

**INSIDE**

- Saving Roundup Ready® beans for seed

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**IN FUTURE  
ISSUES**

- Tools of the trade exemption in an agricultural context

## ***Non-profit organization lacks standing to challenge classification and use of downed animals***

The United States District Court for the Southern District of New York has dismissed an action in which the plaintiffs sought a declaratory judgment that would have required the USDA to classify all downed animals as “adulterated” pursuant to federal law and an injunction that would have prevented the use of these animals for human consumption. *Farm Sanctuary, Inc. v. Baur*, 212 F.Supp.2d 280, 281 (S.D.N.Y. 2002). The court dismissed this action because the plaintiffs lacked standing. *See id.* at 283-85.

In 1998, Farm Sanctuary, Inc. (“Farm Sanctuary”), a non-profit organization that advocates for the humane treatment of animals, and Michael Baur (“Baur”), the plaintiffs, filed a petition with the Food and Drug Administration (“FDA”) and the United States Department of Agriculture (“USDA”) seeking to alter the current USDA classification of downed animals. *See id.* 281. They contended that downed animals, ones that cannot walk without assistance, should qualify as “adulterated” under 21 U.S.C. § 342(a) of the Federal Food, Drug, and Cosmetic Act (“FFDCA”), 21 U.S.C. §§ 301-396, and should not be used for human consumption. *See id.* They also argued that the brief inspection of downed cattle before slaughter increased the likelihood that the food supply would be exposed to Bovine Spongiform Encephalopathy (BSE), commonly called “mad cow disease,” as BSE is one of the illnesses that causes animals to collapse. *See id.* The petition further stated that “downed animals are often neglected and taken to slaughterhouses in an inhumane manner.” *Id.* at 282 (citing plaintiff’s Complaint ¶13).

The USDA denied the petition on the basis that the plaintiffs relied on the definition of “adulterated” contained in the Federal Meat Inspection Act (“FMIA”), 21 U.S.C. §§ 601-695, not the definition contained in the FFDCA. *See id.*

The plaintiffs subsequently brought the present action, and the USDA filed a motion to have it dismissed for lack of standing. *See id.* The USDA argued that the plaintiffs failed to identify an actionable claim as the USDA has no authority to interpret or enforce the FFDCA. *See id.* The USDA further argued that its decision to deny the petition was not arbitrary or capricious. *See id.* Because the district court held that the plaintiffs lacked standing, they did not address any other issue raised by the USDA. *See id.*

The court stated that to have standing to sue the federal government, a plaintiff must

*Cont. on p.2*

## ***Summary judgment motion filed by crop insurance agency denied***

The United States District Court for the Western District of Tennessee has denied a motion for summary judgment filed by a crop insurance agency because a genuine issue of material fact existed as to whether an employee for the insurance agency failed to procure a crop insurance policy for the plaintiff-farmers. *Campbell v. White & Associates Ins. Agency, Inc.*, 197 F.Supp.2d 1104, 1009-10 (W.D. Tenn. 2002).

Plaintiffs, Robert and Janette Campbell, operated several farming operations located throughout three counties in western Tennessee. *See id.* at 1106. The defendant, White & Associates, was an insurance company doing business in Dyersburg and Halls, Tennessee. *See id.* The defendant, Rain and Hail, LLC, had its home office in Iowa but conducted its insurance business in Tennessee by and through White & Associates. *See id.*

The Campbells obtained a crop insurance policy through White & Associates, as agent for Rain and Hail, to insure its crops planted in the 1999 crop year. *See id.* When they obtained this policy, they did not know the exact amount of acreage that would be planted on each of their farms located in each of three counties. *See id.* The plaintiffs claimed that when Robert Campbell communicated this fact to the agent, Bill Spiller, Spiller told them

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establish: "1) that is [sic] has suffered an injury in fact; 2) that the government's action caused that injury; and 3) that the remedy sought can redress the injury." *See id.* The court also stated that "the injury alleged must be, for example, distinct and palpable, and not abstract or conjectural or hypothetical." *Id.* (citing *Allen v. Wright*, 468 U.S. 737, 751, (1984)). Furthermore, the court employed the "zone of interests" test and required the plaintiffs to show that the law in question was intended to protect the plaintiff against the injury alleged. *See id.*

Although the court accepted the plaintiffs' contention that the imminent threat of injury is sufficient to grant standing, it did not recognize that Baur, as a meat-eater, faced an imminent threat of injury as a result of consuming BSE-contaminated meat. *See id.* at 283-84. Instead, it held "Baur's harm is more appropriately classified as hypothetical rather than imminent" because there is no evidence of BSE in the United States and, if it did arrive in the United States, it is highly unlikely that it would go undetected and later be consumed

by Baur. *Id.* at 283. The court concluded that the "mere fact that the plaintiffs want the federal government to pursue a particular regulatory action does not satisfy the standing requirement .... The USDA has not inflicted a cognizable injury on Baur; his proper recourse is to the legislative branch, not the judicial branch." *Id.*

