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SMU Law Review

Volume 60 | Issue 1 Article 11

January 2007

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Brett Aaron Mangrum

PATENT MISUSE—A QUESTIONABLE PERMISSION OF LICENSING ARRANGMENTS THAT TIE DOWN THE EQUITABLE SCALES

*Brett Aaron Mangrum**

IN *Monsanto Co. v. Scruggs*,[1] the United States Court of Appeals for the Federal Circuit recently rejected the argument that the use of a pure monopoly to tie the purchase of patented seeds to the sale of a particular herbicide constituted patent misuse. In affirming summary judgment rulings in favor of plaintiff patentee, the Federal Circuit inadequately addressed equitable doctrines, previously emphasized by the Supreme Court and the Federal Circuit itself, that are intended to prevent a patentee from impermissibly extending the scope or term of a patent beyond its statutory grant.[2] Additionally, the outcome of the *Monsanto* decision undermined the rationale of the patent system by encouraging licensing techniques that potentially *inhibit* rather than "*promote* the Progress of . . . the useful Arts" through innovation.[3]

Monsanto Co. ("Monsanto") owned patents related to the genetic treatment of plants resistant to insects and glyphosate herbicides.[4] Monsanto used these patents to commercially develop soybeans and cotton resistant to glyphosate herbicides, known as Roundup Ready ® soybeans and cotton.[5] According to the facts alleged by several defendant farmers (collectively "Scruggs"), Monsanto's effective market share of the herbicide tolerant trait soybean and cotton markets had long exceeded ninety percent.[6] Monsanto also sold Roundup, one of the glyphosate herbicides to which the Roundup Ready® plants were resistant.[7] In 1996 Monsanto began licensing its biotechnology with several restrictions, including pro-

* J.D. Candidate 2008, SMU Dedman School of Law.

1. Monsanto Co. v. Scruggs, 459 F.3d 1328, 1340-41 (Fed. Cir. 2006).

2. *See, e.g.*, Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281, 1286 (2006) (citing Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488, 494 (1942) and Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 516 (1917); *see also* Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 664-65 (Fed. Cir. 1986) (using a simple three-step test for illegal tying).

3. U.S. CONST. art. I, § 8, cl. 8 (emphasis added).

4. *Monsanto*, 459 F.3d at 1332.

5. *Id.* at 1133.

6. *See* Brief of Appellants Non-Confidential at 38-39, *Monsanto*, 459 F.3d 1328 (No. 04-1532, 05-1120, 05-1121).

7. *Monsanto*, 459 F.3d at 1333.

scribing the use of second-generation seeds produced by a licensed crop ("exclusivity provision").[8] Of particular significance to the tying issue, the licenses initiated between 1996 and 1998 further required growers to apply only Roundup brand herbicide if using a glyphosate-based herbicide ("Roundup restriction").[9]

Scruggs purchased Roundup Ready® soybean and cotton seeds from seed companies without signing a licensing agreement.[10] Scruggs planted the purchased seeds and later retained seeds obtained from the harvest for subsequent plantings.[11] Monsanto filed suit for patent infringement, asserting Scruggs was not licensed to plant the harvested seeds.[12] Scruggs denied infringement and sought a declaration of invalidity for the patents at issue.[13] In addition, Scruggs answered with common law counterclaims, federal and state antitrust claims, and patent misuse affirmative defenses.[14] Scruggs specifically claimed that Monsanto had tied the purchase of patented seeds to the sale of Roundup herbicide through license restrictions, thereby misusing the relevant patents by illegally broadening their scope with anticompetitive effect.[15] Both Monsanto and Scruggs filed motions for summary judgment.[16]

