> Additionally, for the first time, the USPTO now has the power to set “standards,” not merely “procedures.” The USPTO must set “standards for the conduct of derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation.”<sup>44</sup> For inter partes review, the Act requires the USPTO to set “standards for the showing of sufficient grounds to institute” the review, set “forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to . . . what is otherwise necessary in the interest of justice;” and set “forth standards and procedures for allowing the patent owner to move to amend the patent.”<sup>45</sup> Similarly, for post-grant review, the Act requires the USPTO to set “the standards for the showing of sufficient grounds to institute” a [post-grant] review, set “standards and procedures for discovery of relevant evidence,” and set “standards and procedures for allowing the patent owner to move to amend the patent.”<sup>46</sup> The reforms to the USPTO’s authority were supported by legislative history that signaled Congress’ intent for standards to carry a broad meaning.<sup>47</sup>

Although the USPTO lacks the authority that some agencies possess to issue any regulations that are “necessary or appropriate” to administer their organic acts,<sup>48</sup> the USPTO now more closely

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<sup>42</sup> See Leahy-Smith America Invents Act §§ 3, 6, 12, 18 (stating that the USPTO’s ex parte reexamination proceeding, in which a party may request that the USPTO reexamine a patent but not participate in the proceeding after filing the request, remains essentially unchanged).

<sup>43</sup> *Id.* § 6(a) (authorizing the USPTO to prescribe regulations “establishing and governing inter partes review under this chapter and the relationship of such review to other proceedings under this title”); *id.* § 6(d) (authorizing the USPTO to prescribe regulations “establishing and governing a post-grant review under this chapter and the relationship of such review to other proceedings under this title”).

<sup>44</sup> *Id.* § 3(i) (emphasis added).

<sup>45</sup> *Id.* § 6(a) (emphasis added).

<sup>46</sup> *Id.* § 6(d) (emphasis added).

<sup>47</sup> See Tran, *Patent Powers*, *supra* note 37, at 640-44. Beyond the powers involving the word “standard,” a number of other powers used broad language that is full of ambiguities. For instance, the USPTO has the authority to prescribe regulations establishing and governing the relationship of post grant review to inter partes review and other proceedings. Leahy-Smith America Invents Act § 6(d). It is unclear to what extent the USPTO may regulate these relationships.

<sup>48</sup> See Federal Trade Commission Act, 15 U.S.C. § 45 (2006) (detailing the rule-making power of the Federal Trade Commission, which includes making rules and

resembles other policymaking agencies than a rubberstamping body with anemic powers. How the USPTO prescribes standards and other rules for its proceedings will, at a minimum, influence patent policy and may dramatically alter it. In promulgating rules for post-grant review and inter partes review, for instance, the USPTO must 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.”<sup>49</sup> This requirement appears to authorize the USPTO to set standards for its proceedings in a manner that benefits a particular industry, such as the pharmaceutical industry or renewable energy industry, if it believes doing so would benefit the national economy. That is not to say that the USPTO should take such action but merely to point out the fact that it could potentially do so. By forcing the USPTO to incorporate broad, policy determinations into its regulations, Congress has given the USPTO the statutory authority to assume a greater policymaking role. This role is not limited to determining whether an application deserves a patent but extends to issues arising after a patent is granted.<sup>50</sup>

In addition to expanding the USPTO’s powers, Congress strengthened the USPTO’s financial footing by granting the agency the authority to set its own fees through rulemaking in consultation with the Patent Public Advisory Committee and the Trademark Public Advisory Committee.<sup>51</sup> This extended authority was a marked improvement for the USPTO. In the past, Congress had set the fees

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regulations for the purpose of carrying out the provisions of the Section); Federal Food Drug & Cosmetic Act, 21 U.S.C. § 371 (2006) (“The authority to promulgate regulations for the efficient enforcement of this chapter . . . is vested in the Secretary [of Health and Human Services].”); Communications Act of 1934, 47 U.S.C. §§ 154(i), 303(r) (2006) (explaining that the Federal Communications Commission “may perform any and all acts, make such rules and regulations, and issue such orders, not inconsistent with this chapter, as may be necessary in the execution of its functions,” and “from time to time, as public convenience, interest, or necessity requires, shall . . . [m]ake such rules and regulations and prescribe such restrictions and conditions, not inconsistent with law, as may be necessary to carry out the provisions of this chapter”).

<sup>49</sup> Leahy-Smith America Invents Act § 6(a), (d).

<sup>50</sup> This policymaking authority is a notable development. One of the concerns Burk and Lemley expressed about giving the USPTO the task of tailoring was the agency’s exclusive exposure to pre-grant issues. See BURK & LEMLEY, *THE PATENT CRISIS*, *supra* note 15, at 168 (“Because the PTO looks only at applications, it will miss the subsequent development of the industry and in particular has no occasion to consider the effects of scope determinations.”).

<sup>51</sup> Leahy-Smith America Invents Act § 10.

charged by the USPTO and diverted fees collected by the agency to the nation's general budget for uses unrelated to intellectual property, including deficit reduction,<sup>52</sup> subsidies to the steel, coal, and oil industries,<sup>53</sup> and appropriations for homeland security programs.<sup>54</sup> While Congress had refrained from diverting the USPTO's fees each year since 2005,<sup>55</sup> the USPTO had accumulated a deficit of resources to address its growing backlog of patent applications. The USPTO also faced the risk that Congress would choose to divert its funds again. Although recent patent reforms require annual appropriations to approve USPTO spending, Congress may not divert USPTO revenues to the general treasury.<sup>56</sup> Increased funding for the USPTO is important. With more funding at its disposal, the USPTO can improve the quality of its work.<sup>57</sup> Additionally, it can invest in building its policymaking capacity.

In summary, the America Invents Act has expanded the USPTO's powers and responsibilities. Rather than consign the USPTO to a ministerial role of reviewing patent applications and issuing patents, Congress has assigned the USPTO the complex task of weighing competing economic considerations and setting policy for the patent system through the USPTO's Prioritization Authority, through its powers to set standards for its proceedings, and through its powers to govern the relationship between its proceedings.

### B. Judicial Review

The powers Congress granted to the USPTO in the America Invents Act create opportunities for the USPTO to receive greater deference for its decisions than in the past. But the language of the America Invents Act is not a model of clarity. As one scholar noted, "Congress . . .

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<sup>52</sup> See Omnibus Consolidated and Emergency Supplemental Appropriations Act, Pub. L. No. 105-277, 112 Stat. 2681, 2681-1 to -2 (1998).

<sup>53</sup> See Emergency Oil and Gas Guaranteed Loan Program Act of 1999, Pub. L. No. 106-51, § 202(a), 113 Stat. 252, 258.

<sup>54</sup> See 2002 Supplemental Appropriations Act for Further Recovery From and Response to Terrorist Attacks on the United States, Pub. L. No. 107-206, § 1403(a), 116 Stat. 820, 898.

<sup>55</sup> See Long, *supra* note 20, at 1987 ("The combination of the PTO and the inventive community lobbying has succeeded in convincing Congress each year since 2005 to refrain from diverting fees for that year.").

<sup>56</sup> Leahy-Smith America Invents Act § 22.

<sup>57</sup> See Michael D. Frakes & Melissa F. Wasserman, *Does Agency Funding Affect Decisionmaking?: An Empirical Assessment of the PTO's Granting Patterns*, 66 VAND. L. REV. (forthcoming 2013) (using empirical data to suggest that when the USPTO is underfunded, it tends to grant more patents than is socially desirable).

missed the opportunity to clarify the standard of review for decisions of the US Patent and Trademark Office. The big question is how the Federal Circuit (and eventually the Supreme Court) will interpret the Act.<sup>58</sup> In unraveling this “big question,” one of the most unsettled administrative and institutional issues is whether the courts should now recognize and accord deference to the USPTO’s exercises of policymaking.

If the America Invents Act was found to reflect ambiguity or Congressional silence on a particular issue, administrative law principles should guide the courts in determining how much weight to give to the USPTO’s interpretation of the statute. The Supreme Court has explained that “[w]here Congress has prescribed the governing standard of proof, its choice controls absent ‘countervailing constitutional constraints.’”<sup>59</sup> In the absence of such Congressional direction, as is the case with the America Invents Act, courts apply different administrative law standards to agency decisions depending on whether the decisions reflect legal interpretations, policy decisions, or findings of fact.<sup>60</sup> Many agency decisions do not fall neatly into only one of these categories. Patent validity, for instance, is recognized as a question of law, but the courts must also defer to the underlying findings of fact that the USPTO makes when it examines the relevant patent applications,<sup>61</sup> so questions of patent validity essentially constitute mixed questions of law and fact.<sup>62</sup>

Although traditionally the Federal Circuit has been reluctant to grant much, if any, deference to any of the three types of USPTO decisions, this reluctance is eroding with respect to the USPTO’s findings of fact and legal interpretations. Supreme Court intervention in 1999 forced the Federal Circuit to use the arbitrary, capricious, or an abuse of discretion standard provided by the Administrative

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<sup>58</sup> Shubha Ghosh, *Guest Post - To Promote Progress in Science and Job Creation*, PATENTLYO (Sept. 12, 2011, 10:00AM), <http://www.patentlyo.com/patent/2011/09/guest-post-to-promote-progress-in-science-and-job-creation.html>.

<sup>59</sup> *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2244 (2011) (quoting *Steadman v. SEC*, 450 U.S. 91, 95 (1981)).

<sup>60</sup> See Stuart Minor Benjamin & Arti K. Rai, *Who’s Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 284-308 (2007).

<sup>61</sup> See *id.* at 326.

<sup>62</sup> For a compelling argument that the Federal Circuit should view patent claim construction as a mixed question of law and fact, rather than a pure question of law, see J. Jonas Anderson & Peter S. Menell, *From De Novo Review to Informal Deference: An Historical, Empirical, and Normative Analysis of the Standard of Appellate Review for Patent Claim Construction* (Oct. 4, 2012) (unpublished manuscript) available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2150360](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2150360).

Procedure Act (“APA”), rather than the Federal Circuit’s own less deferential clear and convincing evidence standard, to guide its review of USPTO findings of fact.<sup>63</sup> Since this decision, the Federal Circuit has shown less inhibition about applying *Chevron* deference,<sup>64</sup> the administrative law standard for legal interpretations, as well.<sup>65</sup> The Supreme Court continues to watch the Federal Circuit’s decisions involving the review of USPTO legal interpretations and findings of fact closely.<sup>66</sup>

The USPTO’s policy determinations represent the only category of agency decision that have not benefited from the Supreme Court’s efforts to bring patent law into conformity with administrative law. The relevant standard courts generally use to review policy decisions by administrative agencies derives from section 706(2)(A) of the Administrative Procedure Act.<sup>67</sup> While this provision does not specifically provide a standard for the review of policy decisions,<sup>68</sup> the

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<sup>63</sup> See *Dickinson v. Zurko*, 527 U.S. 150, 154-65 (1999) (rejecting the Federal Circuit’s “clearly erroneous” standard for certain USPTO fact findings, a less deferential review standard, and holding that the Administrative Procedure Act provides the relevant standard).