The court next examined whether Farm Sanctuary had standing. *See id.* at 284. Farm Sanctuary argued that its members who inspect slaughterhouses suffered mental injury after observing the treatment of cattle. *See id.* The USDA did not dispute the fact that the Farm Sanctuary's members were injured. *See id.* Instead, they argued that the plaintiffs' injuries were outside the zone of interest protected by the FMIA. *See id.* The court agreed and held that "[t]he fact that Farm Sanctuary is acting on behalf of the common good does not mean that its injury is the harm that Congress intended to protect under the statute." *Id.* In addition, the court stated that "[i]f Farm Sanctuary's claim was held to be within the zone of interests protected by the FMIA, then any plaintiff claiming to sue in the

public interest would have standing, thus depriving the zone of interests test of its meaning." *Id.* at 285. The court concluded by stating that the purpose of the FMIA is to protect the food supply and not to regulate the humane treatment of animals. *See id.*

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CROP INSURANCE/*Continued from page 1*  
"to more or less not worry about it." *Id.* (quoting Dep. of Robert T. Campbell at p.14). The plaintiffs claimed that Spiller told them it was not necessary to have the acreage amounts at that time because he would collect that information from the Farm Service Agency ("FSA") files after Robert Campbell certified his acreage with the FSA by July 15<sup>th</sup>. *See id.*

Prior to the July 15<sup>th</sup> deadline, the plaintiffs certified the actual acreage planted on all of their farms except one, Farm No. 3310. *See id.* Robert Campbell told the FSA agent that he did not yet know what the actual acreage was for Farm No. 3310. *See id.* Campbell signed a form showing that he had certified Farm No. 3310, and that "it was understood that the FSA would fill in the acreage after the measurement was performed." *Id.* (citing Dep. of Robert T. Campbell at p. 12). The measurement of planted acreage for Farm No. 3310 was recorded with the FSA on November 3, 1999. *See id.* at 1107.

Robert Campbell testified that he knew he was required to report his planted acreage by a certain date, but that he did not know that the information had to be reported to other parties. *See id.* He also testified that his understanding was that "if he reported the information to the FSA office, the insurance company would in turn obtain the information from the agency." *Id.* (citing Dep. of Robert T. Campbell at p. 11). He admitted that there was no way a person—including the insurance agent—could have discovered on July 15, 1999, the amount of acreage planted on

Farm No. 3310. *See id.*

The plaintiffs submitted crop loss claims for several of their farms, including Farm No. 3310. *See id.* The insurance company paid or gave credit for the all of the plaintiffs' loss claims except for those losses derived from crops planted on Farm No. 3310. *Id.* An adjuster from Rain and Hail informed the plaintiffs that Farm No. 3310 was not covered by the insurance policy. *See id.* Campbell testified that he "was not aware there was a problem with the insurance on Farm No. 3310 until he was informed by an adjuster for Rain and Hail that that particular farm was not covered under the policy." *Id.*

The plaintiffs claimed that, after this conversation with the adjuster from Rain and Hail, Robert Campbell contacted Spiller about the matter and was assured that "this wasn't a problem; that this could be corrected. Nothing to worry about." *Id.* (quoting Dep. of Robert T. Campbell at pp. 25-26).

Rain and Hail denied the loss claim for Farm No. 3310 because the number of acres planted was not reported in a timely fashion. *See id.* The plaintiffs brought an action against the defendants alleging "negligence and/or breach of contract." *Id.* The plaintiffs asserted that White & Associates "offered to obtain relevant information concerning plaintiff's operations and, based upon that information, procure insurance to cover any loss sustained by the plaintiffs in 1999." *Id.* The plaintiffs also asserted that the insurance agency's failure to obtain

*Cont. on p. 3*

*Crop insurance/Cont. from p. 2*

information with respect to Farm No. 3310 “resulted in a loss that would have been covered by insurance had the applications been correct.” *Id.*

This ensuing lawsuit centered on White and Associates’ argument that it was not liable to the plaintiffs pursuant to Tenn. Code Ann. § 56-6-147 (2000 Repl.) because it was “only acting on behalf of its principal, Rain and Hail.” *Id.* at 1107. Tenn. Code Ann. § 56-6-147 provides that:

Every insurance agent or limited insurance representative who solicits or negotiates an application for insurance of any kind shall, in any controversy arising from the application for insurance or any policy issued in connection therewith between the insured or insured’s beneficiary and the insurer, be regarded as the agent of the insurer and not the insured or insured’s beneficiary. This provision shall not affect the apparent authority of an agent. *Id.* at 1107-08. (citing *Royal Surplus Lines, Ins. v. Sofomor Danek Group*, 190 F.R.D. 463, 470 (W.D. Tenn. 1990) (observing that this statute “was intended to protect consumers by binding insurance companies to the representatives of local, sometimes unethical, solicitors”)).