The district court granted Monsanto's motions for summary judgment and issued a permanent injunction against Scruggs from further sale and use of seeds containing Monsanto's patented biotechnology.[17] On appeal, the Federal Circuit affirmed the summary judgments in favor of Monsanto, finding found that Scruggs had not obtained any legally cognizable license to use Monosanto's patented biotechnology.[18] The Federal Circuit also rejected Scrugg's affirmative defenses, including the alleged illegal tying.[19] However, the Federal Circuit vacated the permanent injunction as improperly granted and remanded the case on the issue of the injunction alone.[20]

In the context of tying arrangements, patent misuse is an equitable defense to infringement that proscribes using market power associated with

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8. *Id.*
9. *Id.* at 1339.
10. *Id.* at 1333.
11. *Id.*
12. *Id.*
13. *Id.*
14. *Id.*
15. *Id.* at 1333, 1340-41.
16. *Id.* at 1333.
17. *See id.* at 1133-34.
18. *See id.* at 1342.
19. *Id.* at 1340-41. The Federal Circuit also failed to address the fact that Monsanto's patents covered only genes while the alleged unlawful tying required purchase of seeds with the genes. *See* Corrected Brief of Amicus Curiae American Antitrust Institute in Support of Defendants-Appellants Supporting Reversal on Certain Issues at 20, *Monsanto*, 459 F.3d 1328 (Nos. 04-1532, 05-1120, 05-1121).
20. *Monsanto*, 459 F.3d at 1342 (holding that the district improperly applied the four part test for permanent injunctions in patent cases, as recently described in *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (U.S. 2006)).

patent rights[21] impermissibly to broaden the "physical or temporal scope" of the patent grant.[22] A successful patent misuse defense results in rendering the patent unenforceable until the misuse is purged.[23] In *Monsanto*, the Federal Circuit rejected Scruggs's trying arguments because Scruggs failed to show the Roundup restriction had an adverse effect on competition.[24] The majority essentially held that the Roundup restriction requiring Roundup Ready® seed growers to apply *only* Roundup brand herbicide if using glyphosate merely enforced then-existing EPA regulations.[25] The district court concluded, and the Federal Circuit agreed, that the tie had no anticompetitive effect because Roundup was the only EPA-approved glyphosate herbicide that could be used between 1996 and 1998.[26] Not only is this conclusion questionable, but its shaky foundation rides the controversial winds of doctrine introduced by the Federal Circuit in *Windsurfing International, Inc. v. AMF, Inc.*[27]

In *Windsurfing*, the Federal Circuit pulled out of thin air the additional "anticompetitive effect" requirement for a finding of patent misuse.[28] The Supreme Court has never required proof of an anticompetitive effect in the tied product for a finding of patent misuse and indeed, it has unequivocally explained that even if "control of the unpatented article or device falls short of a prohibited restraint of trade or monopoly, it will not be sanctioned."[29] Other Federal Appellate courts have appropriately followed this directive.[30] Even the Federal Circuit itself back-paddled from *Windsurfing* within nine months of its decision by affirming a patent misuse analysis that did not require proof of an anticompetitive effect.[31]

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21. *See* 35 U.S.C. § 271(d)(5) (2000); *see also infra* note 34.

22. *See* Blonder-Tongue Labs. v. Univ. of Ill. Found., 402 U.S. 313, 343 (1971); *see also* B. Braun Med. Inc. v. Abbott Labs., 124 F.3d 1419, 1426 (Fed. Cir. 1997) (quoting Windsurfing Int'l, Inc. v. AMF, Inc., 782 F.2d 995, 1001-02 (Fed. Cir. 1986)).

23. Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 668 n.10 (Fed. Cir. 1986).

24. *Monsanto*, 459 F.3d at 1340-41.

25. *See id.* at 1341.

26. *See* Monsanto Co. v. Scruggs, 342 F. Supp. 2d 568, 577 (N.D. Miss. 2004); *see also Monsanto*, 459 F.3d at 1339-1341.