<sup>64</sup> In *Chevron*, the Supreme Court held that courts have a duty to defer to reasonable agency interpretations not only when Congress expressly delegates interpretative authority to an agency, but also when Congress is silent or leaves ambiguity in a statute that an agency is charged with administering. See *Chevron U.S.A., Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837, 842-43 (1984). The Supreme Court later narrowed the grounds for agencies to receive *Chevron* deference. See *United States v. Mead Corp.*, 533 U.S. 218, 226-27 (2001) (refusing to give *Chevron* deference to a ruling by the U.S. Customs Service that classified the respondent publisher’s day planners as bound diaries under Subheading 4820.10.20 of the Harmonized Tariff Schedule of the United States); see also *Christensen v. Harris Cnty.*, 529 U.S. 576, 587 (2000) (holding that agency opinion letters are not entitled to *Chevron* deference).

<sup>65</sup> See, e.g., *Tafas v. Doll*, 559 F.3d 1345, 1359-64 (Fed. Cir. 2009) (upholding the legality of three of four rules designed to address the backlog and improve the quality of issued patents); *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335-37 (Fed. Cir. 2008) (giving *Chevron* deference to the USPTO’s broad interpretation of which patents are subject to inter partes reexamination).

<sup>66</sup> The Supreme Court’s recent decisions, however, have upheld the Federal Circuit’s decisions to apply non-APA standards in special situations. See, e.g., *Kappos v. Hyatt*, 132 S. Ct. 1690, 1693-94 (2012) (upholding the Federal Circuit’s decision to use the de novo standard of review for fact findings rather than the APA’s substantial evidence standard when a patent applicant submitted evidence to a district court in a 35 U.S.C. § 145 action that had not been previously submitted to the USPTO); *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2242 (2011) (upholding the Federal Circuit’s view that the Patent Act requires that patent invalidity be shown by clear and convincing evidence).

<sup>67</sup> Benjamin & Rai, *supra* note 60, at 303-04.

<sup>68</sup> See 5 U.S.C. § 706(2)(A), (E) (2006).

Supreme Court in *Motor Vehicle Manufacturers Association v. State Farm Mutual Insurance Company* found that the “arbitrary [or] capricious” standard of section 706(2)(A) applies to this type of review.<sup>69</sup> The Court further adopted what has come to be known as “hard look” review and clarified how to perform this review:

The scope of review under the “arbitrary and capricious” standard is narrow and a court is not to substitute its judgment for that of the agency. Nevertheless, the agency must examine the relevant data and articulate a satisfactory explanation for its action including a “rational connection between the facts found and the choice made.” . . . We will, however, “uphold a decision of less than ideal clarity if the agency’s path may reasonably be discerned.”<sup>70</sup>

In following *State Farm*, courts will invalidate an agency’s action if they determine that the agency failed to take a “hard look” at the significant considerations against its position.<sup>71</sup> In engaging in such hard look review, courts acknowledge the ability of agencies to engage in policymaking while simultaneously enjoying ample room to reach their own conclusions about the propriety of the agencies’ policy decisions.<sup>72</sup>

The hard look review level of deference is less of a prize to agencies than the deference generally accorded to findings of fact or legal interpretations pursuant to the APA.<sup>73</sup> But with the Federal Circuit and the USPTO, the question is not how much deference the Federal Circuit should give to the USPTO’s policymaking determinations but whether the court should give the USPTO hard look deference at all. From an agency’s perspective, receiving some deference for its policymaking is far preferable to receiving none at all. Deference provides the agency with a sense of security that the time and labor it

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<sup>69</sup> *Motor Vehicle Mfrs. Ass’n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983).

<sup>70</sup> *Id.* (internal quotations omitted).

<sup>71</sup> See *Nw. Env’tl. Advocates v. Nat’l Marine Fisheries Serv.*, 460 F.3d 1125, 1133 (9th Cir. 2006) (“[W]e review agency decisions to ensure that ‘the agency has taken a ‘hard look’ at the potential environmental consequences of the proposed action.’”) (quoting *Churchill Cnty. v. Norton*, 276 F.3d 1060, 1072 (9th Cir. 2001)) (citing *Klamath-Siskiyou Wildlands Ctr. v. Bureau of Land Mgmt.*, 387 F.3d 989, 993 (9th Cir. 2004); *El Conejo Americano of Tex., Inc. v. Dep’t of Transp.*, 278 F.3d 17, 19-20 (D.C. Cir. 2002) (applying “hard look” review).

<sup>72</sup> See Benjamin & Rai, *supra* note 60, at 305.

<sup>73</sup> See *id.* (“The most common basis courts invoke to strike down agency actions is that the agency failed to take a hard look at the arguments for it to act otherwise.”).

expends making its decisions, as well as its expertise, will be considered and respected by the courts even if the court ultimately overturns the agency's decision.<sup>74</sup> By providing agency decisions protection from the whims of the courts, deference enhances certainty in administrative affairs and provides agencies with an incentive to be productive.

Although the Federal Circuit has hardly ever given the USPTO hard look deference for its policy determinations, the court has shown signs that it may warm up to the idea in the near future. In 2007, Stuart Benjamin and Arti Rai pointed out that “[i]n its review of PTO decisions, the Federal Circuit rarely cites to the foundational Supreme Court case on hard look review — *State Farm* — or refers to its language delineating the sort of review in which appellate courts are supposed to engage” and that the court “has failed to recognize policy decisions as a separate category of PTO behavior.”<sup>75</sup> But the following year, the Federal Circuit stepped out of its comfort zone and explicitly cited *State Farm* in *Burandt v. Dudas*.<sup>76</sup> In *Burandt*, the court granted the USPTO deference for an exercise of discretion (the USPTO's decision to deny the plaintiff's request to reinstate his patent for failure to pay the maintenance fee) and upheld the USPTO's decision.<sup>77</sup> By deferring to the USPTO's exercise of discretion, the court essentially recognized the USPTO's ability to engage in policymaking: exercises of discretion constitute a type of policy determination.<sup>78</sup>

The *Burandt* case does not represent a landslide victory for the USPTO but rather a modest win. The court deferred to the USPTO's specific determination with regard to one patent holder, not to a broad decision by the USPTO that impacted numerous patent practitioners. And the court has not cited to *State Farm* or its language in providing deference to any USPTO determinations since this case. Nonetheless, *Burandt* provides a glimmer of hope that the Federal Circuit will be open to the possibility of embracing the USPTO's policymaking role in the near future. The Supreme Court will likely have an opportunity to prod the lower court along in the next few years when it decides cases

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<sup>74</sup> See generally BERNARD SCHWARTZ, ADMINISTRATIVE LAW 624-27 (3d ed. 1991) (“If the scope of review is too broad, agencies are turned into little more than media for the transmission of cases to the courts. That would destroy the values of agencies created to secure the benefit of special knowledge acquired through continuous administration in complicated fields.”).

<sup>75</sup> Benjamin & Rai, *supra* note 60, at 305 & n.192.

<sup>76</sup> *Burandt v. Dudas*, 528 F.3d 1329, 1332 (Fed. Cir. 2008).

<sup>77</sup> *Id.* at 1333.

<sup>78</sup> See Benjamin & Rai, *supra* note 60, at 301 (explaining that exercises of discretion represent one type of agency policy determination).

impacted by the recent reforms to the patent system. Given that the USPTO's authority now explicitly empowers it to set standards for its proceedings in light of broad policy factors and to prioritize applications on the basis of their national importance, patent reform creates a compelling reason for the courts to reconsider the USPTO's role as a policymaker.

## II. POLICY TAILORING AT THE PATENT OFFICE

As the courts endeavor to understand precisely how the America Invents Act expands the USPTO's role in the patent system, the natural question that arises is whether it is good policy to let the USPTO make policy. In recent years, scholars have begun to highlight the USPTO's potential strengths in policymaking relative to those of the Federal Circuit. Although it may be more efficient in certain circumstances for the Federal Circuit to incrementally develop legal rules through its decisions rather than for the USPTO to create sweeping regulations based on its prediction of likely consequences, Arti Rai has pointed out that judicial decision making in the shadow of retroactivity, as opposed to *ex ante* decision making by the USPTO, may create a negative tendency toward rights expansion.<sup>79</sup> Additionally, Jonathan Masur has argued that the USPTO "could bring expertise and institutional resources to bear on complex questions of patent policy to a degree unthinkable within the federal courts" and that the USPTO could use the "enormous quantities of useful information" that it produces (but cannot adequately transmit to the Federal Circuit) to craft more intelligent and responsive patent policy.<sup>80</sup> Michael Burstein has further noted that the USPTO could avoid piecemeal decision making.<sup>81</sup> I have suggested in my prior work that taking a broader view of USPTO authority would increase its transparency as it would be forced to comply with the APA's notice and comment procedures for substantive rulemaking, it would eliminate an ill-defined distinction between invalid substantive rules and valid procedural rules, and it would promote greater uniformity in administrative law.<sup>82</sup>

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<sup>79</sup> Arti Rai, *Patent Validity Across the Executive Branch: Ex Ante Foundations for Policy Development*, 61 DUKE L.J. 1237, 1264-65 (2012) [hereinafter Rai, *Patent Validity*].

<sup>80</sup> Masur, *Regulating Patents*, *supra* note 19, at 279.

<sup>81</sup> Burstein, *supra* note 13, at 1748.

<sup>82</sup> Sarah Tran, *Administrative Law, Patents, and Distorted Rules*, 80 GEO. WASH. L. REV. 831, 878 (2012) [hereinafter Tran, *Distorted Rules*]; Tran, *Patent Powers*, *supra* note 37, at 655.