The district court explained that Tennessee courts adhered to the general rule that “an agent or broker of insurance who, with

a view to compensation for his services, undertakes to procure insurance for another, and unjustifiably and through his fault or neglect, fails to do so, will be held liable for any damage resulting therefrom.” *Id.* at 1108 (quoting *Massengale v. Hicks*, 639 S.W.2d 659, 660 (Tenn. Ct. App. 1982) (citing *Wood v. Norman, Hayes & Dixon Ins. Agency*, 905 S.W.2d 559 (Tenn. 1995) (stating that “[i]t is well established that an insurance agent employed to maintain insurance coverage for a client may be held liable on a negligence theory if the agent fails to use reasonable care and diligence in continuing the insurance, either by obtaining a renewal or replacement policy or by properly maintaining an existing policy”) and *Magnavox Co. v. Boles & Hite Constr. Co.*, 585 S.W.2d 622, 627 (Tenn. Ct. App. 1979) (noting that “when [agent] undertook to provide [insured] with complete liability coverage he had a duty to ascertain the required coverages”)). *Id.*

The court rejected White and Associate’s argument that “this is not a lawsuit in which cases for negligent failure to procure insurance are applicable because there was a policy in full force and effect at the time of the loss upon which the suit was based.” *Id.* The court stated it, “regretfully, does not follow defendant’s logic. While there certainly was a crop insurance policy in effect, there was no coverage for Farm No. 3310.” *Id.* The court added that “[t]his lack of coverage was ... the result of the agency’s

failure to procure insurance covering the parcel as plaintiffs intended.” *Id.*

The court stated that “[i]n sum, and upon review of the applicable Tennessee law, the court does not agree with White & Associates that it cannot, as a matter of law, remain as a defendant in this lawsuit.” *Id.* at 1109. The court added that “[i]t is further the opinion of the court that, viewing the evidence in the light most favorable to the plaintiff, a finder of fact could conclude that Spiller did in fact agree to procure crop insurance for Campbell to cover all of his fields, including that designated as Farm No. 3310.” *Id.* at 1109-10. Thus, the court concluded that summary judgment was not appropriate. *See id.* at 1110.

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*Saved beans/Cont. from p. 7*

ments required of farmers choosing to purchase Roundup ready seed. *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*17 (Fed. Cir. 2002).

<sup>38</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 866 (W.D. Tenn. 2001).

<sup>39</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*16 (Fed. Cir. 2002).

<sup>40</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*16 (Fed. Cir. 2002).

<sup>41</sup> 15 U.S.C.A. §2 (West 1997).

<sup>42</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 861 (W.D. Tenn. 2001), citing *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 596 n. 19, 86 L. Ed. 2d 467, 105 S. Ct. 2847 (1985).

<sup>43</sup> The court noted that seed companies owned by Monsanto had between 20% and 30% of the U.S. soybean seed sales; it also noted that Roundup Ready beans were planted on about 67% of the U.S. soybean acreage in the 2000 growing season, but the seed for these acres were sold by Monsanto’s seed companies and competing seed companies to whom Monsanto had licensed its Roundup Ready technology. *See Monsanto v. Trantham*, 156 F.

Supp. 2d 855, 863-64 (W.D. Tenn. 2001).

<sup>44</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 864 (W.D. Tenn. 2001). Monsanto’s motions to dismiss counterclaims for attempted monopolization and conspiracy to monopolize were also granted. *Id.* at 865.

<sup>45</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*15 (Fed. Cir. 2002). The quoted language is from *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1354, (Fed. Cir. 1991).

<sup>46</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*19 (Fed. Cir. 2002).

<sup>47</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 866 at n. 5 (W.D. Tenn. 2001).

<sup>48</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 859 at n. 2 (W.D. Tenn. 2001).

<sup>49</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 871 (W.D. Tenn. 2001). Mr. Trantham also argued that Monsanto granted him an implied license to use the Roundup Ready beans when the dealer forged his signature. The court observed that (1) Mr. Trantham had admitted being told by the seed dealer that the technology agreement had to be signed before the seed could be used, and (2) the bags of seed

purchased by Mr. Trantham stated that a separate licensing agreement must be obtained before the seeds could be used in any way. The court concluded that the grant of an implied license to use the seeds should not be inferred. *Id.* at 870.

<sup>50</sup> 35 U.S.C. A. §271 (West 2001). Also, if Farmer B sold his beans to Farmer A (who would later plant them), Farmer B has violated his own technology agreement with Monsanto, even if Farmer A has not.

<sup>51</sup> Daniel Charles, *Lords of the Harvest* 187 (2001).

<sup>52</sup> *See* Daniel Charles, *Lords of the Harvest* 190 (2001).

<sup>53</sup> 156 F. Supp. 2d 855 (W.D. Tenn. 2001).

<sup>54</sup> 302 F.3d 1291, 2002 U.S. App. LEXIS 17588 (Fed. Cir. 2002).

<sup>55</sup> *See* Pew Initiative on Food and Biotechnology, *Harvest on the Horizon: Future Uses of Agricultural Biotechnology* (2001), available at <http://pewagbiotech.org/research/harvest/> (visited October 15, 2002).

<sup>56</sup> *See* Jay P. Kesan, *Intellectual Property Protection and Agricultural Biotechnology: A Multidisciplinary Perspective*, 44 *American Behavioral Scientist* 464, 487-492 (2000) (discussing economic and philosophical rationales for intellectual property protection).

# Can farmers save Roundup Ready® beans for seed? McFarling and Trantham cases say “no”

By Donald L. Uchtmann\*

Can farmers save Roundup Ready® beans<sup>1</sup> for seed without being liable for patent infringement or breach of contract? The answer was “No” in *Monsanto v. McFarling*,<sup>2</sup> decided August 23, 2002, by the U.S. Court of Appeals for the Federal Circuit, and *Monsanto v. Trantham*,<sup>3</sup> a federal district court case decided in 2001.

