



## Constitutional Separation of Powers & Patents of Invention: Oil States Energy Services, LLC v. Greene’s Energy Group, LLC

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**“[T]here may be no limit to the power Congress can grant to the Patent Office over the validity of patents, potentially usurping any role for the judiciary in this regard under Article III.”**

The Supreme Court recently held in [Oil States Energy Services, LLC v. Greene’s Energy Group, LLC](#), 138 S.Ct. 1365 (2018), that *inter partes* review (IPR) “does not violate Article III or the Seventh Amendment.” With respect to Article III, the Court in *Oil States* premised its holding on a distinction between “public rights” and “private rights,” wherein, according to Justice Thomas, “[Supreme Court] precedents have given Congress significant latitude to assign adjudication of public rights to entities other than Article III courts.” The majority held that “[i]nter partes review falls squarely within the public-rights doctrine.” In particular, Justice Thomas stated that, “the decision to *grant* a patent is a matter involving public rights – specifically, the grant of a public franchise,” and that “[i]nter partes review is simply a reconsideration of that grant,” for which “Congress has permissibly reserved the PTO’s authority to conduct that reconsideration.” However, Justice Thomas admitted that, “[t]his Court has not ‘definitively explained’ the distinction between public and private rights,” and, that “precedents applying the public-rights doctrine have ‘not been entirely consistent.’” Further, despite reciting several Supreme Court cases that referenced patents as “public franchises,” the term, “franchise,” was not defined in *Oil States*, nor were “public rights” distinguished from “private rights” in the context of granted patents. A Seventh Amendment right to a jury trial was denied pursuant to the Court’s Article III holding.

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This article will assess whether, absent the Supreme Court's recent holding in *Oil States*, patents are properly viewed as *private* or *public* rights, and the implications of both alternatives from the perspective of constitutional separation of powers. Analysis will begin, in Part I, with the historical limit of the public rights doctrine and then proceed, in Part II, to briefly summarize

recent expansion of that doctrine. Parts III and IV will touch on the implications of holding patents to be public rights and private rights, respectively, including the relevance of any Seventh Amendment right to a jury trial. A proposed solution to the problem of *inter partes* review that protects separation of powers, regardless of how patents are viewed by the Court, will conclude the argument.

## I. Historical Limits on the Government's Ability to Invalidate Issued Patents

For at least the last one-hundred years, a private right in patents has dictated that the government is precluded from being party to a determination of patent validity. For example, in [\*McCormick Harvesting Mach. Co. v. C. Aultman & Co.\*](#), 169 U.S. 606 (1898), decided in 1898, the Supreme Court stated that, upon issuance, a patent has "become the property of the patentee" and, therefore, any attempt to cancel an issued patent by an examiner "would be in fact an invasion of the judicial branch of the government by the executive." The Court in *McCormick* upheld statutory provisions for reissue proceedings because such proceedings required that the patentee voluntarily surrender the patent. As stated by the Court:

*"If the patentee abandoned his application for reissue, he is entitled to a return of his original patent precisely as it stood when such application was made, and the patent office has no greater authority to mutilate it by rejecting any of its claims than it has to cancel the entire patent."*

A year later, in 1899, the Court in [\*United States v. Duell\*](#), 172 U.S. 576 (1899), held that determination of validity of claimed subject matter *prior to grant* of an issued patent was a matter of "public rights," thereby entitling the legislative branch to remove, at its discretion, what would otherwise be subject to Article III review. This is consistent with *McCormick* and decisions by the Supreme Court that limited such public rights to patent *applications*. Moreover, treatment of letters patents generally, namely land patents and patents of invention, in the United States did not necessarily follow from practice in England. For example, the Court in [\*United States v. American Bell\*](#), 128 U.S. 315 (1888), expressly dismissed reliance on "*scire facias*," whereby letters patent could be invalidated at the prerogative of the King: "We have no king in this country; we have no prerogative of the crown .... The patent, then, ... *is not subject to be repealed or revoked by the president, the secretary of the interior, or the commissioner of patents, when once issued.*"

The *reason* for distinguishing between pre- and post-grant status was stated broadly as a "rule" in [\*Michigan Lumber v. Rust\*](#) (168 U.S. 589 (1897)): "[W]herever the granting act specifically

provides for the issue of a patent, then the rule is that the legal title remains in the government until the issue of the patent.” The *policy* behind the rule, at least with respect to land patents, was made clear twenty years earlier, in *Moore v. Robbins*:

“‘A patent,’ says the court in [United States v. Stone](#) [69 U.S. 525, 535 (1864)], ‘is the highest evidence of title, and is conclusive against the government and all claiming under junior patents or titles, until it is set aside or annulled by some judicial tribunal. In England, this was originally done by scire facias; but a bill in chancery is found a more convenient remedy.’