Despite the growing literature in favor of USPTO policymaking, two normative grounds for keeping the USPTO out of policymaking still predominate among scholars: (1) the USPTO lacks institutional competence for policymaking; and (2) the USPTO is overly susceptible to agency capture.<sup>83</sup> I challenge each of these arguments. First, despite the USPTO's reputation for granting an excessive number of low-quality patents in an untimely manner, it has a history that extends back over half a century of tailoring the patent review process to the needs of specific industries in a generally beneficial manner.<sup>84</sup> This history suggests the USPTO's poor track record in examining patent applications may not reflect its ability to succeed in more policy-oriented tasks. Second, I argue that the USPTO could (and should) use the knowledge it gains through its prioritization efforts to tailor patent law standards to meet the varying needs of different industries. In doing so, the USPTO could create economies of scale for the patent system and effectuate better patent policies. Third, I attempt to show that the benefits of USPTO policymaking, including improved information flow to the USPTO, outweigh the risks of detrimental agency capture.

#### A. *Policymaking Capacity*

A common basis for concluding that the USPTO would not be an effective policymaker is the assumption that the USPTO lacks institutional competence for policymaking.<sup>85</sup> Scholars have pointed out that the USPTO had no policy or economic staff until it hired a chief economist in early 2010.<sup>86</sup> They have also questioned whether an agency that has a poor track record with respect to its primary task of examining patent applications can be expected to be an effective policymaker.<sup>87</sup> To a large degree, the America Invents Act responded to these concerns. With increased funding at its disposal, the USPTO may now hire the staff it needs to improve the patent examination process and expand its policymaking expertise.<sup>88</sup> This section attempts to make a different point, however. Here I suggest that perhaps the

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<sup>83</sup> See BURKE & LEMLEY, *PATENT CRISIS*, *supra* note 15 at 105-07.

<sup>84</sup> See discussion *infra* Part II.A.1.

<sup>85</sup> See, e.g., Vacca, *supra* note 13, at 755-56 (explaining that the USPTO makes a poor candidate to set patent policy due in significant part to its lack of institutional competence for policymaking and to the Federal Circuit's narrow interpretation of the USPTO's rulemaking authority).

<sup>86</sup> See Rai, *Growing Pains*, *supra* note 19, at 2054.

<sup>87</sup> See Masur, *Regulating Patents*, *supra* note 19, at 312-13.

<sup>88</sup> See discussion *supra* Part I.A.

USPTO's past failures in performing ministerial tasks like examining patent applications do not accurately signal its capacity as a policymaker.

Despite not having staff trained in economics or policymaking, despite its notoriously slow and ineffective process for examining patent applications, and despite the fact that the Federal Circuit has infrequently deferred to or even recognized the USPTO's policymaking efforts,<sup>89</sup> I argue that the USPTO has played a modest but notable role in policymaking over the past fifty years. The USPTO engaged in policymaking each time it chose to grant preferential treatment in its review process to a group of technologies that could combat terrorism, the AIDS epidemic, cancer, pollution, or climate change.<sup>90</sup>

Although some may view expediting as a minor task, prioritizing involves complex, policy-oriented decisions. To prioritize technologies, the USPTO had to first assess the relative social importance of different technologies and then develop programs to benefit them on an industry-by-industry basis. Ultimately, its programs produced a number of benefits for the inventors of high-priority technologies. Indeed, in directing the USPTO to prioritize applications of national importance in the America Invents Act, Congress expressed its explicit approval of the USPTO's historic practices and prodded the USPTO to do more.<sup>91</sup> As the USPTO embraces its expanded role with regard to its Prioritization Authority and responsibility over the new and fortified proceedings, the USPTO's learning curve will be smoothed by its history of prioritizing socially-valuable applications.

### 1. A History of Prioritization

Prioritizing a class of inventions involves two central policy determinations: (1) that a particular industry is more important than others; and (2) that the benefits of the USPTO providing a regulatory

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<sup>89</sup> See discussion *supra* Part I.

<sup>90</sup> See, e.g., 37 C.F.R. § 1.102(c)(2)(i), (iii) (2011) (allowing for special review of patent applications that will improve the environment or combat terrorism); Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. 64,666, 64,667 (Dec. 8, 2009) (providing for expedited review of certain environmentally-beneficial technologies).

<sup>91</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 25, 125 Stat. 284 (2011) (to be codified at 35 U.S.C. § 2(b)(2)(G)) (granting the USPTO a new power to prioritize nationally important technologies); 157 CONG. REC. S1052 (daily ed. Mar. 1, 2011) (statement of Sen. Robert Menendez) (applauding the USPTO for prioritizing green technologies in the review process).

boost to the “important” industry would exceed the costs. This section shows that for over fifty years, the USPTO has used what limited powers it has had to make these policy determinations and create programs that have benefited certain key industries.

From 1959 to 1999, the USPTO’s primary source of statutory support for its prioritization efforts was its power to establish regulations for the conduct of its proceedings pursuant to 35 U.S.C. § 6 (1952), the predecessor to the USPTO’s current rulemaking powers in § 2. In 1999, the American Inventors Protection Act gave the USPTO a handful of new powers, including a power that provided additional support to the USPTO’s prioritization efforts: the power to promulgate regulations that “facilitate and expedite the processing of patent applications.”<sup>92</sup> Applications involving the “safety of research in the field of recombinant DNA,”<sup>93</sup> HIV/AIDS, cancer,<sup>94</sup> semiconductors,<sup>95</sup> energy resources, environmentally-beneficial technologies,<sup>96</sup> prospective manufacture or actual infringement of the claimed invention,<sup>97</sup> and small-entity applicants who submitted an application for a biotechnology invention<sup>98</sup> have all benefited from prioritized examination regulations issued pursuant to these powers.

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<sup>92</sup> 35 U.S.C. § 2(b)(2)(C) (1994 & Supp. V 1999).

<sup>93</sup> See MPEP § 708.02(VII) (8th ed. Rev. 7, Sept. 2008) (justifying preferential treatment for inventions relating to recombinant DNA on the ground that “[r]ecombinant DNA research appears to have extraordinary potential benefit for mankind”).

<sup>94</sup> See *id.* § 708.02(X) (noting that the USPTO’s reason for expediting these technologies is “in view of the importance of developing treatments and cures for HIV/AIDS and cancer and the desirability of prompt disclosure of advances made in these fields”).

<sup>95</sup> *Id.* § 708.02(IX); Ronald Reagan, Remarks at the Federal Conference on Commercial Applications of Superconductivity (July 28, 1987) [hereinafter Remarks] (transcript available at <http://www.reagan.utexas.edu/archives/speeches/1987/072887a.htm>) (discussing how the USPTO expedited semiconductor applications after President Ronald Reagan urged the USPTO to do so).

<sup>96</sup> See 37 C.F.R. § 1.102(c)(2)(i), (iii) (2011); Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. 64,666, 64,667 (Dec. 8, 2009) (providing for expedited review of certain environmentally-beneficial technologies).

<sup>97</sup> See MPEP § 708.02(I)-(II). It makes sense to allow applicants ready for prospective manufacture of an invention or dealing with actual infringement of the invention to petition for special status, because these applicants tend to have urgent needs to protect their property rights and make investment decisions.

<sup>98</sup> See *id.* § 708.02(XII). Small-entity applicants that submit biotechnology applications may be granted special status because the subject of their patent applications may represent a major asset of the small entity.

Just as the USPTO has targeted an assortment of technologies to prioritize, it has devised an array of programs to benefit different industries. In 1959, the USPTO promulgated regulations that provided three means for applications to be fast tracked: (1) “upon order of the Director to expedite the business of the Office;” (2) “upon a verified showing which, in the opinion of the Commissioner, will justify so advancing it;” or (3) if “the inventions are deemed of peculiar importance to some branch of the public service and the head of some department of the Government requests immediate action for that reason.”<sup>99</sup> The first two categories put primary discretion within the control of the USPTO. The third category created opportunities for intergovernmental collaboration. Yet even the third category left the USPTO with a key policymaking role. To illustrate, in 1987, President Ronald Reagan deemed patent applications relating to superconductivity to carry peculiar importance to the nation, and he recommended that the U.S. Patent and Trademark Office “speed up the patent process so that it can keep pace with the fast-paced world of high technology.”<sup>100</sup> The USPTO then granted special status to patent applications involving superconductivity technologies.<sup>101</sup> Although the President came up with the idea to prioritize semiconductors, the USPTO’s regulations allowed this program to happen. Furthermore, the USPTO’s regulations provided a standard by which patent examiners judged whether an application qualified for prioritization. Applicants could receive expedited review upon the payment of the relevant fees and the filing of a petition with reasons that the USPTO considered adequate to justify accelerated review.<sup>102</sup> It was also the USPTO that decided on its own initiative in 2006, over a decade after Reagan’s presidency, to end the program.<sup>103</sup>

In addition to creating opportunities for high priority applications to be prioritized for a fee, the USPTO has promulgated regulations permitting certain types of applications to seek expedited review without the payment of fees. For instance, in 1982 the USPTO enabled applicants to file petitions to make an application special and thereby receive fast-tracked review<sup>104</sup> without paying a supplemental fee for

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<sup>99</sup> 37 C.F.R. § 1.102 (1959).

<sup>100</sup> See Reagan, Remarks, *supra* note 100.

<sup>101</sup> See MPEP § 708.02(IX).

<sup>102</sup> 37 C.F.R. § 1.102(d) (1982).

<sup>103</sup> 37 C.F.R. § 1.102(c)(2)(iii) (2004). Prior to amending § 1.102 in 2004, the USPTO had granted special status to applications pertaining to counter-terrorism technologies so long as a fee under 37 C.F.R. § 1.17(h) accompanied the petition.

<sup>104</sup> Applications that are accorded special status are typically put on the examiner’s

inventions that purported to materially: “(i) Enhance the quality of the environment; [or] (ii) Contribute to the development or conservation of energy resources.”<sup>105</sup> In 2004, the USPTO added inventions relating to counterterrorism to the list of applications that could seek accelerated review without the payment of a fee.<sup>106</sup>

In 2006, the USPTO replaced the majority of the specialized opportunities for expedited review with a new program: the revised Accelerated Examination program that was open to all applicants.<sup>107</sup> The revised Accelerated Examination program aimed to provide inventors with a final decision on their applications within twelve months, a shorter pendency period than the USPTO previously provided to any recipient of special status.<sup>108</sup> However, as part of the quid pro quo for expedited review, the USPTO required applicants who filed petitions for the revised Accelerated Examination program to prepare a pre-examination search report and an examination support document.<sup>109</sup> Preparing these documents increases the applicants’ workload and expenses, and creates a possibility, albeit a remote possibility, that courts will later invalidate any resulting patents on the grounds of inequitable conduct.<sup>110</sup>

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special docket throughout its entire course of prosecution before the examiner and receive special status in any appeal to the Board of Patent Appeals and Interferences (BPAI) and also in the patent publication process. Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. 64666, 64,666 (Dec. 8, 2009) (citing MPEP §§ 708.01).