Why does it matter? If farmers saved seeds from their harvest of Roundup Ready® soybeans and planted those seeds the next year, the farmers could (a) avoid paying the technology fee (e.g., \$6.50 per bag of purchased seed), and (b) produce a new crop comparable to one grown from purchased seeds.<sup>4</sup> Understandably, many farmers would like to save Roundup Ready® seed, if they could do so without liability for patent infringement or breach of contract. To counter this desire, Monsanto relies on legal barriers to saving seed. It justifies its enforcement actions by noting that the development of genetically engineered seeds, like Roundup Ready® seeds, takes millions of dollars. If a company is to recover its research and development costs, it must prevent the new technology from becoming a free good (via saving seed) after just one planting season.<sup>5</sup>

This article (a) discusses two legal barriers to saving seed, i.e., utility patents and restrictive contract language, (b) summarizes *McFarling* and *Trantham*, and (c) reviews the primary arguments of the farmer-defendants in attempting to justify saving seed. The article concludes that U.S. farmers may dislike these legal barriers to saving Roundup Ready® beans for seed, but the legal barriers are being upheld by federal courts.

## Key legal barriers to saving seed

### Utility patents

A utility patent provides the right to exclude others from making, selling, or using within the United States the patented invention for twenty years from the date the utility patent application was filed.<sup>6</sup> Can utility patents be issued for novel life forms? In the 1980 case of *Diamond v. Chakrabarty*<sup>7</sup> the U.S. Supreme Court specifically held that a utility patent could be issued for a man-made, oil-eating mi-

croorganism. In a broader sense, the court declared that utility patents could be issued for life forms from nature \*\* (i.e., “products of nature”) if they are in some way altered by human hands.

What about plants? In *J.E.M. Ag Supply v. Pioneer Hi-Bred International, Inc.*,<sup>8</sup> decided by the U.S. Supreme Court in December 2001, the petitioner argued that utility patents could not be issued for plants because the Plant Variety Protection Act<sup>9</sup> (for sexually reproducing plants like corn and soybeans) and the Plant Patent Act<sup>10</sup> (for plants reproducing asexually, e.g., through grafting) were the *exclusive* federal statutory tools for acquiring patent-like protection for plants. The Supreme Court disagreed and held that utility patents could be issued for plants.<sup>11</sup> For corn or soybeans, the ruling is significant because utility patents provide more extensive coverage and greater protection to the inventor than the Plant Variety Protection Act.<sup>12</sup>

Monsanto’s utility patents cover the glyphosate-tolerant plants (Roundup Ready® plants), the genetically modified seeds for such plants, the specific modified genes, and the method of producing the genetically modified plants.<sup>13</sup> Using or selling Roundup Ready® soybeans, seeds, or genes within the territorial boundaries of the United States without authority from Monsanto is an infringement of Monsanto’s patent rights. The infringement may be enjoined; also, the infringer is liable for not less than a reasonable royalty for use of the technology (or possibly three times the compensatory award, e.g., where the infringement was willful) and, in some cases, for reasonable attorney fees.<sup>15</sup>

### Contract provisions

A “no saved seed” clause is common in the agreements (licenses) that farmers must sign as a condition for using Roundup Ready® seeds. For example, a 1998 Technology Agreement for Roundup Ready® soybean seeds required that the seeds be used “for planting a commercial crop only in a single season,” and directed the licensee-grower not to “save any crop produced from this seed for replanting, or supply saved seeds to anyone for replanting.”<sup>15</sup> Such agreements create contractual barriers to saving seed and may set forth how damage for breach of the “no saved seed” provision is to be calculated.

The legal barriers to saving seed clash with earlier practices where farmers saved,

cleaned, and then planted or sold their saved soybean seeds the following year. The earlier practices probably made sense before the age of genetic engineering, but these practices are arguably not compatible with the need to give companies an incentive to invest in seed improvements using the powerful tools of genetic engineering. Acceptance of this cultural change in agriculture has not come easily throughout the American heartland.<sup>16</sup> Most instances of breach of contract or patent infringement have undoubtedly been settled out of court,<sup>17</sup> but a few have resulted in litigation.

## Recent federal cases where farmers saved Roundup Ready® beans for seed

*Monsanto v. Trantham*<sup>18</sup> and *Monsanto v. McFarling*<sup>19</sup> are recent federal court cases where farmers saved Roundup Ready® beans for planting, were sued by Monsanto for patent infringement or breach of contract, and were not successful in challenging the legal barriers to saving Roundup Ready® beans for seed.<sup>20</sup>

In *Trantham*, a Tennessee farmer allegedly saved and planted both Roundup Ready® soybeans and Roundup Ready® cottonseed. The defendant farmer had purchased and planted the Roundup Ready® soybean seeds in 1999, but did not sign Monsanto’s technology agreement (instead, the local dealer apparently forged the farmer’s signature). The farmer then harvested the 1999 crop, allegedly saved seeds from the harvest, and allegedly used them to plant his 2000 crop. Monsanto sued for patent infringement, since Monsanto had not granted the defendant a license to use the technology. Mr. Trantham filed counterclaims of monopolization, attempted monopolization, conspiracy to monopolize, and unreasonable restraint of trade. The U.S. District Court granted Monsanto’s motion for summary judgment on these counterclaims.<sup>21</sup>

Regarding Monsanto’s patent infringement claim, the court granted Monsanto’s motion for expedited discovery, which allowed Monsanto to enter Defendant’s land and collect samples of his crops for testing. Tests performed on the soybean samples demonstrated that Monsanto’s patented gene constructs were in 100% of the samples from eleven fields. The evidence clearly established that Defendant was using Monsanto’s patented seed technology in his soybean and cotton fields. The district court granted summary judgment.

