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Monsanto Rounds Up Big Win for Self-Replicating Tech
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The Supreme Court's recent decision has seeded another patent protection feather in Monsanto's increasingly large cap, in addition to providing guidance on application of the patent exhaustion doctrine in the case of self-replicating technology. In *Bowman v. Monsanto*, the Court held that the doctrine of "patent exhaustion" (or the "first sale doctrine") did not extend to Monsanto's patented Roundup Ready® seeds when those seeds were second generation seeds harvested from a crop and replanted by farmer Bowman. While the Court declined to extend the holding to other self-replicating technologies, such as vaccines or other pharmaceuticals, the decision is seen as a big win for the biotech industry.

Monsanto has successfully sued more than 145 individual farmers, Bowman included, since 1990 for patent infringement of its genetically modified seed technology. Monsanto's Roundup Ready® seeds are genetically modified to be immune to herbicide, thus making them incredibly popular and valuable. Because genetic material from the patented seeds is passed down from one generation of seeds to the next (*i.e.,* is "self-replicating"), buyers could continue to plant and grow crops to reproduce many further generations of seeds having the Monsanto-patented genetics with the purchase of only one original supply of patented seeds. To help prevent this from happening, Monsanto sells the patented seeds to farmers and suppliers under an elaborate express licensing and distribution structure, which restricts buyers from replanting "saved seeds," effectively requiring them to purchase new seeds from Monsanto for each planting.

Many farmers have unsuccessfully tried to break up the Monsanto monopoly under various doctrines in both patent and contract law, but *Bowman* was the first to pursue a patent exhaustion argument to defend his actions. The doctrine of patent exhaustion grants the buyer of an article covered by a patent the right to use or sell the legitimately purchased article which exhausts the patent holder's right to control the use or sale of the article, but does not give the right to make another article covered by those rights. For example, in the copyright world, the owner of a copyrighted book can sell the book, repair it, or cut it up and make it into art under a parallel copyright exhaustion doctrine, but she cannot make a copy of it. Similarly, the owner of a patented article can sell, repair or destroy it, but he cannot rebuild or otherwise make a copy of it. As case law in this area has evolved, protection under the doctrine was extended in some cases to post-sale restrictions imposed by contract. When a patented item has been sold subject to conditions, such as an agreement not to save seeds, breaches of the conditions may be patent infringement.

In non-self-replicating technologies, the rights of the buyer are fairly clear, but until the *Bowman* decision was handed down, there was still uncertainly as to how the doctrine of patent exhaustion applied to "self-replicating technologies." In *Bowman*, the farmer Bowman purchased commodity soybean seeds from a

grain elevator. Commodity seeds are a mix of seeds from many sources, including apparently from Monsanto. Under Monsanto's licensing agreement, grain elevators are allowed to sell commodity seed mixes containing Monsanto seeds. It was undisputed that Bowman's purchase of the soybean seeds was an authorized sale from the grain elevator, and Bowman's purchase itself was not subject to a Monsanto licensing agreement. Bowman planted his purchased commodity seed; however, he also saved seeds from the resulting crops and replanted them for eight successive generations. Monsanto later sued for patent infringement based on the replanting activity.

The thrust of Bowman's argument before the Supreme Court was two-fold. First, Bowman argued that Monsanto could not control his use of the seeds because they were subject to a prior authorized sale (in this case, to the grain elevator). Patent exhaustion, Bowman argued, was designed to prevent a patentee from controlling the use of a patented product following a sale. Because Bowman was using the seeds as they were intended to be used, by planting them, Bowman argued that Monsanto was trying to impermissibly control its product after sale. The Court held, however, that if the purchaser of the seeds "could make and sell endless copies, the patent would effectively protect the invention for just a single sale." *Bowman v. Monsanto*, 569 U.S. ____, No. 11-796, slip op. at 5, (2013). If simple copying were allowed, the Court held, then a patent would "plummet in value" after the first sale of the invention. *Id.* When Bowman replanted the seeds, he created copies of the patented invention. This key fact steered the Court to hold that the patent exhaustion doctrine does not protect Bowman because patent exhaustion only applies to the actual item sold, and not to reproductions or generation of new copies.

Second, the Court did not agree with what it called Bowman's "blame-the-bean" defense. Bowman argued that the seed replicates itself without any assistance on Bowman's part, thus it is the planted crop itself that makes the copies of the infringing article, not Bowman. The Court noted that Bowman was not a passive observer in the crop planting process because the soybean seeds could not self-replicate without assistance from Bowman. Bowman had to plant, tend, and harvest the soybean crop for it to self-replicate. Therefore, the Court held that Bowman controlled the reproduction, and thus Bowman made replicas of the patented invention. The patent right includes the right to exclude others from making, using, and selling the claimed invention. In its closing words, the Court held:

> Bowman planted Monsanto's patented [seeds] solely to make and market replicas of them, thus depriving the company of the reward patent law provides for the sale of each article. Patent exhaustion provides no haven for that conduct.

Bowman, at 10.

From a practical perspective in view of the decision, it is useful to consider whether a complicated licensing regime is needed to protect sales of self-replicating technologies. As it turns out, the Supreme Court decision did not appear to rely on the express licensing restrictions Monsanto imposes on purchasers of its patented seeds. Indeed, in a footnote to the opinion, Justice Kagan stated that even in the case where there was no express licensing agreement at all between Monsanto and a party, it would be reasonable to assume that there was an *implied* license to only plant and harvest one generation of seeds. This appears to suggest the absence of express licensing decisions would not have changed the result. Thus, patent holders might be able to skip complicated and expensive restrictive licensing agreements in the future, while still retaining rights for patented self-replicating technology. Of course, approaching from a conservative viewpoint, this is mere dicta and a later decision could hold otherwise. Thus, while the license agreement incurs additional cost, it may ultimately make a difference in protecting a patentee such that a careful balancing of competing considerations is needed when selling self-replicating technologies.

Another consideration is that buyers and subsequent sellers of such patented self-replicating technologies may need to develop different business strategies to protect themselves from potential liability. Given the facts in this case, it is not hard to imagine Monsanto next turning to the grain elevator seed supplier and alleging they induce infringement of the Roundup Ready® seeds (or violating terms of the agreement by repeatedly selling to a third party it knows has infringed and is likely to continue infringing). Re-sellers of this type of self-replicating technology will want to carefully craft representations, warranties, and indemnities from their respective buyers in sales agreements, and vice versa.

If you have any questions regarding these matters, please contact us.

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Monsanto-Self-Replicating-Tech.pdf

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