<sup>105</sup> 37 C.F.R. § 1.102(c)(2) (2011); Changes To Support Implementation of the United States Patent and Trademark Office 21st Century Strategic Plan, 69 Fed. Reg. 56,482 (Sept. 21, 2004) (revising paragraph (c) of 37 C.F.R. § 1.102); Revision of Patent and Trademark Fees Confirmation, 47 Fed. Reg. 41,276 (Sept. 17, 1982) (revising paragraph (a) and adding paragraphs (c) and (d) to 37 C.F.R. § 1.102).

<sup>106</sup> See *supra* note 103 and accompanying text.

<sup>107</sup> See generally Changes to Practice for Petitions in Patent Applications To Make Special and for Accelerated Examination, 71 Fed. Reg. 36,323, 36,323 (June 26, 2006) (describing the revised Accelerated Examination program).

<sup>108</sup> Press Release, U.S. Patent & Trademark Office, USPTO to Give Patent Filers Accelerated Review Option (June 26, 2006), available at <http://www.uspto.gov/news/pr/2006/06-37.jsp>.

<sup>109</sup> See Changes to Practice for Petitions in Patent Applications To Make Special and for Accelerated Examination, 71 Fed. Reg. at 36,327 (revising procedures for requesting accelerated review).

<sup>110</sup> The America Invents Act responded to the rise of inequitable conduct claims in the courts — a phenomenon the Federal Circuit had called a “plague” on the patent system — by creating a new procedure that enables patent holders to submit supplemental information to correct errors or omissions in proceedings before the Office. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284 (2011) (to be codified at 35 U.S.C. § 326(a)(4)). As a result, concerns about inequitable conduct will likely decrease in the near future. See Tran, *Expediting*

In 2009, actions by patent offices around the world prompted the USPTO to create a new prioritization program. The United Kingdom Intellectual Property Office (“UK IPO”),<sup>111</sup> the Japanese Patent Office (“JPO”),<sup>112</sup> the Australian Intellectual Property Office (“IP Australia”),<sup>113</sup> and the Korean Intellectual Property Office (“KIPO”)<sup>114</sup> initiated programs to expedite the review of environmentally-beneficial technologies in their patent systems. The United States’ patent office created a similar program in December of 2009, the Green Technology Pilot Program.<sup>115</sup> Applications accepted under the Green Technology Pilot Program received special status in any appeal to the Board of Patent Appeals and Interferences (“BPAI”), as well as

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*Innovation*, *supra* note 41, at 131-42 (discussing reasons the revised Accelerated Examination program has been undersubscribed).

<sup>111</sup> See *Green Channel Patent Applications Data*, U.K. INTELL. PROP. OFFICE, <http://www.ipo.gov.uk/types/patent/p-os/p-gcp/p-gcp-help.htm> (last visited Feb. 11, 2011); Press Release, U.K. Intellectual Prop. Office, Green Patent Database Launched (June 4, 2010), available at <http://www.ipo.gov.uk/about/press/press-release/press-release-2010/press-release-20100604.htm>; see also Press Release, U.K. Intellectual Prop. Office, UK ‘Green’ Inventions to Get Fast-Tracked Through Patent System (May 12, 2009), available at <http://www.ipo.gov.uk/about/press/press-release/press-release-2009/press-release-20090512.htm>.

<sup>112</sup> See *The JPO implemented a pilot program for Green Accelerated examination Effective November 1, 2009*, ONDA TECHNO INT’L PATENT ATTORNEYS (Nov. 30, 2009), <http://www.ondatechno.com/English/ip/patent/report/20091130.html>.

<sup>113</sup> See Press Release, Austl. Parliamentary Sec’y for Innovation & Indus., Fast Tracking Patents for Green Technology Solutions (Sept. 15, 2009), available at <http://archive.innovation.gov.au/ministersarchive2010/Marles/Pages/FASTTRACKINGPATENTSFORGREENTECHNOLOGYSOLUTIONS.html>.

<sup>114</sup> The KIPO program, which KIPO claims provides the fastest examination in the world, made headlines in October of 2009 when the agency reported that one examination was completed in less than a month. See Press Release, Korean Intellectual Prop. Office, Thanks to Superspeed Examination, Green Technology Acquires Patent in a Month (Oct. 20, 2009), available at [http://www.kipo.go.kr/kpo/user.tdf?seq=1305&c=1003&a=user.english.board.BoardApp&board\\_id=kiponews&catmenu=ek20200](http://www.kipo.go.kr/kpo/user.tdf?seq=1305&c=1003&a=user.english.board.BoardApp&board_id=kiponews&catmenu=ek20200); see also *Green Technologies Given Special Treatment in the United States, United Kingdom, and South Korea*, NUTTER MCCLENNEN & FISH LLP (May 17, 2010), <http://www.nutter.com/Green-Technologies-Given-Special-Treatment-in-the-United-States-United-Kingdom-and-South-Korea-05-17-2010/>.

<sup>115</sup> See Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. at 64,666, 64,666-67 (Dec. 8, 2009); see also David Kappos, Remarks at Press Conference Announcing Pilot to Accelerate Green Technology Applications (Dec. 7, 2009) (transcript available at <http://www.uspto.gov/news/speeches/2009/2009nov07.jsp>) (describing the Green Technology Pilot Program); Press Release, U.S. Patent & Trademark Office, The U.S. Commerce Department’s Patent and Trademark Office (USPTO) Will Pilot a Program to Accelerate the Examination of Certain Green Technology Patent Applications (Dec. 7, 2009), available at [http://www.uspto.gov/news/pr/2009/09\\_33.jsp](http://www.uspto.gov/news/pr/2009/09_33.jsp) [hereinafter Commerce Dep’t] (same).

in the patent publication process.<sup>116</sup> But applications proceeding via the Green Technology Pilot Program were accorded special status prior to the first Office Action,<sup>117</sup> which typically represents only the first of multiple communications from the USPTO. In contrast, the USPTO accorded applications advanced under the revised Accelerated Examination program special status throughout the entire course of prosecution before an examiner.<sup>118</sup> Moreover, while the USPTO has attempted to make a final decision on applications reviewed under the revised Accelerated Examination program within twelve months,<sup>119</sup> the USPTO indicated the pilot program would only lower the average forty-month wait for a final decision by twelve months.<sup>120</sup>

I do not argue that the USPTO's prioritization programs were perfect. They were not.<sup>121</sup> It is also unclear how much research and resources the USPTO invested in learning about each of the industries or types of inventions that it prioritized.<sup>122</sup> However, in implementing these programs, the USPTO did make several commendable design decisions that may signal its potential to be an effective policymaker. The USPTO's requirement that an application "materially" benefit a particular goal, such as the development of energy resources, appeared to achieve a sound balance between maximizing the social benefits that derive from a broad definition for eligibility and preventing excessive free riding by inventions of little social worth.<sup>123</sup>

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<sup>116</sup> Pilot Program for Green Technologies Including Greenhouse Gas Reduction, 74 Fed. Reg. at 64,666.

<sup>117</sup> *Id.* An Office Action is a written opinion of patentability from the USPTO. See 37 C.F.R. § 1.104(a) (2009).

<sup>118</sup> Changes to Practice for Petitions in Patent Applications To Make Special and for Accelerated Examination, 71 Fed. Reg. 36,323, 36,324-26 (June 26, 2006).

<sup>119</sup> See Press Release, U.S. Patent & Trademark Office, USPTO to Give Patent Filers Accelerated Review Option (June 26, 2006), available at <http://www.uspto.gov/news/pr/2006/06-37.jsp>.

<sup>120</sup> See U.S. Patent & Trademark Office, Commerce Dep't, *supra* note 115.

<sup>121</sup> See, e.g., Tran, *Expediting Innovation*, *supra* note 41, at 143-52 (arguing that the USPTO's Green Technology Pilot Program failed to create adequate incentives for innovation of green technologies and was overly restrictive).

<sup>122</sup> If there were solid evidence that the USPTO made informed, research intensive decisions as to which categories of applications should receive prioritization, it would bolster the argument that the USPTO is a seasoned policymaker.

<sup>123</sup> This may seem like an obvious point, but other patent offices did not foresee the need to create this limitation when they prioritized applications in their patent systems. See Tran, *Expediting Innovation*, *supra* note 41, at 157 n.183 (explaining how the UK IPO's accelerated examination program for green technologies, which served as the model for similar programs around the world, required only that eligible patent applications have "some" environmental benefit).

Additionally, while patent examiners number in the thousands,<sup>124</sup> only one Supervisory Program Examiner in each of the USPTO's Technology Centers decided on a case-by-case basis whether a petition qualified for prioritization under the revised Accelerated Examination Program and under the Green Technology Pilot Program.<sup>125</sup> These individuals received the same training on the standards for determining the eligibility of petitions for special status "[t]o ensure uniformity to the maximum extent possible."<sup>126</sup> The small number of these specialized and highly-trained Supervisory Program Examiners reduced the likelihood that patent applicants would receive inconsistent determinations as to eligibility.<sup>127</sup>

The USPTO's prioritization programs have served a clearly defined need. Over the years, the patent system had become plagued by excessive delays in the patent review process that left inventors waiting almost three years on average to receive a patent.<sup>128</sup> Although the USPTO lacked the resources and flexibility to fix the troubled patent system entirely, the USPTO's prioritization efforts helped ameliorate the delays with respect to a number of technologies of national importance.<sup>129</sup> A range of benefits for patent applicants, industry competitors, and society flowed from this prioritization. By providing opportunities for applications relating to key inventions to be reviewed more quickly, the USPTO helped clarify property boundaries at an earlier stage, enabling patent holders to secure financing for their inventions and commercialize their technologies earlier.<sup>130</sup> At the same time, industry competitors could make better

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<sup>124</sup> See UNITED STATES PATENT & TRADEMARK OFFICE, PERFORMANCE AND ACCOUNTABILITY REPORT FISCAL YEAR 2010 9 (2010), available at <http://www.uspto.gov/about/stratplan/ar/2010/USPTOFY2010PAR.pdf> ("At the end of fiscal year (FY) 2010, the USPTO work force was composed of . . . 6,225 patent examiners.")

<sup>125</sup> See Tran, *Expediting Innovation*, *supra* note 41, at 156.

<sup>126</sup> See *id.*; UNITED STATES PATENT & TRADEMARK OFFICE, GUIDELINES FOR APPLICATIONS UNDER THE NEW ACCELERATED EXAMINATION PROCEDURE 6 (2007), available at [http://www.uspto.gov/web/patents/accelerated/ae\\_guidelines\\_120607.doc](http://www.uspto.gov/web/patents/accelerated/ae_guidelines_120607.doc).