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ment for Monsanto on its patent infringement claims; the only remaining issue was damages.<sup>22</sup>

In *Monsanto v. McFarling*,<sup>23</sup> decided August 23, the defendant, a Mississippi farmer, purchased and planted Roundup Ready® soybeans in 1997 and 1998. Mr. McFarling signed Monsanto's technology agreement that (a) limited use of the seeds to "planting a commercial crop only in a single season," (b) directed the licensee-grower not to "save any crop produced from this seed for replanting, or supply saved seeds to anyone for replanting," and (c) provided for liquidated damages of 120 times the applicable technology fee. The farmer saved some Roundup Ready® beans from his first harvest and planted them the next season; he repeated this the second year; he stated he intended to save seed from his 2000 harvest and plant them in 2001, unless enjoined by the court.<sup>24</sup>

Monsanto filed suit in the U.S. District Court for the Eastern District of Missouri, alleged patent infringement and breach of contract, and requested a preliminary injunction. The district court granted the preliminary injunction. Defendant appealed arguing, *inter alia*, that Monsanto's technology agreements were an illegal restraint on trade and that the patents were unenforceable. The U.S. Court of Appeals for the Federal Circuit affirmed the district court's grant of the preliminary injunction.<sup>25</sup>

Mr. McFarling also challenged the forum selection clause of the technology agreement. Under this clause, the parties consented to the exclusive jurisdiction of the U.S. District Court for the Eastern District of Missouri, Eastern Division, and the Circuit Court for the County of St. Louis, State of Missouri, for all disputes arising under the agreement. The District Court held that the forum selection clause was valid and enforceable. The U.S. Court of Appeals agreed, but there was a vigorous dissent.<sup>26</sup> Further discussion of the forum selection clause is beyond the scope of this article although it was a key issue before the U.S. Court of Appeals for the Federal Circuit.

Read together, *Trantham* and *McFarling* identify a set of issues and arguments that attempt to justify saving seed, notwithstanding the apparent legal barriers. None of these arguments succeeded in court. These issues and arguments, plus an additional strategy that some farmers are apparently considering, are discussed below.

### **Issues in *Trantham* and *McFarling* and arguments attempting to justify saving seed**

*Does the Plant Variety Protection Act allow*

*farmers to save Roundup Ready® seed, even though Monsanto has utility patent protection?*

The Plant Variety Protection Act (PVPA),<sup>27</sup> one tool for protecting intellectual property in plants, contains a "farmer's saved seed" exemption that gives farmers a limited right to save seed from plants registered under the PVPA.<sup>28</sup> Mr. McFarling argued that Monsanto's prohibitions on saving Roundup Ready® beans violated the farmer's saved seed exemption of the PVPA, since he saved beans only for his own use the following season as allowed by the PVPA.<sup>29</sup>

The U.S. Court of Appeals disagreed. It concluded that the right to save seed from plants registered under the PVPA does not impart the right to save seed from plants and technologies patented under the Patent Act:

Utility patents ... provide rights and privileges that differ from those provided by Plant Variety Protection certificates. In *J.E.M. Ag Supply*, 534 U.S. 124, ... the [U.S. Supreme] Court ... observed that one of the differences ... is that "there are no exemptions for ... saving seed under a utility patent."<sup>30</sup>

*Do the doctrines of patent exhaustion and first sale prevent Monsanto from enforcing its restrictive agreements and patent rights in Roundup Ready® beans?*

Under the doctrines of patent exhaustion and first sale, a patentee's control over the use of a patented device is exhausted by the sale of the device, and no further restriction can be placed by the patentee on the buyer's use of that device.<sup>31</sup> Both Mr. Trantham and Mr. McFarling argued that once the patented seeds were sold to the farmers, Monsanto's patent rights on the purchased Roundup Ready® seeds and their offspring were exhausted.

In *Trantham*, the District Court noted that the doctrine does not apply to an expressly conditional sale or license. In such a transaction, the parties have negotiated a price that reflects only the value of the "use" rights conferred by the patentee.<sup>32</sup> The court also noted that the transfer of Monsanto's patented gene technology to Mr. Trantham was expressly conditioned on the signing of the licensing agreement that prohibited the saving of seed and restricted use of the seed to a single growing season. The court concluded that the doctrine of exhaustion did not bar Monsanto's suit against Mr. Trantham for patent infringement.<sup>33</sup> In *McFarling*, the U.S. Court of Appeals applied similar reasoning.<sup>34</sup> The doctrines of patent exhaustion and first sale do not prevent Monsanto from enforcing its restrictive agreements

and patent rights in Roundup Ready® beans.