27. *See Monsanto*, 459 F.3d at 1339 (quoting the "anticompetitive effect" requirement from *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1341 (Fed. Cir. 2004)); *see also* Windsurfing Int'l, Inc. v. AMF, Inc., 782 F.2d 995, 1001 (Fed. Cir. 1986) (inserting, without citing any authority, "with anticompetitive effect" into the Supreme Court's definition of patent misuse announced in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 343 (1971)).

28. *See Windsurfing*, 782 F.2d at 1001 (quoting *Blonder-Tongue Labs.*, 402 U.S. at 343.

29. Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637, 641 (1947) (citing Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 496 (1946)).

30. *See, e.g.*, Berlenbach v. Anderson & Thompson Ski Co., 329 F.2d 782, 784 (9th Cir. 1964) (concluding "[i]n view of the history and policy of the defense of patent misuse we find no merit in appellant's contentions that the proof of substantial lessening of competition is a prerequisite to finding patent misuse"); Columbus Auto. Corp. v. Oldberg Mfg. Co., 264 F. Supp. 779, 783 (D. Colo. 1967), *aff'd*, 387 F.2d 643 (10th Cir. 1968) (affirming a lower court assertion that "[a] showing of an actual monopoly [in the tied product] or a tendency to create such in a line of commerce is not necessary").

31. *See* Senza-Gel Corp. v. Seiffhart, 803 F.2d 661, 665 (Fed. Cir. 1986).

In short, there is no present legal basis for an "anticompetitive effects" requirement in the patent misuse context.

It is curious that the Federal Circuit held in *Monsanto* that "patent misuse may be found even where there is no antitrust violation, because '[p]atent misuse is . . . a broader wrong than [an] antitrust violation.'"[32] Under antitrust law, a tying arrangement is generally challengeable if: "(1) the seller has market power in the tying product, (2) the arrangement has an adverse effect on competition in the relevant market for the tied product, and (3) efficiency justifications for the arrangement do not outweigh the anticompetitive effects."[33] In the 1988 Patent Misuse Reform Act, Congress added the additional requirement of proof of market power in the tying product for a patent misuse defense.[34] Congress rejected, however, a proposal to predicate a finding of patent misuse on a violation of the antitrust laws.[35] The Federal Circuit's requirement of a second antitrust element to prove patent misuse in *Monsanto*, therefore, inappropriately subsumed the demarcation of illicit patent ties effectively within antitrust law.[36]

Despite the ruling to the contrary in *Monsanto*,[37] Scruggs alleged sufficient evidence of patent misuse to survive summary judgment, even under the inappropriate antitrust standards required by the Federal Circuit. In the context of antitrust law, the Supreme Court very recently reaffirmed its stance on the danger of tying arrangements posed by owners of patent monopolies. In *Tool Works*, the Court explained that any effort to use the market power conferred by a patent monopoly to restrain competition in the market for the second or tied product "will undermine competition on the merits in that second market."[38] Once requisite market power is established, a "probability of anticompetitive consequences" exists when a patent license contains a "condition that the buyer make all his purchases of a separate tied product from the patentee."[39]

The facts alleged in *Monsanto* are sufficiently analogous to the Supreme Court's antitrust example in *Tool Works* to support a finding of

32. *Monsanto*, 459 F.3d at 1339 (quoting C.R. Bard, Inc. v. M3 Sys., Inc., 157 F.3d 1340, 1372 (Fed. Cir. 1998)).

33. *See* U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY 26 (1995), *available at* http://www.usdoj.gov/atr/public/guidelines/0558.pdf (emphasis added); *see also* Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281, 1292-1293 (2006) (referring to the same guidelines).

34. In relevant part, the statute permits a defendant to raise this equitable bar to recovery for infringement only if "in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product." 35 U.S.C. § 271(d)(5) (2000). This additional requirement is analogous to the first element or step required for a finding of an antitrust violation.

35. *See* Kenneth J. Burchfiel, *Patent Misuse and Antitrust Reform: "Blessed Be the Tie?"*, 4 HARV. J.L. & TECH. 1, 23-25 (1991) (giving a concise description of the 1988 Congressional debate).