<sup>127</sup> See Tran, *Expediting Innovation*, *supra* note 41, at 156-57.

<sup>128</sup> See UNITED STATES PATENT & TRADEMARK OFFICE, 2010-2015 STRATEGIC PLAN 10 (2010), available at [http://www.uspto.gov/about/stratplan/USPTO\\_2010-2015\\_Strategic\\_Plan.pdf](http://www.uspto.gov/about/stratplan/USPTO_2010-2015_Strategic_Plan.pdf) (noting that under the Patent Office's current system of reviewing applications on a first-come, first-served basis, the average time from the filing of an application to patent issuance or abandonment was 34.6 months in fiscal year 2009 and was projected to be 34.8 months in fiscal year 2010).

<sup>129</sup> See *supra* notes 93-98 and accompanying text (listing some of the technologies of national importance that have benefitted from PTO prioritization).

<sup>130</sup> See generally Tran, *Expediting Innovation*, *supra* note 41, at 139-42 (discussing

decisions about what activities to engage in without violating another party's patent rights.<sup>131</sup> Moreover, when the USPTO's prioritization programs gave inventors ample time and opportunity to focus their research on technologies that they knew could receive expedited review, the programs created additional incentives for parties to innovate high-priority technologies, which benefited the general public.<sup>132</sup> The USPTO's prioritization programs did not create benefits for merely a handful of parties, but rather for thousands of parties. For instance, in less than two and a half years, the Green Technology Pilot Program enabled over one thousand patents to issue.<sup>133</sup> Without the program, the underlying applications might still be sitting in the USPTO's backlog of unreviewed applications and no one would be able to predict the precise scope of the patent rights that would emerge.

## 2. Congressional Encouragement

Although no one ever challenged the USPTO's efforts to prioritize applications on the basis of their national importance in court, the USPTO's efforts did not go unnoticed. In the America Invents Act, Congress openly endorsed the USPTO's prioritization efforts and encouraged the USPTO to expand them.

On March 1, 2011, after over five years of debates about patent reform and only about six months before Congress enacted the America Invents Act, Senator Robert Menendez, a Democrat from New Jersey, introduced an amendment that would ultimately codify the USPTO's prioritization efforts. His proposal authorized the USPTO to "prioritize the examination of applications for technologies that are important to the national economy or national competitiveness, such as green technologies designed to foster renewable energy, clean energy, biofuels, agricultural sustainability, environmental quality,

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the significance of the length of the patent review process).

<sup>131</sup> *See id.*

<sup>132</sup> In all likelihood, the inventor of pharmaceutical drugs would not be induced to switch from working on drugs to light bulbs or wind turbines to take advantage of a slightly shorter review process. But inventors with more readily transferable skills and more incentives to focus on a particular type of technology could actually do so. The key consideration is the length of time the program is in effect. *See id.* at 152-53 (arguing that the Green Technology Pilot Program could not produce any incentives for innovation as it was implemented on an annual basis for only two years).

<sup>133</sup> *See Green Petition Report Summary*, U.S. PATENT & TRADEMARK OFFICE (Apr. 26, 2012), [http://www.uspto.gov/patents/init\\_events/green\\_report\\_summary20120426.pdf](http://www.uspto.gov/patents/init_events/green_report_summary20120426.pdf) (showing that 1,062 patents, which were processed through the Green Technology Pilot Program, were issued between December 2009 and April 26, 2012).

conservation, or energy efficiency.”<sup>134</sup> Senator Menendez was particularly enamored by the USPTO’s Green Technology Pilot Program. Referring to this program, Senator Menendez explained that his proposed amendment “codifies an existing, successful program at the Patent Office.”<sup>135</sup> He argued that prioritization in the patent review process was a “good common sense policy that can help America propel forward in the 21<sup>st</sup> century.”<sup>136</sup>

Menendez’s proposal faced little opposition. Instead of just prioritizing technologies of national importance, the America Invents Act goes a step further and creates opportunities for all patent applications to receive expedited review upon the payment of a fee of \$4,800.<sup>137</sup> The Act enables applications of national importance to receive this expedited processing for free.<sup>138</sup> This subsidy is particularly valuable to start-up companies and individual entrepreneurs who may lack the resources to pay the additional \$4,800 filing fee to file a petition for expedited review on top of the steep and rapidly increasing fees for prosecuting a patent. Additionally, inventors of high-priority technologies who would otherwise choose to pay the fee can spend the money on socially-beneficial activities like research or development of new inventions.

Although Menendez’s original focus was on green technologies, there is no mention of green technologies or any other specific technology in the language of the USPTO’s Prioritization Authority. As discussed in Part I.A, Congress has provided the USPTO with no guidance on the types of technologies that it should target for prioritization other than that they must carry importance for the national economy or national competitiveness.<sup>139</sup> This broad language

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<sup>134</sup> 157 CONG. REC. S1052-53 (daily ed. Mar. 1, 2011) (statement of Sen. Robert Menendez).

<sup>135</sup> *Id.*

<sup>136</sup> *Id.*

<sup>137</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 11(h)(1), 125 Stat. 284 (2011).

<sup>138</sup> It specifies that the USPTO

May, subject to any conditions prescribed by the Director [of the USPTO] and at the request of the patent applicant, provide for prioritization of examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization, notwithstanding section 41 or any other provision of law.

*Id.* § 25.

<sup>139</sup> See *id.*

leaves the USPTO with substantial latitude to decide for itself which applications deserve prioritization and set policy accordingly.

In summary, over the past fifty years, the USPTO has employed a variety of techniques for accelerating the review of socially-valuable applications. It has changed the types of technologies and industries that may benefit from prioritized review. For these differing technologies and industries, it has prioritized the underlying applications at various stages in its review process. It also has varied the overall speed that it has reviewed expedited applications. Prioritization of applications on an industry-by-industry basis has thus become embedded in the USPTO's practices of reviewing patent applications. The USPTO's efforts to initiate these programs have produced tangible benefits, as is supported by Congress's endorsement of the USPTO's past efforts and codification of its authority to prioritize applications based on their national importance. As I argue in the next section, by being more proactive in its policymaking, the USPTO would be able to produce economies of scale for the patent system and enhance its effectiveness.

### *B. Tailored Patent Law Standards as Economies of Scale*

The second argument I introduce in this Article in favor of a larger role for the USPTO in policymaking is one of efficiency. If the USPTO is going to invest the time and resources in determining which industries are of national importance and would benefit from prioritized treatment, it would be wasteful not to use this information for greater purposes than the mere task of prioritizing patent applications.<sup>140</sup> I therefore suggest that the USPTO should use the information it gathers from prioritizing to tailor its regulations to the needs of particular industries. Numerous scholars have highlighted the need for tailored innovation policy.<sup>141</sup> Until now, however, no one has identified a concrete way in which the USPTO could help fill this void.

#### 1. Economies of Scale

The principle of economies of scale supports giving the USPTO a larger role in policymaking, as the USPTO can use the information it gathers for its prioritization efforts to inform the standards it sets for its proceedings. To avoid diseconomies of scale, though, it will

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<sup>140</sup> See discussion *infra* Part II.B.1.

<sup>141</sup> See discussion *infra* Part II.B.2.

become increasingly important for the USPTO to make more informed, research intensive decisions.

In microeconomics, economies of scale refer to the cost advantages that an institution perceives when it expands production.<sup>142</sup> As the scale of output is increased, the cost per unit decreases. To illustrate, suppose an author spends one year writing a detective novel and foregoing a salary of \$100,000. If he makes \$100 by selling copies of his book to his friends and family members, the cost of the books per unit of his lost salary is \$1,000. But if he spends \$1,000 on marketing and sells \$100,000 worth of books to the general public as well as to his close contacts as a result, the cost per unit of his lost salary is now merely \$1.01. Similarly, if the USPTO invests time and money in researching which industries are of greatest importance to national competitiveness or the national economy and would benefit from prioritization, society would only benefit from having the technologies commercialized earlier and from the potential creation of incentives to innovate in the prioritized industries. But if the USPTO uses the knowledge it gains about the particular benefits different industries receive from the patenting process to set standards for its new proceedings, such as by varying the standards for the institution of post-grant review or for inter partes review, society would reap much greater rewards with only slightly more effort on the part of the USPTO.

A hypothetical example that builds upon a past prioritization program helps illustrate how my proposal would work. In December of 2009, the USPTO initiated the Green Technology Pilot Program in the hope that it would “accelerate the development and deployment of green technology, create green jobs, and promote U.S. competitiveness in this vital sector.”<sup>143</sup> In initiating this program, the USPTO did not state that the potential harms generated by the patent system for the renewable energy industry, such as restrictions on access to and transfer of green technologies or the indirect costs of providing an unnecessary subsidy to the green industry, were outweighed by the benefits that the patent system could produce for the development and commercialization of these technologies.<sup>144</sup> However, this issue had been the subject of a heated international debate earlier that year because China and other developing countries had pushed for the

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<sup>142</sup> See *Economies of scale and scope*, THE ECONOMIST (Oct. 20, 2008), <http://www.economist.com/node/12446567>.

<sup>143</sup> U.S. Patent & Trademark Office, Commerce Dep’t, *supra* note 115.

<sup>144</sup> See Tran, *Expediting Innovation*, *supra* note 41, at 135-36 (arguing that the USPTO is ideally situated to provide subsidies to the green industry).

elimination or weakening of intellectual property rights relating to green technologies.<sup>145</sup> Congress had concluded unanimously that it was in America's best interest to use the patent system to promote the green technology industry.<sup>146</sup> It had further conditioned U.S. funding directed to assisting developing countries with regard to exporting green technologies on their enforcement of international legal protections for intellectual property.<sup>147</sup>

Against this backdrop, assume that one of the major challenges for the U.S. renewable energy industry was that Chinese firms were destroying the value of U.S. technologies by copying them and filing patent applications in the United States on them without permission. In carrying out the Green Technology Pilot Program, one would expect that the USPTO would learn such information.<sup>148</sup> The USPTO's new authority to set standards would give it an additional means of correcting this market problem.<sup>149</sup>

One way the USPTO could correct the market problem would be through its new power to "prescribe regulations setting forth standards for the conduct of derivation proceedings, including requiring parties to provide sufficient evidence to prove and rebut a claim of derivation."<sup>150</sup> If an invention disclosed in an earlier filed

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<sup>145</sup> See United Nations Framework Convention on Climate Change, Bonn, Ger., June 1-12, 2009, *Ad Hoc Working Group on Long-Term Cooperative Action Under the Convention*, 184-85, U.N. Doc. FCCC/AWGLCA/2009/INF.1 (June 22, 2009).