*Is Monsanto's agreement with all seed dealers, requiring any customer buying Roundup Ready® seeds to sign a technology agreement that prohibits saving seed, an unreasonable restraint of trade under the Sherman Act?*

Under Section 1 of the Sherman Act "[e]very contract ... in restraint of trade or commerce ... is hereby declared illegal."<sup>35</sup> Courts construe this section to preclude only contracts or combinations which "unreasonably" restrain competition.<sup>36</sup> Both Mr. McFarling and Mr. Trantham argued that the licensing agreements between Monsanto and seed companies, all of which require farmers purchasing Roundup Ready® seeds to sign agreements prohibiting farmers from saving seed, are unreasonable restraints on trade in violation of Section 1.<sup>37</sup> In *Trantham*, the court concluded that such arguments, without evidence of anticompetitive behavior, will not support a claim for unreasonable restraint of trade.<sup>38</sup> In *McFarling* the appellate court agreed that Mr. McFarling was unlikely to succeed on his claims under the Sherman Act.<sup>39</sup>

Mr. McFarling also argued that the agreements preventing farmers from saving seed created an illegal tying arrangement under Section 1: the agreements required farmers to buy new Roundup Ready® seeds each year instead of allowing farmers to produce their own seeds from the prior crop. Under this reasoning, the tied product is future Roundup Ready® seed, while the tying product is the originally purchased Roundup Ready® seed. The District Court noted that Mr. McFarling was not required to buy Roundup Ready® seeds the following year; instead, he could buy non-Roundup Ready® seeds from any seed company if he were willing to forego the grower benefits of Roundup Ready® beans. The U.S. Court of Appeals agreed, noting that the record did not support the theory that farmers were required to buy future patented seeds from Monsanto in order to buy present patented seeds.<sup>40</sup>

*Is Monsanto guilty of monopolization, attempted monopolization, or conspiracy to monopolize in violation of the Sherman Act, thus barring Monsanto's suit for patent infringement?*

Under Section 2 of the Sherman Act, "[a]ny person who shall monopolize ... any part of the trade or commerce among the several states shall be deemed guilty of a felony ...."<sup>41</sup> To sustain allegations of monopolization, a plaintiff must prove both prongs of the two-pronged test for

*Cont. on p.6*

monopoly: (a) defendant's "possession of monopoly power in the relevant market," and (b) defendant's "willful acquisition or maintenance of monopoly power as distinguished from growth or development as a consequence of a superior product (emphasis added), business acumen, or historic accident."<sup>42</sup>

In *Trantham*, the court found that Monsanto's share of the U.S. soybean seed market was 20% to 30%<sup>43</sup> and that this share did not represent possession of monopoly power in a relevant market. The court also found that the remarkable growth in Roundup Ready® seed sales apparently resulted from the perception that such seeds were a superior product. Since neither prong of the test for monopolization had been met, the court granted Monsanto's motion to dismiss the monopolization counterclaim.<sup>44</sup>

In *McFarling*, the U.S. Appellate Court noted the interplay of patent protection and the concept of monopoly. A buyer's desire to purchase a superior product does not require benevolent behavior by the seller of the superior product. Nor does an inventor violate the antitrust laws merely because its patented technology is preferred by consumers. "The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist."<sup>45</sup>

*Does the high price charged for Roundup Ready® soybean seeds, especially when compared to the price Monsanto charges for such seeds in Argentina, bar Monsanto from suing for patent infringement?*

Mr. McFarling complained that the price charged for Roundup Ready® seeds is high compared to non-Roundup Ready® seeds. This complaint did not further the anti-trust arguments, according to the U.S. Court of Appeals. The court noted that "in a market economy ... there is no requirement that a patentee must lower his price to that of the less desired products he replaces."<sup>46</sup>

Mr. Trantham argued that Monsanto engaged in anticompetitive behavior that hurt U.S. farmers, namely, selling its Roundup Ready® beans in Argentina at lower prices and not requiring Argentine farmers to sign restrictive licensing agreements. The court noted that Monsanto was not able to secure a patent on the Roundup Ready® technology in soybeans, due to changes in the Argentine patent law. Monsanto, therefore, had to sell Roundup Ready® seeds in Argentina like conventional soybean seeds. The fact that Monsanto requires license terms in the U.S. where it has a patent, while not requiring the same terms in countries where

it does not have a patent, is not anticompetitive behavior.<sup>47</sup>

*If a seed dealer has forged the farmer's signature on the technology agreement, does the doctrine of unclean hands bar Monsanto from suing for patent infringement?*

In *Trantham*, the seed dealer apparently signed Mr. Trantham's name on the technology agreement.<sup>48</sup> Mr. Trantham argued that Monsanto's claims of patent infringement were barred by the doctrine of unclean hands because the seed dealer, Monsanto's agent in selling Roundup Ready® seeds, forged Mr. Trantham's name on the technology agreement. The court noted that the cases cited by Mr. Trantham would only bar Monsanto from suing to enforce the terms of its technology agreement, but would not bar Monsanto from suing for patent infringement.<sup>49</sup>

*If farmers sell their Roundup Ready® crop and then acquire beans harvested by another, do they circumvent the prohibition on planting saved seed, thereby avoiding liability?*

This strategy was not argued in *Trantham* or *McFarling* but came to the author's attention this summer. It exemplifies the creativity of some farmers in searching for seemingly lawful ways to circumvent a legal prohibition they do not like. However, the strategy to plant seeds saved by another is flawed because the second legal barrier to saving seeds—the protection of the utility patent—would still exist. The farmer would violate Monsanto's utility patent protection anytime the farmer planted Roundup Ready® beans without authorization from Monsanto. Both the farmer planting the seeds and the party selling the beans to be used for seed would infringe on Monsanto's patent by "making, selling, or using ... within the United States" the genetic material protected by a utility patent, and both could be liable for damages.<sup>50</sup>

