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EAGLE FORUM EDUCATION & LEGAL DEFENSE FUND

June 22, 2020

Sen. Thom Tillis, Chairman
Subcommittee on Intellectual Property
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, D.C. 20510

Sen. Chris Coons, Ranking Member
Subcommittee on Intellectual Property
Senate Judiciary Committee
224 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Tillis and Ranking Member Coons:

Eagle Forum Education and Legal Defense Fund, a nonprofit organization founded by Phyllis Schlafly in 1981, has taken sustained interest in issues relating to our patent system for several decades. Eagle Forum ELDF therefore writes to bring to your attention the matter of the Covered Business Method (CBM) Patent Review Program.

We are confident that, as leaders of the Senate IP Subcommittee, you share Eagle Forum ELDF's view that intellectual property — e.g., inventions — and the patents issued to secure the rights to inventions and discoveries are critical assets in the national interest. Further, the principle that has characterized the U.S. patent system is that our Constitution binds Congress to protect inventors, the ingenious individuals whose own efforts lead to discoveries and apply scientific and physical principles in new and improved practical uses.

As you know, CBM is a postgrant administrative proceeding at the Patent Trial & Appeal Board (PTAB). It is a separate proceeding at the Patent & Trademark Office (PTO) for reviewing granted patents after they have been issued, in addition to inter partes review (IPR) and postgrant review (PGR). The CBM program was enacted in section 18 of the Leahy-Smith America Invents Act (AIA) in 2011. Lawmakers at the time characterized this program as transitional. The CBM program is scheduled to expire on September 16.

From the outset, CBM was controversial. CBM postgrant review was designed to advantage the financial services industry, which had repeatedly lost court battles to independent inventor Claudio Ballard, and to disadvantage Mr. Ballard. His patents on a digital check processing invention saved banks the costs of shipping checks for cancellation and return to depositors and increased efficiency of this process, but banks had to pay royalties and licensing fees. Mrs. Schlafly termed the CBM provision of the AIA an “outrage.”¹

We discuss herein several aspects of CBM in particular that remain problematic from constitutional, legal, and policy perspectives. Various parties raised these concern at the time the AIA was being debated in Congress. Now, well past the transition period to the PTAB administrative review system, many of the concerns then raised about CBM (and, in fact, regarding the PTAB administrative system generally) remain troubling. We thus wish to focus attention on several of the weightiest concerns with CBM. These

¹ Phyllis Schlafly, “Unconstitutional Attack on U.S. Inventors,” *The Phyllis Schlafly Report*, Vol. 44, No. 11 (June 2011), p. 2.

are (1) CBM’s abrogation of the constitutional separation of powers, (2) the diminution of the rule of law, particularly with respect to destabilizing *res judicata*, and (3) the harmful, dangerous invitation CBM gives foreign competitors such as China to ignore international IP protections.

Separation of Powers

The separation of powers among three branches comprises a bedrock facet of our nation’s government under the Constitution. The separation of powers protects individual rights and liberty, as well as the rule of law, due process, and equal justice under law. AIA section 18 was weighed and found wanting by New York University Law Professor Richard Epstein and George Washington University Law Professor Scott Kieff.² An important element of their criticism relates to the breaching of the constitutional separation of powers among the three branches of the federal government’s republican structure. Messrs. Epstein and Kieff called into serious question the AIA’s “unprecedented system of agency review for patents whose validity has already been sustained in court.”³

They note that the AIA “brings into the [PTO] functions that properly belong in a judicial setting.”⁴ CBM violates the Constitution’s separation of powers by granting an “administrative tribunal . . . precedence over the judicial one in the discharge of a judicial function.”⁵ Moreover, those parties coming before the administrative tribunal challenging a patent’s validity seek a judicial ruling — a stay against the patent owner’s infringement claim — from the same administrative adjudicators. That is, an Article II functionary decides a judicial matter binding an Article III court. And the AIA restricts the Federal Circuit Court of Appeals’ judicial review authority over administrative stay rulings.

Importantly, Messrs. Epstein and Kieff raise serious problems concerning the Appointments Clause and the status of PTAB “judges” vis a vis Article III judges’ appointments. Under Article III, federal judges are nominated by the President and require confirmation by the U.S. Senate. If confirmed, Article III judges serve lifetime appointments.⁶ In contrast, Article II PTAB judges are appointed by the Secretary of Commerce in consultation with the director of the PTO. They are not Senate-confirmed and serve more or less as rank-and-file federal employees. Therefore, to allow administrative functionaries whose status does not qualify as an inferior officer of the United States to reign superior to presidentially appointed, Senate confirmed federal judges is inappropriate. Yet, this is what the AIA has done at PTAB.

This confluence of the Separation of Powers and the Appointments Clause is newly ripening. In 2018, the U.S. Supreme Court decided in *Lucia v. Securities and Exchange Commission*⁷ (SEC) that administrative law judges (ALJs) at the SEC, akin to PTAB judges in many respects, lack proper constitutional appointment. The ALJs are “officers of the United States” under the Appointments Clause, the court ruled, and thus are required to be presidentially appointed instead of hired by the agency.⁸ In 2019, the Federal Circuit in *Arthrex v. Smith & Nephew*⁹ held that PTAB’s administrative patent judges (APJs) function as officers of the United States. The court found that APJs act unconstitutionally because they lack confirmation by the U.S. Senate. This throws the constitutionality of their decisions on patent validity into question.

² Richard A. Epstein and F. Scott Kieff, letter to Congress, March 30, 2011.

³ Epstein and Kieff, p. 3.

⁴ Epstein and Kieff, p. 12.

⁵ Epstein and Kieff, p. 12.

⁶ U.S. Constitution, Article II, Section 2 and Article III, Section 1.