<sup>146</sup> See Foreign Relations Authorization Act, Fiscal Years 2010 and 2011, H.R. 2410, 111th Cong. § 1120A (2009) (enacted) (unanimously agreeing that the United States should "prevent any weakening of, and ensure robust compliance with and enforcement of, existing international legal requirements . . . for the protection of intellectual property rights related to [green technologies]"); *Final Vote Results for Roll Call 323*, OFFICE OF THE CLERK OF THE U.S. HOUSE OF REPRESENTATIVES (June 10, 2009), <http://clerk.house.gov/evs/2009/roll323.xml> (showing vote totals for House Amendment 187).

<sup>147</sup> See American Clean Energy and Security Act of 2009, H.R. 2454, 111th Cong. § 441(a)(11), (b)(2)(C) (2009) (enacted).

<sup>148</sup> The information could reach the USPTO in a variety of ways. The USPTO might learn it from a presentation at a conference, debates in Congress, a speech by the U.S. President, or the general news.

<sup>149</sup> Tailoring the USPTO's rules to benefit U.S. companies at the expense of foreign companies could raise constitutional, free trade, and fairness concerns depending on the specific language of the rules. It is beyond the scope of this Article to address these concerns as the point of this Article is only to highlight the flexible nature of the USPTO's new rulemaking powers, not their interactions with other legal doctrines that may never be impacted by a USPTO regulation.

<sup>150</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3(i), 125 Stat. 284 (2011) (to be codified at 35 U.S.C. § 135(b)). Additionally, the USPTO must specify a time period in which parties may resolve derivation disputes by arbitration. *Id.*

patent application is found to have been derived from an invention disclosed in a later filed application in the USPTO's derivation proceeding, the copycat will lose its ability to acquire or retain patent rights for the disputed invention. Using the knowledge the USPTO gained from prioritizing renewable energy technologies, the USPTO could tailor a derivation standard to benefit the domestic renewable energy industry. For instance, the USPTO could promulgate a regulation creating the following low standard of proof for derivation proceedings involving renewable energy technologies: "The holder of an invention pertaining to a renewable energy technology, as defined by USPTO regulation XYZ, will be deemed to have derived the invention from an earlier invention if the inventions primarily include substitutable components." The USPTO cannot change the threshold for allowing a party to petition for a derivation proceeding — namely, that the inventions be "the same or substantially the same,"<sup>151</sup> but the USPTO's powers over derivation proceedings appear to encompass the power to clarify how this standard can be satisfied by different types of inventors or on an industry-by-industry basis.<sup>152</sup>

Another way the USPTO could benefit a particular special needs industry, such as the domestic renewable energy industry, would be by using its new powers to set standards for the institution of post-grant review and inter partes review, for discovery of relevant evidence in these proceedings, and for allowing patent owners to move to amend patents during these proceedings.<sup>153</sup> In promulgating these standards for post-grant review and inter partes review, the USPTO must consider broad policy concerns such as "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."<sup>154</sup> Certainly, the requirement that the

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(amending 35 U.S.C. § 135(f)).

<sup>151</sup> *Id.* (amending 35 U.S.C. § 135(a)).

<sup>152</sup> See discussion *supra* Part I.A. The power to determine whether an invention derives from another invention overlaps to a certain extent with the doctrines of obviousness, novelty, and equivalents. For instance, presumably an invention that derives from an earlier invention is obvious and not novel. The Federal Circuit's reluctance to grant the USPTO any deference for policymaking suggests that, even if the court accorded the USPTO hard look deference for a derivation standard, it would be disinclined to have that determination carry force outside of the derivation context. It is beyond the scope of this Article to address this relationship between the USPTO's authority to set standards for its proceedings and the Federal Circuit's authority to set the core standards of patentability further, but I hope to do so in the future.

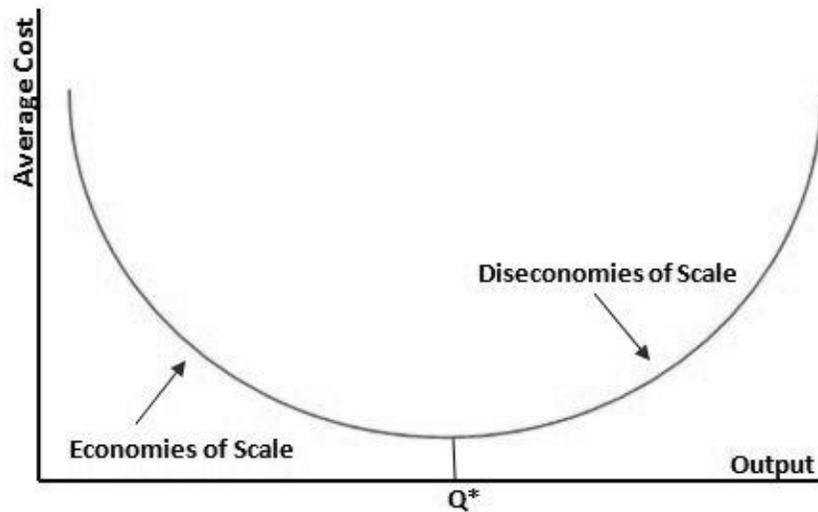
<sup>153</sup> Leahy-Smith America Invents Act § 6(a), (d).

<sup>154</sup> *Id.*

USPTO consider the effect of its regulations on the economy empowers it to consider whether tailoring a standard for a particular industry would benefit the U.S. economy by reducing copying of U.S. technologies by foreign competitors. Based on the USPTO's knowledge about the clean energy industry, the USPTO could design standards, such as the standards for the institution of a post-grant review proceeding involving green technologies or the standards for a motion to amend a patent during such a proceeding, that were either narrow or broad depending on which result would produce the greatest benefit for the domestic green industry.

A potential counterargument could be raised that encouraging the USPTO to tailor patent standards to the needs of different inventors could lead to diseconomies of scale. As shown in Figure 1, a diseconomy of scale arises when firms experience an increase in marginal cost when output is increased rather than decreasing costs per increase in output. Referring back to the author example used earlier, if the author wants to keep expanding his sales of books, he will need to continue investing in marketing. Eventually the marginal cost to generate additional sales of the book would increase as might be the case if the author concludes that the only way to get more sales was by investing in aggressive marketing strategies, such as by mailing a flyer about the book to every address in the country. Doing such a mailing would increase his sales but would produce a lower yield per dollar spent than the initial marketing efforts.

Figure 1



Similarly, if the costs the USPTO generates when it promulgates a tailored regulation exceed the incremental benefits of such tailored policy, the USPTO would create a diseconomy of scale. Costs and benefits can take many forms. The total costs include direct costs, such as the USPTO's direct expenditures on labor to issue a regulation. They also include indirect costs such as the social costs that arise when the USPTO does not make informed, research intensive decisions and issues a low-quality regulation or unnecessary regulation that stifles the innovation and commercialization of valuable technologies.

Although it is impossible to know for certain just how effective the USPTO would be in promulgating industry specific regulations, the USPTO is currently making strides to better weigh the costs and benefits of the regulations it promulgates. For instance, in March 2012, the USPTO and the Economics and Statistics Administration released a joint report identifying "the industries that most intensively use the protection offered by patents and trademarks" and examining the contributions of these industries to the U.S. economy.<sup>155</sup> This report is part of the USPTO's economic research program in which it is studying the economic impacts of USPTO initiatives, including their costs, benefits, and effects, and the relationship between intellectual property, entrepreneurship and economic growth through studies, conferences, community outreach, and collaboration with other patent offices.<sup>156</sup> By building its knowledge about different industries, the USPTO will be able to make more informed decisions when it issues regulations and reduce the risk that it would create diseconomies of scale for the patent system.

While the USPTO's economic research program is a step in the right direction, I do not mean to imply that it will ensure that the USPTO's regulations do not create larger costs than benefits. Before creating a tailored regulation, the USPTO should make sure it studies the costs, benefits, and impacts of the particular regulation it has in mind. For instance, in my previous scholarship, I analyzed the USPTO's efforts to expedite the review of applications pertaining to green technologies. The Green Technology Pilot Program only expedited the review of a narrow class of inventions, so there was less concern that the costs of

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<sup>155</sup> See ECON. & STATISTICS ADMIN. & U.S. PATENT & TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE U.S. ECONOMY: INDUSTRIES IN FOCUS vi (Mar. 2012), available at [http://www.uspto.gov/news/publications/IP\\_Report\\_March\\_2012.pdf](http://www.uspto.gov/news/publications/IP_Report_March_2012.pdf) [hereinafter INDUSTRIES IN FOCUS].

<sup>156</sup> USPTO *Economic Research Agenda*, UNITED STATES PATENT & TRADEMARK OFFICE, <http://www.uspto.gov/ip/officechiefecon/index.jsp> (last visited June 14, 2012).

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the program would exceed its benefits. However, I argued that, if the USPTO were to expand the program to more types of socially-valuable applications, the USPTO should either develop in-house expertise in certain key areas, such as energy and environmental policy or biotechnology policy, or collaborate more with agencies with expertise in those areas so that it could make better determinations of which technologies should be expedited in the review process.<sup>157</sup> These recommendations that the USPTO invest in building its expertise or in collaborating with other expert institutions carry even greater force if the USPTO tailors patent policy to particular industries or types of inventions. The potential impacts of the tailored regulation could affect a larger number of members of the patent community and will impact not just the speed at which applications are reviewed but also whether a party can obtain or retain patent rights.

The information the USPTO has gathered and will continue to gather as it selects inventions to prioritize in the review process is highly valuable for purposes beyond mere prioritization. By using this knowledge to inform its efforts to establish regulations for its proceedings, the USPTO could promote efficient use of its resources and further its statutory obligations. However, it will become more important than ever that the USPTO commit to research the costs, benefits, and impacts of its regulations before they go into effect so that it does not generate diseconomies of scale.

## 2. A Long Overdue Need

In addition to creating economies of scale for the patent system, by tailoring patent policy to the needs of different types of inventors and industries the USPTO would be able to help fill a long overdue void. Scholars have increasingly recognized the value that could be obtained through tailored innovation policy.<sup>158</sup> However, no one has identified a concrete way in which the USPTO could contribute to such policy tailoring.