*Is such a farmer likely to get caught?*

Monsanto appears committed to protecting its investment in Roundup Ready® beans, so a farmer saving seed or planting beans saved by another might very well get caught. According to author Dan Charles, Monsanto has published a toll free number to report "seed piracy" (1-800 ROUNDUP), received over 1500 tips through 1999, investigated some 500, and threatened legal proceedings against 65 farmers.<sup>51</sup> Furthermore, grower agreements concerning Roundup Ready® beans contain language authorizing Monsanto to review Farm Service Agency crop reporting information and dealer/retailer invoices for seed and chemical transac-

tions; this enhances Monsanto's ability to identify unauthorized saved seed. Finally, farmers who are complying with the "no saved seed rules" would be at a competitive disadvantage if other farmers could save seed with impunity; the former may report fields suspected of being planted with saved seeds because they believe aggressive enforcement of the legal barriers to saving seed is the only way to keep the "playing field" level.<sup>52</sup>

## Summary and conclusion

Two important legal barriers to saving seed from a Roundup Ready® bean crop are (a) the intellectual property protection secured by Monsanto when it acquired utility patents for Roundup Ready® technology, and (b) the contract provisions (licensing agreements) signed by farmers as a condition of acquiring Roundup Ready® seeds.

Two recent cases, *Monsanto v. Trantham*<sup>53</sup> and *Monsanto v. McFarling*,<sup>54</sup> both decided in favor of Monsanto, involved farmers who were caught using saved seeds. The defendant farmers raised various issues and advanced numerous arguments to justify saving seed. In considering these issues and arguments, the courts concluded, at least as to Mr. Trantham or Mr. McFarling:

- The right to save seed from plants registered under the Plant Variety Protection Act *does not* convey to farmers the right to save seed from plants, like Roundup Ready® soybeans, that contain technologies patented under the Patent Act.

- The doctrines of patent exhaustion and first sale *do not* prevent Monsanto from enforcing its restrictive agreements and patent rights in Roundup Ready® beans.

- Monsanto's agreement with all seed dealers, that anyone buying Roundup Ready® seeds must sign a technology agreement that prohibits saving seed, *is not* an unreasonable restraint of trade under the Sherman Act.

- Allegations that Monsanto is guilty of monopolization, attempted monopolization, or conspiracy to monopolize in violation of the Sherman Act, *are not* supported by the evidence.

- Monsanto *is not* precluded, because the price of Roundup Ready® soybean seeds is high (especially when compared to the price charged in Argentina), from enforcing its patent rights against U.S. farmers who saved seed.

- Where a seed dealer has forged the farmer's signature on the technology agreement and this farmer saves seeds, the doctrine of unclean hands *does not* bar Monsanto from suing for patent infringement (but Monsanto could be barred from

enforcing other terms of the technology agreement).

Another creative strategy would have a farmer sell his Roundup Ready® crop and then buy beans harvested by another. This strategy is clearly flawed because farmers planting the beans, and their suppliers, could still be liable for patent infringement.

Although farmers may dislike the legal barriers to saving Roundup Ready® beans for seed, the barriers have been upheld by federal courts when challenged by farmers who were caught saving beans for seed. It appears unlikely that farmers who disregard the legal barriers to saving seed, or who plant Roundup Ready® beans acquired from another without authorization from Monsanto, can successfully defend such conduct in court, absent new developments in the law.

At first blush, this appears to be bad news for an individual farmer. However, if effective legal barriers to saving seed are truly a necessary condition for the development of new soybean seed technologies, then the presence of legal barriers to saving seed may actually be good news for U.S. farmers generally. The law anticipates that innovative seed technologies will create useful benefits for U.S. farmers, consumers, and society at large.<sup>55</sup> This is the *quid pro quo* for the profits earned by innovating companies and the justification for the legal protections afforded intellectual property.<sup>56</sup>

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<sup>1</sup> Roundup Ready® soybeans have been genetically engineered to tolerate glyphosate herbicides like Roundup®. These popular herbicides are effective in controlling weeds in Roundup Ready crops and are relatively inexpensive, environmentally benign, and easy to manage when compared to other herbicides.

<sup>2</sup> 302 F.3d 1291, 2002 U.S. App. LEXIS 17588 (Fed. Cir. 2002).

<sup>3</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855 (W.D. Tenn. 2001).

<sup>4</sup> Seeds saved from a soybean crop perform well. Contrast hybrid seed corn, where the seeds saved from harvest do not perform well because the new corn

plants lack hybrid vigor.

<sup>5</sup> See Daniel Charles, *Lords of the Harvest* 187, 190 (2001); see also Jay P. Kesan, *Intellectual Property Protection and Agricultural Biotechnology: A Multidisciplinary Perspective*, 44 *American Behavioral Scientist* 487-502 (2000).

<sup>6</sup> 35 U.S.C.A. §271 (West 2001).

<sup>7</sup> 447 U.S. 303 (1980).

<sup>8</sup> 534 U.S. 124 (2001).

<sup>9</sup> 7 U.S.C.A. §2321 (West 1999).