36. *See Monsanto*, 459 F.3d at 1339 (quoting *C.R. Bard*, 157 F.3d at 1372).

37. *Id.* at 1342.

38. *Ill. Tool Works Inc.*, 126 S. Ct. at 1288.

39. *See id.* at 1287-88.

illegal tying. First, Scruggs alleged through expert reports that Monsanto's market share of the herbicide tolerant trait soybean and cotton markets had long exceeded ninety percent and that by 2005, for instance, Monsanto's market share in Mississippi had reached ninety-six percent.[40] A *pure monopoly* is sufficient evidence of market power in the relevant market and heightens concerns of illegal leverage.[41] Second, the license agreements initiated between 1996 and 1998 contained the following (or similar) language: "You [the grower] agree: . . . [i]f a herbicide containing the same active ingredient as Roundup Ultra TM herbicide [glyphosate] (or one with a similar mode of action) is used over the top of Roundup Ready crops, you agree to use only Roundup® branded herbicide."[42] Third, Scruggs provided evidence that competing products existed during the years between 1996 and 1998 and that they were lacking only regulatory approval.[43] In *Monsanto*, Justice Dyk correctly argued in his dissent that the Roundup restrictions potentially discouraged competitors from seeking regulatory approval or attempting to have the EPA regulation modified or eliminated.[44] If some competitors eventually enter the market, but others are discouraged, the patentee succeeds illegally in restraining competition.[45] Moreover, Justice Dyk appropriately pointed out that it is "highly significant" that the Roundup restrictions did not simply require an EPA-approved herbicide; rather, they required "Roundup branded herbicide" for all glyphosate use.[46] A potential herbicide competitor thus would be concerned that, even if it secured EPA approval, use of the approved herbicide is still contractually barred.[47] At a minimum, therefore, Scruggs raised fact issues suggesting that "the overall effect of the license *tends* to restrain competition unlawfully."[48]

The counter argument to these claims of anticompetitive practices is that Monsanto "modified its contracts accordingly" after its competitors obtained regulatory approval.[49] This argument is misplaced. The fact that Monsanto may have modified the contract language for other li-

40. Reply Brief of Appellants Non Confidential at 3-5, *Monsanto*, 459 F.3d 1328 (Nos. 04-1532, 05-1120, 05-1121).

41. *See Ill. Tool Works Inc.*, 126 S. Ct. at 1288; *see also* Brief of Appellants Non-Confidential, *supra* note 6, at 41 (asserting that two-thirds of the market share is sufficient to prove a monopoly).

42. *Monsanto*, 459 F.3d at 1342. Despite the Federal Circuit implications to the contrary, it is inapposite that licensees were not required to buy any herbicide at all. *See* N. Pac. R.R. Co. v. United States, 356 U.S. 1, 5-6 (1958) ("For our purposes a tying arrangement may be defined as an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier.").

43. *Monsanto*, 459 F.3d at 1343.

44. *Id.*

45. *Id.*

46. *Id.* at 1344.

47. *Id.*

48. Monsanto Co. v. McFarling, 363 F.3d 1336, 1341 (Fed. Cir. 2004) (emphasis added). The more recent *Monsanto* opinion relied heavily on the *Monsanto Co. v. McFarling* opinion to emphasize the anticompetitive effect requirement for a patent misuse defense.

