

Seed Exhaustion: Quanta's Effect On Biotech Patents

Monday, Jul 07, 2008 --- The Supreme Court's recent decision in *Quanta*^[1] opens the door to rethinking the doctrine of patent exhaustion as it applies to patented seeds.

In *Quanta*, the Supreme Court held that the exhaustion doctrine terminates "all patent rights" over an item which was sold without restriction and which "substantially embodies" a patent.

The patent is exhausted even if it is a method patent. Although *Quanta* dealt with computer chips, the court's holding will likely affect all technologies.

The agricultural biotech industry has shown particular interest in *Quanta*, filing several amicus briefs to argue that the sale of a patented seed should not terminate patent rights on second-generation progeny seeds produced by a farmer-purchaser of the patented seed.

Prior to *Quanta*, it had been well settled that a new seed grown from a purchased seed remains under protection of the patent without exhaustion.^[2]

Now, in the wake of *Quanta*, agricultural biotech companies must reconsider whether their authorized sale of patented seeds, absent any contractual restrictions placed on buyers, has exhausted all patent rights in second-generation progeny seeds (exact copies of the original seeds).

Assuming that a patent covers either the seeds themselves or the method of growing such seeds, can a farmer now freely harvest, sell or replant the progeny seeds?

Justice Kennedy raised the issue during the oral argument in *Quanta*. In response, counsel for patentee LG attempted to distinguish the right to use a product from the right to make a product, such that only the former can be exhausted.

But Justice Kennedy quickly pointed out that the Supreme Court's prior *Univis* decision implicated the right to make a product: the sale of uncompleted lens blanks exhausted the patents on finished lenses made by retailers.

Indeed, the *Quanta* opinion itself states that the exhaustion doctrine terminates "all patent rights" over the product sold.^[3] One of those exclusionary patent rights is the right to make the product.^[4]

Perhaps a better argument against seed exhaustion was raised in the amicus brief of the American Seed Trade Association (“ASTA”). The exhaustion doctrine, they argue, does not relinquish a patentee’s rights in progeny seeds because progeny seeds are not the articles that were first sold.

Quoting *Univis*, ASTA argued that an initial sale only exhausts rights to “the article sold”[5] – i.e., the original seed sold to a farmer – not the progeny seed that was later made by the article sold.

In *Quanta*, the Supreme Court adopted similar language, stating that “the initial authorized sale of a patented item terminates all patents rights to that item.”[6]

Thus, according to ASTA, no exhaustion would arise over progeny seeds because the price charged for an original seed reflects the value of “the article sold” (per *Univis*) or “that item” (per *Quanta*), namely, the first-generation seeds.

Exhausting rights in all successive generations of seeds, it is argued, would make the initial sale price prohibitively expensive for a farmer-purchaser.

But even if progeny seeds do fall within the scope of the exhaustion doctrine, *Quanta*’s two-part test must then be applied.

First, do first-generation seeds sold to farmers have “any reasonable noninfringing use”[7] besides being planted to grow crops in which the production of progeny seeds is inherent?

Presumably, rather than being planted using a patented method, the first-generation seeds can be used as food or feed. It can be debated, however, whether this a reasonable use of such seeds.

Second, do the first-generation seeds include “all the inventive aspects of the patented methods”?[8]

In *Univis* and *Quanta*, the answer was yes because the steps performed by the buyer were common and noninventive: grinding a lens to the customer’s prescription, or connecting a microprocessor or chipset to buses or memory.

In the case of a patented method of growing crops, does the farmer perform any additional, inventive steps besides the (presumably standard) steps of watering and fertilizing the first-generation seeds? This again is a fact question that depends on what was sold and what was patented.

In sum, both sides of the agro debate will undoubtedly find plenty of legal ammunition for and against the exhaustion of second-generation progeny seeds.

The debate, of course, is not limited only to seeds, but implicates any product that can make copies of itself: self-replicating cell lines, genetic material, and

even software. It now remains for the next seed patent infringement case to reach the Federal Circuit and, possibly, the Supreme Court.

– By Andrew Baluch, Foley & Lardner LLP

Andrew Baluch is an associate in Foley's Washington, D.C., office.

[1] *Quanta Computer Inc. v. LG Electronics Inc.*, ___ U.S. ___, 2008 WL 2329719 (2008).

[2] *Monsanto Co. v. Scruggs*, 459 F.3d 1328, 1336 (Fed. Cir. 2006) (“The fact that a patented technology can replicate itself does not give a purchaser the right to use replicated copies of the technology. Applying the first sale doctrine to subsequent generations of self-replicating technology would eviscerate the rights of the patent holder.”).

See also *Monsanto Co. v. McFarling*, 302 F.3d 1291, 1299 (Fed. Cir. 2002) (“The ‘first sale’ doctrine of exhaustion of the patent right is not implicated, as the new seeds grown from the original batch had never been sold.”).

[3] *Quanta*, ___ U.S. ___, slip op. 5.

[4] 35 U.S.C. § 154(a)(1) (conferring upon patent owners, inter alia, the right to exclude others from making, using, offering for sale, selling or importing the patented product).

[5] *U.S. v. Univis Lens Co.*, 316 U.S. 241, 249 (1942).

[6] *Quanta*, ___ U.S. ___, slip op. at 5.

[7] *Quanta*, ___ U.S. ___, slip op. at 19.

[8] *Quanta*, ___ U.S. ___, slip op. at 19.