The heart of the patent system is an exchange of a benefit to the public, the promotion of “the Progress of Science and useful Arts,” in return for an inventor’s ability to hold the exclusive rights to an invention for a limited time.<sup>159</sup> Not every grant of a patent benefits

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<sup>157</sup> Tran, *Expediting Innovation*, *supra* note 41, at 158.

<sup>158</sup> See, e.g., Burk & Lemley, *Policy Levers*, *supra* note 11, at 1577 (stating that a unitary patent system will not optimally encourage innovation in the wide range of industries that it covers).

<sup>159</sup> U.S. CONST. art. I, § 8, cl. 8; see *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470,

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society, however. William Landes and Richard Posner have asserted that “basic research is incentivized by a reward system that involves prestigious academic appointments, lecture fees, grants that reduce teaching loads, and the prospect of Nobel and other prizes, while applied research (including, however, instruments and other tools used to conduct basic research) is incentivized by intellectual property rights.”<sup>160</sup> Because basic research would be conducted even if the patent system did not exist, the grant of patent rights alone to basic research does not promote the progress of science and useful arts.

Eminent scholars have further noted the importance of recognizing that different industries have different needs with respect to the patent system. Mark Lemley and Dan Burk have explained:

Technology is anything but uniform, . . . and it displays highly diverse characteristics across different sectors. . . . Industries vary in the speed and cost of research and development (“R&D”), in the ease with which inventions can be imitated by others, in the need for cumulative or interoperative innovation rather than stand-alone development, and in the extent to which patents cover entire products or merely components of products.<sup>161</sup>

Based on substantial empirical research, Lemley and Burk concluded that “there is no reason to assume that a unitary patent system will optimally encourage innovation in the wide range of diverse industries that it is expected to cover.”<sup>162</sup>

If the USPTO does attempt to use its new powers to tailor innovation policy, it could do so in a variety of ways. In addition to the examples provided in Part II.B.1, the USPTO could use its new powers to increase the benefits of the patent system for the industries that most extensively rely on patent incentives for innovation. For instance, the recent study issued jointly by the USPTO and the Economics and Statistics Administration identified the most patent intensive industries as well as their contributions to the U.S. economy.<sup>163</sup> Based on studies like this, the USPTO could pinpoint which industries to prioritize in its regulations. The USPTO could

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480 (1974) (“The stated objective of the Constitution . . . is to ‘promote the Progress of Science and useful Arts.’ The patent laws . . . have a positive effect on society . . . by way of increased employment and better lives for our citizens.”).

<sup>160</sup> LANDES & POSNER, *supra* note 10, at 306-07.

<sup>161</sup> Burk & Lemley, *Policy Levers*, *supra* note 11, at 1577.

<sup>162</sup> *Id.*

<sup>163</sup> See INDUSTRIES IN FOCUS, *supra* note 155, at vi.

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then expedite the review of applications relating to a particularly deserving industry and promulgate standards for its post-grant review and inter partes review proceedings that are favorable to the industry. Likewise the USPTO could try to ensure its regulations do not benefit industries that do not rely on patent incentives for innovation.

Although these changes would not stop parties from filing applications for patents relating to less valuable industries, they might decrease the numbers of persons who seek or hold patents in those areas. With substantial empirical evidence supporting the USPTO's case, this would be a prime opportunity for the courts to award the USPTO deference in upholding its policymaking choices. But if the USPTO chose to favor or disfavor an industry for no logical or sound reason, the courts would be well within their authority in correcting the USPTO. The hard look review standard for policy decisions provides courts with significant latitude to reach their own conclusions about the propriety of an agency's policy decisions.<sup>164</sup> Thus, even if the Federal Circuit recognized the USPTO's policymaking authority, the court would not be obligated to uphold the USPTO's ill-advised policy choices.

In summary, the USPTO is now uniquely positioned to use its new powers to tailor patent standards to the needs of different types of inventors and industries. The knowledge the USPTO has gathered and continues to gather for prioritization efforts helps the USPTO understand the distinct needs and interests of different industries. By encouraging the USPTO to put its policymaking expertise to broader applications, the patent system will be more effective at fulfilling the constitutional rationale for the existence of the patent system and the USPTO will be more efficient.

### C. *Agency Capture*

Despite the potential benefits of USPTO policymaking, some commentators may fear that increasing the USPTO's policymaking discretion will increase the potential for the USPTO to be captured by special interest groups. However, a growing body of literature suggests the USPTO is no more vulnerable to capture than other institutions, such as the Federal Circuit and other agencies. Additionally, I argue concerns about capture are outweighed by the benefits of having a more responsive patent system.

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<sup>164</sup> See discussion *supra* Part I.B.

### 1. Harms of Capture

One may argue that empowering the USPTO to discriminate among patent applications on the basis of their value to national competitiveness or to the national economy invites the possibility that the USPTO will cave into rent-seeking actors in selecting which technologies to prioritize. If the benefits of prioritization are non-negligible, every self-interested patent applicant will have an incentive to try to persuade the Patent Office to prioritize his or her technology. But the best interests of these rent seekers will often differ from the best interests of society.

At least one patent practitioner has observed that the USPTO's new Prioritization Authority "could be abused and it could be controversial in the reconciliation process . . . . If semiconductor technologies are promoted, the pharmaceutical industry or the automobile industry may ask why their technologies are not important to American competitiveness."<sup>165</sup> Orin Kerr has suggested that it is bad policy to give the Patent Office more authority for precisely this reason:

Seeking to maximize their return on their investments in the patent system, inventors would have strong incentives to lobby the PTO for patent protection based on political favors, knowing that deferential standards would insulate the PTO's decisions from judicial review.<sup>166</sup>

Thus, Kerr takes the view that increasing the USPTO's discretion skews the incentives of inventors, distracting them away from inventing and towards rent seeking behavior.

There is also a related concern that if the USPTO were to discriminate among industries in exercising its new powers, industries detrimentally impacted by a regulation might lobby Congress more aggressively. This increase in aggressive lobbying, in turn, could lead to a proliferation of special interest patent statutes while also distracting inventors away from beneficial research.<sup>167</sup> However, the high cost of obtaining favorable legislation from Congress should deter some parties from pursuing this route,<sup>168</sup> particularly given the narrow scope of the USPTO's authority. Additionally, past experiences

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<sup>165</sup> J. Steven Rutt, *Patent Reform Legislation & PTO's Green Tech Accelerated Examination CLEANTECH & NANO BLOG* (Jun. 27, 2011), <http://www.nanocleantechblog.com/2011/06/articles/legislation/patent-reform-legislation-ptos-green-tech-accelerated-examination/> (quoting David Bloch, partner, Winston & Strawn LLP).

<sup>166</sup> Kerr, *supra* note 34, at 183.

<sup>167</sup> I owe this concept to Paul Gugliuzza.

<sup>168</sup> I also owe this concept to Paul Gugliuzza.

have indicated that by the time special-interest legislation is enacted, the needs of the industries desiring the legislation will have changed, as was the case with the Semiconductor Chip Protection Act<sup>169</sup> and the biotechnology-specific amendments to the U.S. patent statute's obviousness provisions,<sup>170</sup> and the legislation will have no net positive or negative effect for the industries.<sup>171</sup>

In summary, while there is some risk that increasing the USPTO's authority may lead to an increase in special-interest groups lobbying Congress, a bigger risk appears to be that inventors will ramp up their efforts to lobby the USPTO. This would distract them away from socially-beneficial activities, like research and commercialization of technologies. It also may motivate the USPTO to promulgate regulations that benefit particular special interest groups but not the general public.

## 2. Relative Susceptibility to Capture

Although agency capture presents a formidable concern for institutional design, several commentators, including myself, have challenged assertions that the USPTO is overly vulnerable to capture. A number of institutions that have the ability to engage in policymaking do not seem to be any less susceptible to capture than the USPTO.

The first and most obvious institution to which we can compare the USPTO is the Federal Circuit, which has long played the lead role in interpreting the Patent Act. Unlike agency officials whose jobs are not secure, Federal Circuit judges enjoy life tenure and a salary that cannot decrease.<sup>172</sup> These privileges could potentially insulate them from some of the political pressures that agencies like the USPTO experience. However, the judicial alternative does not appear to be much better.<sup>173</sup> Indeed, a number of scholars have suggested there is little reason to believe the Federal Circuit is any less vulnerable to capture than the USPTO, given the court's propensity to issue pro-patent decisions.<sup>174</sup> Sapna Kumar has further suggested that "a close

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<sup>169</sup> 17 U.S.C. §§ 901-14 (2006).

<sup>170</sup> 35 U.S.C. § 103(b) (2006).

<sup>171</sup> See BURK & LEMLEY, *THE PATENT CRISIS*, *supra* note 15, at 98-99.

<sup>172</sup> See Sapna Kumar, *Expert Court, Expert Agency*, 44 UC DAVIS L. REV. 1547, 1601 (2011).

<sup>173</sup> Burstein, *supra* note 13, at 1796-97.

<sup>174</sup> LANDES & POSNER, *supra* note 10, at 335-36 (asserting that the Federal Circuit has become a pro-patent court due in part to special interest groups like the patent bar and its clients); Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to*

inspection of the creation of the Federal Circuit reveals interest group involvement from the beginning.”<sup>175</sup>

There also appears to be little reason to suspect the USPTO would be any more vulnerable to capture than other administrative institutions that have broad policymaking authority, as I have discussed in my prior scholarship.<sup>176</sup> Even though the America Invents Act expanded the USPTO’s authority, the USPTO’s authority is still limited to specific rulemaking powers for particular proceedings.<sup>177</sup> Thus, one would anticipate that the USPTO would have less opportunities to be captured than other institutions like the Federal Trade Commission,<sup>178</sup> the Food and Drug Administration,<sup>179</sup> the Federal Communications Commission,<sup>180</sup> the Federal Reserve Board,<sup>181</sup>

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*Patent System Reform*, 103 COLUM. L. REV. 1035, 1110-11 (2003) (arguing that capture has played a role in Federal Circuit decision making); see John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 251 (1998) (indicating that the establishment of the Federal Circuit has correlated to a substantial increase in findings of patent validity). *But see* John M. Golden, *The Supreme Court as “Prime Percolator”: A Prescription for Appellate Review of Questions in Patent Law*, 56 UCLA L. REV. 657, 685-86 (rejecting arguments that the Federal Circuit has been captured); Glynn S. Lunney, Jr., *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 SUP. CT. ECON. REV. 1, 3 (2004) (dismissing claims that the Federal Circuit is “pro-patent”).

<sup>175</sup> Kumar, *supra* note 172, at 1601.

<sup>176</sup> Tran, *Distorted Rules*, *supra* note 82 at 880-84.