<sup>10</sup> 35 U.S.C.A. §161 (West 2001).

<sup>11</sup> *J.E.M. Ag Supply v. Pioneer Hi-Bred International, Inc.*, 534 U.S. 124, 145 (2001); Anne Hazlett, *Supreme Court holds utility patents may be issued for plants*, *Ag. Law Update*, 19:2, p. 4-6 (Jan. 2002); see also Mark D. Janis and Jay P. Kesan, *Intellectual property protection for plant innovation: Unresolved issues after J.E.M. v. Pioneer*, 20 *Nature Biotechnology* 1161 (November 2002).

<sup>12</sup> Various tools for protecting intellectual property in plants are discussed more fully in Jay P. Kesan, *Intellectual Property Protection and Agricultural Biotechnology: A Multidisciplinary Perspective*, 44 *American Behavioral Scientist* 464, 486-87 (2000). See also Debra L. Blair, Note, *Intellectual Property Protection and its Impact on the U.S. Seed Industry*, 4 *Drake J. of Ag Law* 297, 315-19 (1999).

<sup>13</sup> *E.g.*, United States Patent No. 5,633,435 (available at <http://www.uspto.gov/patft/index.html>); see *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*2 (Fed. Cir. 2002).

<sup>14</sup> 35 U.S.C.A. §§283-285 (West 2001). A reasonable royalty for saved Roundup Ready seeds may be \$6.50 per bag, but an award for reasonable attorney fees could be much more.

<sup>15</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*3 (Fed. Cir. 2002).

<sup>16</sup> See Daniel Charles, *Lords of the Harvest* 185-187 (2001).

<sup>17</sup> See Monsanto, "Monsanto Releases Seed Piracy Case Settlement Details" (News Release of November 13, 1998), available at <http://csf.colorado.edu/archive/1998/nefood/msg00265.html>. Also see a September 13, 2002 news story by Andrew Burchett titled *Monsanto Wins Again* available at [http://www.agweb.com/news\\_show\\_news\\_article.asp?articleID=91436&newscat=GN](http://www.agweb.com/news_show_news_article.asp?articleID=91436&newscat=GN). Burchett suggests that Monsanto has, at any given time, about thirty outstanding lawsuits against U.S. growers who have allegedly saved seed with Monsanto's biotech traits; most cases involve Roundup Ready soybeans and are settled out of court.

<sup>18</sup> 156 F. Supp. 2d 855 (W.D. Tenn. 2001).

<sup>19</sup> 302 F.3d 1291, 2002 U.S. App. LEXIS 17588 (Fed. Cir. 2002).

<sup>20</sup> These were the only federal cases identified through a LexisNexis™ search using the search terms "patents" OR "contracts" and "Roundup Ready," limiting the search to the past two years, and choosing only cases where a farmer was a party. For information about a few older U.S. cases, see *Massey v. Monsanto*, 2000 U.S. Dist. Lexis 11305 (N.D. Miss. 2000). Perhaps the most famous case involving Roundup Ready technology was *Monsanto Canada, Inc. v. Percy Schmeiser*, 12 CPR (4th) 204 (2001). This case, a Canadian case involving canola and also decided in favor of Monsanto, is beyond the scope of this article. The *Schmeiser* case is available at <http://decisions.fct-cf.gc.ca/fct/2001/2001fct256.html> (visited October 10, 2002). The case was affirmed September 4, 2002 (2002 FCA 309).

<sup>21</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 864-65 (W.D. Tenn. 2001).

<sup>22</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 868, 872 (W.D. Tenn. 2001).

<sup>23</sup> 302 F.3d 1291, 2002 U.S. App. LEXIS 17588 (Fed. Cir., 2002).

<sup>24</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*3 (Fed. Cir., 2002).

<sup>25</sup> *Monsanto v. McFarling*, 302 F.3d 1291, 2002 U.S. App. LEXIS 17588 (Fed. Cir. 2002).

<sup>26</sup> The dissent was premised on Judge Clevenger's view that Monsanto's technology agreement might be a contract of adhesion. See *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*20-41 (Fed. Cir. 2002).

<sup>27</sup> 7 U.S.C.A. §2321 (West 1999).

<sup>28</sup> 7 U.S.C.A. §2543 (West 1999).

<sup>29</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*18 (Fed. Cir., 2002).

<sup>30</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*18 (Fed. Cir., 2002).

<sup>31</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 869 (W.D. Tenn. 2001).

<sup>32</sup> See *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 870 (W.D. Tenn. 2001).

<sup>33</sup> *Monsanto v. Trantham*, 156 F. Supp. 2d 855, 870 (W.D. Tenn. 2001).

<sup>34</sup> *Monsanto v. McFarling*, 302 F.3d 1291, \_\_\_, 2002 U.S. App. LEXIS 17588, at \*18 (Fed. Cir. 2002).

<sup>35</sup> 15 U.S.C.A. §1 (West 1997).

<sup>36</sup> *E.g.*, *Northern Pacific Railway Co., et al. v. United States*, 356 U.S. 1, 5 (1958).

<sup>37</sup> McFarling argued that the licensing agreements were illegal because they were an agreement between competitors to fix the material terms of a sale. Monsanto explained that the seed companies licensed by Monsanto to produce and sell Roundup Ready soybean seed do not control the terms of the Technology Agree-

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