49. *Monsanto*, 459 F.3d at 1341.

censes entered into subsequent to 1998 does not necessarily purge the alleged anticompetitive effects of preexisting, unmodified contracts initiated between 1996 and 1998, especially if those contract provisions are still in force. As Scruggs noted, Monsanto sued to enforce the Roundup restriction against licensees as recent as 2004, and such restrictions allegedly "remain in effect until terminated."[50] The Roundup restriction is purportedly still in force, therefore, *at least six years* after competitors had achieved EPA approval for their glyphosate herbicide products, long after Monsanto's glyophosate patents had expired. A suit to enforce the Roundup restriction this long after the patents' expiration not only serves as evidence that Monsanto sought to force a licensee "to do something that he would not do in a competitive market,"[51] it is also evidence that Monsanto attempted to extend its expired patent rights beyond their term. Such alleged actions fall squarely within the defined scope of patent misuse.[52] Therefore, the Federal Circuit ruling that Scruggs "does not point to sufficient evidence" is astonishing.[53]

Justice Dyk, in his dissent, further argued that enforcing federal law is no justification for otherwise unlawful tying arrangements.[54] In considering a case involving collusion among competitors, the Supreme Court has held the fact "that a particular practice may be unlawful is not, in itself, a sufficient justification for collusion among competition to prevent it."[55] The majority in *Monsanto* countered that Monsanto had argued merely that its contract provisions lacked anticompetitive effect, not that they protected the public or furthered EPA policy.[56] The question of what motivated the Roundup restrictions in the first place thus remains. If Monsanto did not include the Roundup restrictions to further EPA policy, Scrugg's argument that the Roundup restrictions intentionally served anticompetitive purposes appears correct.[57]

From a policy perspective, the Federal Circuit ruling risks undermining the objective of the patent system by encouraging licensing techniques that potentially hamper innovation.[58] Patent policy is not served by antitrust laws that focus entirely on a free market society by preventing unreasonable restraints of trade.[59] Monsanto's actions, even when viewed in the light most favorable to Scruggs, not only potentially restrain competition, but also potentially discourage innovation in the field of glypho-

50. Brief of Appellants Non-Confidential, *supra* note 6, at 51; *see also* Complaint at 42, 47, Monsanto v. Bandy, No. 04CV00708ERW (E.D. Mo. June 8, 2004).

51. Ill. Tool Works Inc. v. Indep. Ink, Inc., 126 S. Ct. 1281, 1287 (2006) (citing Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 13-16 (1984)).

52. *See Monsanto*, 459 F.3d at 1339.

53. *Id.* at 1340.

54. *Id.* at 1343 (Dyk, J., dissenting).

55. *Id.* (quoting Fed. Trade Comm'n v. Indep. Fed'n of Dentists, 476 U.S. 447, 465 (1986)).

56. *Monsanto*, 459 F.3d at 1341.

57. *See id.* at 1339.

58. U.S. CONST. art. I, § 8, cl. 8.

59. Joe Potenza et al., *Patent Misuse—The Critical Balance, A Patent Lawyer's View*, 15 Fed. Cir. B.J. 69, 88-89 (2005).

sate research for fear of limited economic return. This is especially true since Monsanto's glyphosate patents had expired years previously.[60] The Federal Circuit ruling, therefore, risks giving a carte blanche to patentees who wish to advantageously exploit unusual settings to broaden the scope of their patent or its term through tying arrangements. Both the free market economy *and* innovation in the useful arts may ultimately suffer as a result.

Although Scruggs' tying arguments may have proven insufficient at trial,[61] the Federal Circuit inappropriately precluded greater scrutiny of the patent misuse allegations raised by Scruggs when it affirmed summary judgment on the issue.[62] The result is an unwarranted constriction of the doctrine of patent misuse that not only conflicts with court precedent, but also risks both antitrust and patent law policies underpinning prior decisions. The Federal Circuit thus risks leaving budding innovators and free market competitors potentially choked out by the towering shadows of pure monopolist patentees.

60. Brief of Appellee Monsanto Company at 2, *Monsanto*, 459 F.3d 1328 (Nos. 04-1532, 05-1120, 05-1121).

61. Monsanto v. Scruggs, 342 F. Supp. 2d 568, 583 (N.D. Miss. 2004).

62. *Monsanto*, 452 F.3d at 1342.

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