<sup>177</sup> See discussion *supra* Part I.A.

<sup>178</sup> See 15 U.S.C. § 45(a)(2) (2006) (“The Commission is hereby empowered and directed to prevent persons . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.”); *Nat’l Petroleum Refiners Ass’n v. FTC*, 482 F.2d 672, 676-78 (D.C. Cir. 1973) (explaining that the Supreme Court has given “broad construction” to the FTC’s powers).

<sup>179</sup> See 21 U.S.C. § 371(a) (2006) (vesting in the Secretary of Health and Human Services “[t]he authority to promulgate regulations for the efficient enforcement of this [Act]”); *Nat’l Nutritional Foods Ass’n v. Weinberger*, 512 F.2d 688, 698 (2d Cir. 1975) (holding that Congress did not intent to “deny the [Food and Drug Administration] the power to make binding rules specifying those products that would require a prescription”).

<sup>180</sup> See 47 U.S.C. §§ 154, 303(r) (2006 & Supp. IV 2010) (detailing qualifications, many powers and duties of members on the Commission); *Nat’l Petroleum Refiners Ass’n*, 482 F.2d at 678-79 (discussing Supreme Court cases that have extended FCC authority beyond specification of technical guidelines).

<sup>181</sup> See 15 U.S.C. § 1604 (2006) (“The Bureau [of Consumer Financial Protection] shall prescribe regulations to carry out the purposes of this subchapter . . . . [S]uch regulations may contain such additional requirements, classifications, differentiations, or other provisions, and may provide for such adjustments and exceptions for all or any class of transactions, as in the judgment of the [Bureau] are necessary or proper to effectuate the purposes of this subchapter . . . .”).

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and the Secretary of Agriculture,<sup>182</sup> who all have the legislative authority to issue any regulations that are “necessary or appropriate” for administering a particular statute. To the extent the USPTO’s scarcity of resources may distort its decision making processes,<sup>183</sup> this paucity is not a problem unique to the USPTO. Many agencies have tight budgets to address a hefty workload.<sup>184</sup> The USPTO’s newly acquired authority to set its own fees further diminishes concerns that scarce resources will detrimentally influence the USPTO’s regulatory efforts.

One might attempt to distinguish the USPTO from other institutions on the basis that the patent system presents the classic and worst public choice setup.<sup>185</sup> The system provides concentrated benefits to intellectual property holders in the form of monopolies and imposes diffuse burdens on members of the general public, who share the burdens of the monopolies. However, this argument paints an inaccurate picture of the patent system. Competitors of a patent holder, not general members of the public, bear the brunt of the burden of the patent monopoly as it impacts their abilities to compete on the market and may make them liable for infringement. These parties have the ability to participate in the USPTO’s new post grant review and inter partes review proceedings as well as in any rulemaking proceedings that the USPTO conducts. The presence of parties with highly concentrated but conflicting interests within any given industry thus diminishes the concern that the USPTO is more vulnerable to capture than other agencies.

There does not appear to be any compelling reason to believe the USPTO is more vulnerable to capture than other institutions that have substantial policymaking discretion. Thus, while it is important to have institutional safeguards in the patent system to protect against capture, preventing the USPTO from engaging in policymaking does not seem to be necessary.

### 3. Public Benefits of Capture

Beyond the arguments that the USPTO is no more vulnerable to capture than other institutions that enjoy broad policymaking

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<sup>182</sup> See 21 U.S.C. § 463(b) (2006) (“The Secretary shall promulgate such other rules and regulations as are necessary to carry out the provisions of this chapter.”); *Nat’l Petroleum Refiners Ass’n*, 482 F.2d at 680 (discussing the powers of the Secretary of Agriculture to promulgate rules and regulations).

<sup>183</sup> See Frakes & Wasserman, *supra* note 57 at 1.

<sup>184</sup> See Tran, *Distorted Rules*, *supra* note 82, at 880-84.

<sup>185</sup> I owe this concept to Tun-Jen Chiang.

authority, it is also possible that the benefits of increasing the USPTO's discretion, such as avoiding piecemeal decision making,<sup>186</sup> promoting transparent decision making,<sup>187</sup> and enabling the USPTO to create economies of scale and craft more intelligent patent policy,<sup>188</sup> outweigh the harms to society of capture. In this section, I identify another offsetting benefit. To the extent that giving the USPTO greater policymaking discretion within the confines of the Patent Act would motivate self-interested actors to try to influence USPTO decision making, I argue that such a phenomenon would be healthy and could fundamentally benefit the patent system.

The patent system is an inherent public good. The core purpose of the patent system is to balance a benefit to society (increased innovation and disclosure of new technologies) with a burden on society (grants of limited monopolies to patent owners).<sup>189</sup> But among members of the public, the burden of the patent monopoly does not fall evenly. It falls most heavily on the shoulders of the competitors of a patent holder as the patent monopoly limits what activities the competitors may engage in. The competitors also face hefty litigation costs if they choose to challenge the patent or are accused of infringing it. Because the competitors bear the brunt of the burden of the patent monopolies, fairness compels the conclusion that regulatory decision making should reflect the opinions and concerns of these actors. Thus, although rulemaking processes may be generally slanted towards disproportionate participation by regulated communities,<sup>190</sup> this participation might be suitable for the patent system.

Efforts to influence the Patent Office suggest that affected parties care about the decisions the USPTO makes and feel that the regulator will listen to their comments and concerns. The more input the Patent Office receives, the better it can understand its constituents' needs, the consequences of its decisions, and the relevance of factors it may not have considered otherwise. Through the rulemaking process and through its new proceedings, the USPTO can hear the comments and concerns of applicants, parties who have been accused of infringement

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<sup>186</sup> See *supra* note 81 and accompanying text.

<sup>187</sup> See *supra* note 82 and accompanying text.

<sup>188</sup> See *supra* Part II.B.1; *supra* note 80 and accompanying text.

<sup>189</sup> See U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries").

<sup>190</sup> See CORNELIUS M. KERWIN, RULEMAKING: HOW GOVERNMENT AGENCIES WRITE LAW AND MAKE POLICY 191-210 (1994); Cary Coglianese, *Citizen Participation in Rulemaking: Past, Present, and Future*, 55 DUKE L.J. 943, 949-52 (2006).

or are accusing others of the same, and other government bodies whose constituents may be affected by a USPTO regulation. By giving these persons more incentives to try to “influence” or “capture” the Patent Office, the courts might actually improve the likelihood that the USPTO would receive the information it needs to respond to changing technological and social circumstances.<sup>191</sup> Given the delicate balancing of policy concerns that some of the Patent Office’s powers involve, such as prioritizing technologies on the basis of their national importance, providing incentives for input in the decision making process from diverse members of the regulated community becomes increasingly important.

Giving members of the regulated community incentives to try to get their voices heard by an administrative agency like the USPTO is particularly important given the suboptimal ability of the courts to receive and consider public input. Unlike administrative agencies, which issue rules through an iterative process and decide issues *ex ante*, courts create rules through a closed-door, *ex post* approach.<sup>192</sup> They do not issue a proposed decision, solicit feedback on it from interested members of the regulated community, and respond to the feedback before issuing a final decision. Even if courts are interested in hearing what these entities have to say or in anticipating a problem before it occurs, they are required to issue their final decisions after hearing only a subset of relevant facts for an existing problem: the facts central to the specific case before them and occasionally facts provided by a few amici. That is not to say that there is little value to be had from amici.<sup>193</sup> The Department of Justice’s Office of the Solicitor General has had a “subtle but meaningful” influence over the development of patent law<sup>194</sup> and has, in its amicus briefs, made specific arguments on behalf of the interests of agencies other than the USPTO.<sup>195</sup> However, in comparison to an administrative *ex ante* rulemaking proceeding, the court system provides an inadequate

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<sup>191</sup> See generally Mark Fenster, *The Opacity of Transparency*, 91 IOWA L. REV. 885, 895-910 (2006) (discussing how public participation enables agencies to learn about public priorities and identify means of addressing these priorities).

<sup>192</sup> See Rai, *Patent Validity*, *supra* note 79, at 1242-43 (discussing flaws in *ex post* adjudication by courts).

<sup>193</sup> See BURK & LEMLEY, *THE PATENT CRISIS*, *supra* note 15, at 168 (“Courts have their problems. They are confined to hearing the cases before them, and in an adversarial system they can do very little independent fact investigation.”).

<sup>194</sup> See John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 519 (2010) (discussing the “subtle but meaningful” influence the Solicitor General’s has had over the development of patent law”).

<sup>195</sup> Rai, *Patent Validity*, *supra* note 79, at 1240-41.

means for members of the regulated community to participate in the development of laws and policies.

Given that the patent system is an inherent public good, regulatory decisions affecting this public good should be a product of active participation by those bearing the burden of the patent monopoly. Thus, the patent system benefits when there are increased incentives for members of the regulated community to let regulators know their preferences. Unlike the USPTO, the courts do not have adequate channels to receive such input.

#### CONCLUSION

Dramatic legislative reforms have spurred the patent system into a state of flux. As a result, traditional expectations about the institutional design of the patent system must now give way to new directions hoped to fix the broken system. Empowered by the recent reforms, the USPTO could play a larger and better appreciated role in setting patent policy than it ever has in the past. By researching the needs of different industries and inventors and using this information both to prioritize applications in the review process and to issue regulations for its proceedings, the USPTO would create economies of scale for the patent system and help fill a long overdue void in innovation policy — the need for tailored patent policy. Far from leading to detrimental capture, this proposal could improve information flow to the USPTO and render USPTO decisions more transparent.

Ultimately, the courts hold the power to amplify or mute the benefits of tailored USPTO policymaking. By recognizing and granting the USPTO deference for its reasoned policy determinations, the Federal Circuit would encourage and enable the USPTO to design better patent policy as the USPTO fulfills its new obligations under the Patent Act.<sup>196</sup> Thus, amid sweeping changes to the patent system, the Federal Circuit and the USPTO now share a rare opportunity to re-envision their administrative roles as well as their relationship with each other. No time could be better for these governmental actors to promote “the Progress of Science and useful Arts,”<sup>197</sup> the core constitutional purpose of the patent system, by helping the patent

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<sup>196</sup> Even if the Federal Circuit is not ready to accept a sidekick in patent policymaking, the Supreme Court could nudge the lower court in this direction. See discussion *supra* Part I.B.

<sup>197</sup> U.S. CONST. art. I, § 8, cl. 8 (granting Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”).

system surge forward as a flexible system that is responsive to the varied needs of its constituents, industry competitors, and society at large.