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Seed Patents, Patent Exhaustion, and Third Parties - Bowman v. Monsanto Co.

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Seed Patents, Patent Exhaustion, and Third Parties

CASE AT A GLANCE

Monsanto patents cover genetically modified glyphosate-resistant soybeans. A farmer purchased soybeans from a commodity market and argues that the "first sale doctrine" exhausts the patent rights as to those soybeans *and* their progeny. If successful, the farmer can save and replant the soybeans without paying licensing fees. Monsanto argues that exhaustion does not apply to new soybeans grown through replanting; even rights in the parent seeds are exhausted. In addition, Monsanto argues that the purchased soybeans are bound by a use-restriction servitude that bars farmers from planting seeds purchased from the commodity market.

Bowman v. Monsanto Co.
Docket No. 11-796

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From: The Federal Circuit

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ISSUES

Does the authorized sale of one generation of a patented plant seed exhaust a patentee's right to control subsequent generations of that seed?

Do use restrictions on a patented good created by license bind a third party who purchases the goods from a commodity market?

FACTS

Monsanto holds two patents that cover genetically modified (GM) glyphosate-resistant soybeans. U.S. Patent Nos. 5,352,605 and RE39,247E. These "RoundUp Ready®" beans have been extremely popular in the United States because, although expensive, the innovation greatly reduces farming costs and harmful soil runoff. Today, more than 90 percent of soybeans sold in the United States are covered by the patents. Monsanto requires that all farmers who use its seeds sign a binding technology license agreement that includes a promise not to save and replant harvested seeds. The threat of saving seeds is particularly real here because soybeans self-pollinate and subsequent generations are genetic clones of their parent seed. Thus, harvested seeds will have the identical genetic code offering glyphosate resistance.

For several years, Indiana farmer Vernon Bowman had been looking for a legitimate way to grow glyphosate-resistant soybeans without paying the license fee charged by Monsanto. What Bowman did was find a seeming loophole in the Monsanto license agreement that allowed farmers to sell soybeans to a commodity market without any ongoing restrictions regarding who could purchase the beans. In the case, these are termed "authorized sales" because they were authorized by the patentee.

The U.S. commodity marketplace does not normally distinguish between GM and non-GM soybeans. However, Bowman relied on his reasonable assumption that the vast majority of the beans would exhibit glyphosate resistance because of Monsanto's deep market penetration. That assumption was confirmed to be true when Bowman planted the beans and found that the majority were resistant to the glyphosate herbicide. Bowman saved some of his harvest for replanting and sold the rest back to the commodity market. This process continued for several years until Monsanto sued Bowman, alleging patent infringement.

CASE ANALYSIS

In 2007, Monsanto sued Bowman for patent infringement. On summary judgment, the district court rejected Bowman's exhaustion argument based upon a conclusion akin to the derivative title rule. (The mechanics of the exhaustion argument are explained in detail below; derivative title refers to the principle that a property owner cannot transfer rights in a piece of property greater than his own.) The court found that "[n]o unconditional sale of the Roundup Ready trait occurred because the farmers could not convey to the grain dealers what they did possess themselves. … The grain elevator/dealer from whom Bowman bought the soybeans had no right to plant the soybeans and could not confer such a right to Bowman." On appeal, the Federal Circuit affirmed the lower court reasoning that Monsanto's patent rights were not exhausted in the seeds Bowman purchased from the grain elevator. In addition, the Federal Circuit held that, even if the patent had been exhausted in the seeds purchased by Bowman, any progeny grown by Bowman would be infringing because exhaustion does not allow an unlicensed user to create new infringing articles.

U.S. patent law provides a patentee with the right to exclude others from making, using, and selling covered goods and services. 35 U.S.C. § 271(a). However, the judicially created doctrine of patent exhaustion limits that right. Under the doctrine, an unrestricted, authorized sale of a patented article exhausts the patentees exclusive rights vis-à-vis that particular article. Exhaustion is designed to better ensure free alienation of goods and a robust secondary market. Thus, when Samsung sells a patented device to a customer, the patent rights on that device are exhausted and Samsung cannot later assert patent infringement when the customer resells the device to a third party or when that third party uses the device. Under the law, unauthorized sale and use can each constitute patent infringement, but Samsung would have no case here because its patents would be deemed exhausted.

The exhaustion doctrine fits within the centuries-long common law history of rejecting covenants and conditions that unduly limit the resale and use of property rights. Although much of the property case law has focused on real estate, the rules against unreasonable restrictions are at their peak in the context of personal property, such as the soybeans at issue in this case. Thus, for the most part, contractual restrictions on use and resale of personal property will not be enforceable against a subsequent *bona fide* purchaser who was not privy to the contract. See also U.C.C. 2-403.