*But in all this [in the United States] there is no place for the further control of the Executive Department over the title ... He [the President] is absolutely without authority. ‘If this were not so, the titles derived from the United States, instead of being the safe and assured evidence of ownership which they are generally supposed to be, would be always subject to the fluctuating and in many cases, unreliable, action of the land office.’”*

Arguably, the same reasoning can be applied to patents of invention and the Patent Office, particularly in view of the parallel often drawn between land patents and patents of invention, as expressed, for example, by the Supreme Court in *American Bell*:

The power, therefore, to issue a patent for an invention, and the authority to issue such an instrument for a grant of land, emanate from the same source; and, although exercised by different bureaus or offices under the government, are of the same nature, character, and validity, and imply in each case the exercise of the government according to modes regulated by acts of congress.

Moreover, the Supreme Court in *American Bell* affirmed only “the power of the government of the United States to get rid of a patent [that was] obtained from it by fraud and deceit,” and left to the legislature to give “private individuals a more limited form of relief, by way of defense to an action by the patentee.”

## **II. Expansion of Public Rights Doctrine**

### **A. Private Rights vs. Protection of the Public**

A dilemma appears between the nature of private property that would ban the government from unilaterally withdrawing a patent grant without being a party in any challenge to its validity, and the interest of the government in protecting the public from patents improperly granted. Resolution may be found in proceedings authorized by Congress to address issues of fraud by the patentee, mistake by the Patent Office, and “equity” among inventors. In other words, while a limited exclusionary right to inventions is granted by the Constitution, Congress has defined the manner in which patents are to be granted. On one hand, a granted patent is private property and, therefore, protected by the judiciary under Article III of the Constitution. On the other hand, the legislative and executive branches are charged with protecting the public’s legitimate interest against mistakes made by the granting authority.

In [\*Northern Pipeline Construction Co. v. Marathon Pipe Line Co.\*](#), 458 U.S. 50 (1982), which was a bankruptcy case addressing the constitutionality of the Bankruptcy Act of 1978, the Supreme Court distinguished between “rights created by Congress and other rights,” including “a critical difference between rights created by federal statute and rights recognized by the Constitution.” If “the right being adjudicated is not of congressional creation [but, rather, of the Constitution],” then:

*“[S]ubstantial inroads into functions that have traditionally been performed by the Judiciary cannot be characterized merely as incidental extensions of Congress’ power to define rights that it has created. Rather, such inroads suggest unwarranted encroachments upon the judicial power of the United States, which our Constitution reserves for Article III courts.”*

The Court recognized the “delicate accommodations required by the principle of separation of powers reflected in Article III” by, for example, limiting the powers of an adjunct court (at least in bankruptcy proceedings) to making “only specialized, narrowly confined factual determinations regarding a particularized area of law.”

Tellingly, the Court in *Oil States* did not specifically address whether patents of invention are “rights recognized by the Constitution.” It could have done so, at least by virtue of Article I, § 8, cl. 8, which states that Congress shall have the power “[t]o promote the Progress of ... useful Arts, by securing for limited Times to ... inventors the exclusive right to their ... Discoveries.” Such recognition, however, would likely have made the case for constitutionality of *inter partes* review, as they currently are conducted, substantially weaker.

## **B. Resolution of Competing Private and Public Interests in Patents, and Recent Decisions by the Federal Circuit Explaining the Public Rights Doctrine**

Resolution of the above-described dilemma presented by conflicting rights of patent owners and obligations of the government can be realized by limiting post-issuance review of patent rights at the Patent Trial and Appeal Board to “only specialized, narrowly confined factual determinations.” The Board would have possession of “only a limited power to issue... orders pursuant to specialized procedures,” wherein a district court could set aside any such order if “not supported by the evidence.” Ignoring these limiting principles would, in the words of the *Northern Pipeline* Court, “require that we replace the principles delineated in our precedents, rooted in history and the Constitution, with a rule of broad legislative discretion that could effectively *eviscerate* the constitutional guarantee of an independent Judicial Branch of the Federal Government.”

“Evisceration” may, in fact, have already been the consequence, at least with respect to patents of invention, in [\*MCM Portfolio LLC. v. Hewlett-Packard Co.\*](#), 812 F.3d 1284 (Fed. Cir. 2015), where the Court of Appeals for the Federal Circuit (Federal Circuit) recently held that “patent rights are public rights, and their validity susceptible to review by an administrative agency.” This conclusion was not based on Supreme Court precedent, but derived from earlier decisions only tangentially associated with Article III. For example, according to the Federal Circuit, the Supreme Court’s decision in *McCormick* was limited to reissue proceedings, which held only that cancellation of a patent without surrender of the patent by the patent owner would

be a deprivation of due process of law. From this holding, however, the Federal Circuit inferred that *McCormick* “did not address Article III and certainly did not forbid Congress from granting the PTO the authority to correct or cancel an issued patent.” The Federal Circuit then drew from another Supreme Court decision, [\*Thomas v. Union Carbide Agr. Products Co.\*](#), 473 U.S. 568 (1985), stating in *dicta* that Congress “may create a *seemingly* ‘private’ right that is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution with limited involvement by the Article III judiciary.” The Federal Circuit, consequently, deemed “the PTO, [to be] ‘an executive agency with specific authority and expertise’ in the patent law,” and asserted that “[i]t would be odd indeed if Congress could not authorize the PTO to reconsider its own decisions.” The Federal Circuit in *MCM* extended this reasoning to reexamination, which is a statutory mechanism for examination of issued patents at the Patent Office available to “any person” who can establish a “substantial new question of patentability.”

