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LEGAL ALERT

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Monsanto Ruling Protects Innovators of Self-Replicating Biotechnology

On May 13, 2013, a unanimous U.S. Supreme Court held in *Monsanto v. Bowman* that the doctrine of patent exhaustion does not permit a farmer to reproduce patented seeds for planting and harvesting without the patent holder's permission, thus affirming the U.S. Court of Appeals for the Federal Circuit's finding in favor of Monsanto. This decision highlights the similarity between impermissibly replicating an invention and making use of a self-replicating technology, but also relies on the limitations present in the original sales contract to maintain control over subsequent unlicensed uses of the technology.

Patent infringement arises when one "makes, uses, offers to sell, or sells" a patented invention without authority from the patent holder. However, once the first authorized sale of the patented product has occurred, the patent holder's rights with respect to that invention may be exhausted, and the purchaser is free to use or resell the purchased product as it wishes. The legal theory of patent exhaustion, also known as the "first sale" doctrine, attempts to strike a balance between the incentives to invent by protecting a patentee's limited monopoly rights, while encouraging competition in secondary markets for patented articles by limiting the patentee's downstream market power.

Traditional patent exhaustion theory permits subsequent uses and resales of a patented invention. However, courts generally have not extended this protection to permit making additional copies of the patented invention itself. That is, the law does not protect an authorized purchaser from subsequently making the patented invention without authority from the patent holder. Farmer Bowman had argued that the invention at issue was the genetic engineering of the herbicide-resistant trait for the Roundup Ready® seeds that was initially made in the laboratories of Monsanto, and so his planting and harvesting of the modified seeds was not an unauthorized making or copying of that invention. Monsanto instead argued that the invention was "made" each time a seed produced a new plant yielding further seeds.

Farmer Bowman had purchased cheaper commodity second-generation soybeans from a grain dealer, with the knowledge that the soybeans had been grown by other farmers under a limited use license to Monsanto's genetically modified Roundup Ready® seeds. While Bowman could have used the purchased soybeans for animal feed as the grain seller intended, he instead used the seeds to grow a genetically identical second generation of soybeans, and he specifically took advantage of the seeds' genetically modified traits by spraying his crops with the herbicide Roundup®. Bowman saved the seeds from this crop to use in his next year's planting, and he repeated this practice for eight successive crop harvests.

Monsanto sued Bowman for infringement of U.S. Patent Numbers 5,352,605 and RE 39,247, which protect genetically modified, glyphosate-resistant, Roundup Ready® soybeans, asserting that Bowman infringed the patents when he grew—or "made"—additional seeds from his purchased seeds. Both the district court and the U.S. Court of Appeals for the Federal Circuit sided with Monsanto and held that patent exhaustion did not apply. At the U.S. Supreme Court, Bowman petitioned the Court to apply patent exhaustion principles, so that the authorized sale of any patented seeds exhausts all future patent rights, including the rights to those seeds as well as their progeny seeds produced as a result of planting. According to Bowman, replanting and growing the seeds was not "making" the invention in the patent sense, but was rather an authorized use of the self-replicating genetic modification invention made earlier.

But the Court rejected Bowman's so-called “blame the bean” defense that seeds should be treated differently for purposes of exhaustion because they can self-replicate. The Court concluded that Bowman had actively planted and harvested the patented plants and many further seeds, intentionally benefiting from their modified herbicide-resistant trait.

The Court’s decision relied on the fact that Monsanto requires all farmers to enter into license agreements when purchasing the seeds which allows them to plant the patented seeds and harvest the resulting crop for use as food or animal feed, but prohibits replanting or reselling the seeds for replanting. Because these farmers did not possess the right to use the soybeans as seeds under the terms of their license agreements for purchase, they could not convey that right to the grain dealers, who in turn could not convey that right to Bowman.

The fact that the invention was capable of replication did not diminish these contractual limitations on the exhaustion doctrine. The Court was careful to note that it need not and did not confront the case in which a self-replicating technology was being sold without an express license agreement limiting further sales. However, the Court did state that the exhaustion doctrine was limited to the particular item sold, and not to "reproductions," to avoid a mismatch between invention and reward.

Justice Kagan noted that the decision was limited to the facts on hand and did not extend to hypothetical situations in which an article self-replicates outside of purchaser’s control, or in which replication might be a necessary or incidental step in using the item for another purpose. For example, it was not decided whether self-replicating software would also fall outside of the scope of patent exhaustion.

Nevertheless, this decision is a great benefit to the biotechnology industry where self-replicating inventions (such as plants, stem cell-based tissue cultures, and monoclonal antibody producing hybridomas) are increasingly embodied in commercial products, and where patent incentives and protection for commercial advantage must remain viable to incentivize the large investments required for these inventions.

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If you have any questions about this Legal Alert, please feel free to contact either of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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