⁷ *Lucia v. Securities and Exchange Commission*, 585 U.S. ____ (2018).

⁸ U.S. Constitution, Article II, Section 2.

⁹ *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir., Oct. 31, 2019)

Thus, CBM (and PTAB more generally) trigger serious concerns and raise serious doubts regarding the several ways in which this construct “is flatly inconsistent with the American tradition of separation of powers.”¹⁰ From transferring traditional judicial powers in the administrative branch to be exercised by federal bureaucrats who lack constitutional appointment, to arrogating power to overrule and outweigh constitutionally appointed Article III judges in proceedings that lack the fairness and due process protections afforded by judicial rules, the result is to cast dark shadows over CBM and, indeed, over PTAB. Given recent rulings as to the constitutional shortcomings of ALJs’ and APJs’ appointments, it would be wise to consider CBM in light of fundamental tenets of the Constitution, such as the separation of powers.

Rule of Law

In addition to undermining the separation of powers, CBM undermines the rule of law — another fundamental protection the Founders wisely ensconced in our Constitution. Messrs. Epstein and Kieff observe that CBM’s “sole purpose is to remove all the defenses based on res judicata and statute of limitations that exist with respect to those patents that have been tested in the courts,”¹¹ among other concerns.

Black’s Law Dictionary defines res judicata: “Rule that a final judgment rendered by a court of competent jurisdiction on the merits is conclusive as to the rights of the parties and their privies, and, as to them, constitutes an absolute bar to a subsequent action involving the same claim, demand or cause of action.”¹² This established legal principle embodies an important aspect of the rule of law. Messrs. Epstein and Kieff note, “The principle of claim preclusion (or res judicata) is intended to make sure to protect the finality of judgments in individual cases even if the law should be changed thereafter.”¹³

The damage to res judicata that section 18 causes is exposing secured private property rights to government takings without just compensation. This happened to Claudio Ballard when CBM invalidated his patents long after Article III courts had consistently found them to be valid and enforceable. CBM never resulted in PTO’s compensating Mr. Ballard for the fair market value of lost licensing fees and royalties the patents would have produced had the AIA not unsettled settled matters. In the process, its proceedings have resulted in unsettling the law on a case-by-case basis while doing harm to fundamental property rights that inventors have a valid expectation of being respected, including with regard to just compensation based on the Takings Clause.¹⁴ By weakening Takings Clause protections, the AIA has further weakened our constitutional rights.

Nothing since the implementation of the CBM program has occurred that diminishes the profundity of these concerns, instills confidence regarding the legitimacy and constitutionality of the highly unusual features of PTAB and CBM, or practically justifies this “unprecedented system.”¹⁵

International IP Safeguards

Another problem is that CBM likely violates the Trade-Related Aspects of Intellectual Property (TRIPS) agreement. The signers of a 2011 letter to Senate leadership echoed Messrs. Epstein and Kieff’s fuller

¹⁰Epstein and Kieff, p. 13.

¹¹ Epstein and Kieff, p. 4.

¹² Black’s Law Dictionary, 6th Ed. (St. Paul, Minn.: West Publishing, 1990), p. 1305.

¹³ Epstein and Kieff, p. 11.

¹⁴ Epstein and Kieff, pp. 11-12.

¹⁵ Epstein and Kieff, p. 3.

discussion regarding CBM’s TRIPS violation. That letter notes that AIA section 18/CBM “isolat[es] business method patents for special treatment.”¹⁶

The 23 signatories, who included the late conservative leader Phyllis Schlafly, economist Pat Choate, and urban renewal activist Star Parker, raised a presently salient concern: “How can we bring IP thieves like China into compliance with TRIPS if we do not follow these agreements ourselves? Section 18 makes the United States a trade hypocrite.”¹⁷

China and other countries that have signed the TRIPS agreement violate its requirement to treat all patents the same. They employ compulsory licensing and weak patent enforcement rights aimed at computer-implemented, pharmaceutical, or other targeted patent classes.¹⁸ Because the AIA specifies CBM’s focus on certain business methods patents, this puts the United States in violation of TRIPS while undermining our example of strong, enforceable IP rights and encumbering our ability to hold trading partners to a uniform standard.

* * * * *

In general, PTAB has not delivered on what was promised: Its CBM, IPR, and postgrant reviews have not improved patent validity review; patent validity proceedings are not faster or cheaper because of challengers’ multiple bites at the apple, instead exposing owners of issued patents to endless litigation and associated costs multiple times in various venues both at PTAB and in Article III courts; they have created inferior, biased proceedings that deny patent owners due process, fairness, and other protections afforded in Article III courts. These proceedings allow repeated challenges against the same patents in matters of consequence regarding exclusive rights to private property that should be reserved for the judicial branch.¹⁹

In conclusion, we hope this discussion of the CBM program will prove informative as the scheduled expiration of the CBM proceeding nears.

Respectfully,

Ed Martin
President

Andrew Schlafly
Counsel

James Edwards
Patent Policy Advisor

¹⁶ Epstein and Kieff, p. 13.

¹⁷ Letter to Senate Majority Leader Harry Reid and Minority Leader Mitch McConnell, August 31, 2011, lead signatories Phyllis Schlafly (Eagle Forum), Kevin Kearns (U.S. Business & Industry Council), p. 3.

¹⁸ See Global Innovation Policy Center reports of the U.S. Chamber International IP Index.

¹⁹ For example, see Steve Brachmann, “Are conflicts of interest at the PTAB leading to preferential decisions for Apple?” IPWatchdog, April 28, 2017, and Gene Quinn, “Is the ethical bar for practitioners higher than it is for PTAB judges? IPWatchdog, May 3, 2017.