Delano Farms — An Uncommon Use of the Administrative Procedure Act

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The Federal Circuit finds that U.S. district courts may entertain preemptive challenges to government-owned patents

In Delano Farms Co. v. California Table Grape Comm'n, 655 F.3d 1337 (Fed. Cir. 2011), the court addresses a challenge to the validity and enforceability of three plant patents owned by the U.S. Department of Agriculture (USDA). The opinion is remarkable for its finding that declaratory relief is available under the Administrative Procedure Act (APA).

The facts are complex, but few are needed to understand the principal focus here — statutory bases for overcoming sovereign immunity. Defendant Grape Commission holds nearly exclusive licenses for USDA patents covering grapevines. The Commission, in turn, licenses plaintiffs, Delano and two other nurseries, to propagate and sell the patented vines. In an action for declaratory relief, plaintiffs challenge the licensing scheme and seek to have USDA's patents declared invalid and unenforceable.

The district court dismissed all of plaintiffs' claims. The Federal Circuit affirms except for a finding that sovereign immunity bars suit. Reversing on that, the court focuses on one section of the APA as amended.

When enacted in 1946, Section 10 of the APA only implicitly waived sovereign immunity. In 1966, the original APA was repealed and reenacted when Title 5 was revised. In a closely related vein, *see* Is the Lanham Act 'Positive' Law? Does it Matter?

Apparently prompted by parties, courts may use original APA section numbers. *See, e.g., Delano Farms*, 655 F.3d at 1343 n.2. This opinion, however, refers to what had been APA §10(a) as 5 U.S.C. § 702.

In 1976, Congress added a second sentence to § 702. As amended, it begins, "A person suffering legal wrong because of agency action, or adversely affected… within the meaning of a relevant statute, is entitled to judicial review thereof. *An action… seeking relief other than money damages* and stating a claim that an agency or an officer or employee thereof acted or failed to act in an official capacity or under color of legal authority *shall not be dismissed nor relief therein be denied on the ground that it is against the United States or that the United States is an indispensable party*...." 5 U.S.C. § 702 (emphasis added).

A major focus of *Delano Farms* is whether the added "waiver… is broad enough to allow Delano to pursue equitable relief against the USDA on its patent law claims." 655 F.3d at 1344. A substantial portion of the opinion explains why the answer is affirmative.

When Congress was contemplating the amendment, it found that "courts charged with deciding whether sovereign immunity barred a particular suit had reached decisions that were unpredictable, illogical, and overly dependent on artful pleading. In view of the confusion and perceived unfairness in the application of the doctrine, the reports concluded that 'the time now has come to eliminate the sovereign immunity defense in all equitable actions for specific relief against a Federal agency or officer acting in an official capacity.'" *Id*. at 1344-45 (citations and note omitted).

After noting that seven other circuits construe amended § 702 broadly, *Delano Farms* rebuffs an argument that the circuit's own prior opinions hold otherwise. Distinguishing

two such opinions, the court says: “Each case held that a plaintiff cannot invoke the § 702 waiver to obtain judicial review under § 704 of the APA when Congress has provided an alternative and exclusive forum for such a dispute.” *Id*. at 1345-47.

Moreover, *Delano Farms* points out, “Any suggestion that [prior Federal Circuit] decisions stand for the proposition that the waiver of sovereign immunity in § 702 is limited… was dispelled in Nebraska Public Power District v. United States, 590 F.3d 1357 (Fed.Cir.2010) (en banc). In that case… we specifically held that because the right to judicial review arose under a statute other than the APA, § 702 waived sovereign immunity without the need to satisfy the requirements of § 704.” 655 F.3d at 1348 (citation omitted).

As, *Delano Farms* stresses, however, “Our decisions in… cases dealing with the intersection of actions in district court under the APA and actions in the Court of Federal Claims under the Tucker Act have no bearing on the sovereign immunity question presented in this case. When Congress amended § 702 in 1976, it made it clear that it did not intend that amendment to have any effect on the exclusive jurisdiction of the Court of Claims over suits for money damages falling within the jurisdiction of that court.” *Id.* Hence, the opinion warns against attempts to use the APA “as a ‘backdoor’ … to obtain what would amount to concurrent district court jurisdiction over a monetary claim.” *Id*.

Section 704 says, “Agency action made reviewable by statute and final agency action for which there is no other adequate remedy in a court are subject to judicial review.” When specific versus generic provisions are involved, however, § 703 seem more apt: “The form of proceeding for judicial review is the special statutory review proceeding relevant to the subject matter in a court specified by statute.”

Although the district court saw the Quiet Title Act, 28 U.S.C. § 2409a and 28 U.S.C. § 1498(a) to reduce the scope of § 702, *Delano Farms* disagrees. First, it notes that the House report regarded the waiver in § 702 as extending the Quiet Title "to equitable actions generally." 655 F.3d at 1349 (citation omitted). Addressing § 1498(a), it holds, "That Congress has consented to an action for money damages for patent infringement by the government does not in any way imply that Congress intended to bar equitable actions related to the validity of government-owned patents." *Id*.

The court also dismissed an alternative basis for eliminating plaintiffs' inequitable conduct claim. The Grape Commission argued "the general presumption of regularity that attaches to the official acts of a federal employee… counsels against a conclusion that [an inventor] may have acted with deceptive intent." *Id*. at 1350. But the court holds, "[T]hat presumption is not absolute. If Delano's complaint is sufficient to plead inequitable conduct, it is also sufficient to overcome any presumption of regularity that may apply." *Id*. (citation omitted).