Contrary to the contention of the Federal Circuit in *MCM*, the Supreme Court in *McCormick* did not imply that the PTO could “correct or cancel” a patent simply as a function of “statutory authorization.” Further, it would not make sense for the Court in *McCormick*, or in *American Bell* for that matter, to do so because the result would leave the doctrine of separation of powers between the legislative, executive and judicial branches solely at the discretion of the legislative branch—a clear and self-evident misunderstanding of this fundamental concept.

Overall, the Federal Circuit in *MCM* did not rely on Supreme Court authority to conclude that patents of invention are “public rights.” No such authority existed at the Supreme Court prior to the holding in *Oil States*.

### **III. The Relevance of Oil States’ Arguments Invoking the Seventh Amendment Right to Jury Trial**

Oil States Energy Services, LLC argued that, based on the Constitution’s adoption of English common law “‘preserving the right under the Seventh Amendment to jury trial as it existed in 1791’” and historical precedent, determinations of patent validity are to be tried before a jury regardless of whether patents are considered to be private or public rights. This issue would be expected to take on added significance given that the Court has determined issued patents to be public rights, since adjudicative responsibility for deciding patent validity under an Article I court might then be subject to an overriding Seventh Amendment right under common law that is to be “preserved” for jury trial.

The Court in *Oil States*, however, summarily dismissed this prospect by stating that, “when Congress properly assigns a matter to adjudication in a non-Article III tribunal, ‘the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.’” Of course, this begs the question in that, if Congress has *improperly* assigned a matter to a non-Article III tribunal, as this article proposes, then a jury, nevertheless, may be required as a factfinder.

Despite the ambiguous history of a right to jury trial, it is clear that, while determinations of patent validity were considered pursuant to a writ of *scire facia* in the Kings Privy Council, by

1789 such actions were being heard in the Court of Chancery, which had no provision for a jury. However, it would be error to conclude that, therefore, patent validity, as a matter of *scire facias*, was an issue of equity rather than common law, and not subject to jury trial. Instead, as indicated by Lemley (Lemley, Mark A., “*Why Do Juries Decide if Patents are Valid*,” 99 Va. L. Rev. 1673 (Dec. 2013)), *for example*, “*scire facias* actions seem to have been part of the Chancery Court’s subsidiary common-law jurisdiction.” As also commented upon by Lemley, Chancery Court was known to “seek the advice of a jury in assessing the facts underlying a *scire facias* petition” by having the “Lord Chancellor deliver the record to the King’s Bench for a jury trial and return the verdict to the Chancellor for consideration and judgment.” Consequently, even though the Supreme Court has now held that issued patents are “public rights,” there is substantial support for also holding that there was a common law tradition in 1789 of judging patent validity by jury trial under the Seventh Amendment, at least as to issues of fact.

## **IV. One Possible Result had Patents Been Held to be Private Rights**

Justice Scalia stated, in his minority view in another Supreme Court case, [\*Granfinanciera v. Nordberg\*](#), 492 U.S. 33 (1989), that the Court in *Thomas* improperly broadened the “public rights doctrine” beyond “rights of the public— that is, rights pertaining to claims brought by or against the United States.” If the Court in *Oil States* had agreed, it could have limited “public rights” suits to those where the government is a party. “Public rights doctrine,” then, would *not* extend to “purely private federally created action[s],” such as disputes between private parties over the validity of granted patents. Accordingly, it would not matter whether IPRs, which *do not* include the government as a party, were part of a “seemingly private” statutory right “so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution with limited involvement by the Article III judiciary,” as was prescribed by the majority in *Thomas*.

An Article I tribunal, such as the Patent Trial and Appeal Board of the Patent Office, under this view, should only be able to operate as an adjunct to a district court, and then only in an advisory capacity as to issues of fact. Such a holding, moreover, would also implicate examination of “covered business methods,” post-grant reviews, *ex parte* re-examination proceedings requested by third parties, and interference proceedings (that challenge issued patents).

## **Conclusion**

Despite potentially relevant Supreme Court precedent in *Thomas* and *Granfinanciera*, the better view under the weight of Supreme Court precedent with respect to patent validity, absent the recent decision by the Court in *Oil States*, is that determination of the validity of issued patents does not include the government as a party and, therefore, only private rights are involved. Jurisdiction should, therefore, be solely within Article III, and preclude *final* determinations of patent validity as they currently exist under the AIA, as well as other post-issuance adjudication, such as interference proceedings and *ex parte* reexamination. Statutory provisions for post-grant examination at the Patent Office should be limited to an advisory capacity as an adjunct to a federal district court and address only issues

of fact. Such factual determinations coming from the Patent Office should be subject to review for substantial evidence by a district court in order to pass constitutional muster under Article III.

However, given that issued patents are deemed to be “public rights” and that IPRs have been upheld as constitutionally valid under *Oil States*, there may be no limit to the power Congress can grant to the Patent Office over the validity of patents, potentially usurping any role for the judiciary in this regard under Article III.