For this case, an important exception to the exhaustion doctrine is that it normally applies on an item-by-item basis. The fact that a customer owns an authorized Samsung device whose patent is exhausted does not provide the customer with any authority to build another device that infringes the patent. Making that new device would constitute patent infringement.

The case at hand is unique because of the self-replicating nature of the patented soybeans (and life in general). Bowman argues that, because soybeans are designed to naturally reproduce and grow, that the exhaustion doctrine should extend to protect that process as well. Monsanto rejects the notion that soybeans present a special case. Instead, the patentee argues that the traditional rules of exhaustion should apply and therefore that the seeds grown by Bowman represent new infringing articles.

The most important brief filed in the case is likely that of the U.S. government, filed as a joint effort by both the U.S. Department of Justice and the U.S. Patent and Trademark Office. The government fully supports the Federal Circuit's holding that patent exhaustion does not apply to the *progeny* because the progeny are new articles of manufacture. The government cites numerous examples in both patent and copyright law where the Supreme Court has indicated that exhaustion only applies to the article sold and does not permit the purchaser to make new copies. Unfortunately, the government brief does not seriously engage the peculiarity of this case—that the patented article is a life-form that self-replicates by its nature—other than by noting that Bowman "creat[ed]" the progeny "through planting and cultivation." Bowman disputes that growing crops constitutes "making" because seeds that fall to earth will naturally sprout and grow without human intervention.

In this line of reasoning, a number of amici draw an analogy to the Supreme Court precedent differentiating between repair and replacement of a patented good. Generally, an authorized owner of a patented good has a right to repair that good, but wholesale replacement would constitute patent infringement. See *Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.,* 365 U.S. 336 (1961). A number of amici argue that the planting-harvesting process is roughly parallel to the replacement doctrine put forth in *Aro Manufacturing.*

As to the second issue, the government sides with Bowman and rejects the Federal Circuit rule that a patentee's conditional sale of patented goods binds subsequent downstream purchasers. The government argues that the proper rule, under Supreme Court precedent, is that downstream purchasers will not be liable for patent infringement based upon failure to comply with use restrictions placed on the original authorized sale. For its conclusions, the government identifies the tension between the Federal Circuit rule and *Quanta Computer, Inc. v. LG Electronics, Inc.,* 553 U.S. 617 (2008). The government notes that state contract law may still be available to enforce restrictions on downstream use or resale, but that such restrictions cannot reserve a right to sue downstream users for patent infringement.

Although agreeing in principle with Bowman that licensed use restrictions on seeds cannot bind subsequent purchasers of the seeds, the government reiterates Bowman is still liable because exhaustion does not apply to the progeny. On use restrictions, Monsanto argues that the law protects its right to sell patented goods to be used only for limited purposes and that those limits bind downstream purchasers who are not otherwise contractually bound.

SIGNIFICANCE

The issues presented are important and may well impact a number of market areas.

First is the issue of use restrictions; although use restrictions on goods have long been disfavored and are often rejected as unenforceable, the Federal Circuit revived the viability of those restrictions by indicating that violations of sales conditions associated with a patented good can constitute patent infringement. This, in turn, has resulted in some confusion regarding the general enforceability of use restrictions. A clear statement from the Court rejecting the Federal Circuit's conditional sale doctrine will help ease that confusion and allow state courts to consider use restrictions on goods and associated contracts without having to conform to federal patent policy at the same time.

This case also raises issues related to the continued rise of contracting as it relates to end users. Over the past two decades, we have seen a rise in the use of contracts to bind end users. For many Americans operating online, these contracts are almost a daily occurrence. Here, if Monsanto is unable to protect its interest by patent, then it will have a strong incentive to develop an even more comprehensive contract regime that ensures that each purchaser of potentially viable seed is contractually bound. Contractual restrictions alone may prove ineffective because of the difficulty of binding downstream purchasers. And, if the Supreme Court sides with Bowman on both issues, a new marketplace may soon develop for low-cost seeds.

Lastly, the Court's ruling could also impact the weight plant developers place on protection through the Plant Variety Protection Act

(PVPA). The PVPA offers exclusive rights for 25 years for new varieties of sexually reproduced plant varieties. PVP certificates are granted by the U.S. Department of Agriculture and can complement utility patent protection. With regard to this case, Monsanto holds dozens of PVP certificates covering its soybean lines. Although the PVPA has a statutory structure for allowing limited saving of protected seeds, the associated rights would prevent the creation of a genuine marketplace for those seeds. Thus, if patent and contract rights fail, Monsanto may still rely on the PVPA as a third line of defense.

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PREVIEW of United States Supreme Court Cases, pages 225–227.

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