No. _____

In The

Supreme Court of the United States

HOMAN MCFARLING,

Petitioner,

versus

MONSANTO COMPANY,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. May a patent holder lawfully prohibit farmers from saving and replanting seed as a condition to the purchase of patented technology?

2. Does obtaining patents on products which are the subject of licensing agreements afford an absolute defense to any claim that the licensing agreements violate the Sherman Act?

LIST OF PARTIES

The following is a list of all parties to the proceedings in the Court below, as required by Rule 24.1(b) and Rule 29.1 of the Rules of the Supreme Court of the United States.

1. Homan McFarling, Petitioner;
2. Jim Waide, Counsel for Petitioner;
3. Monsanto Company, Respondent;
4. Joe Orlet, Esq., Counsel for Respondent; and
5. Seth Waxman, Esq., Counsel for Respondent.

TABLE OF CONTENTS

TABLE OF AUTHORITIES

TABLE OF AUTHORITIES – Continued

Page

MISCELLANEOUS:

OPINIONS BELOW

The opinion of the United States Court of Appeals for Federal Circuit upholding summary judgment in favor of the Respondent Monsanto Company (hereinafter "Monsanto") is reported at 363 F.3d 1336 (Fed. Cir. 2004). It is attached as App. 1-31. The bench opinion of the United States District Court for the Eastern District of Missouri granting summary judgment in favor of Respondent Monsanto is unreported and is attached as App. 35-49.

JURISDICTION

This Court has jurisdiction to review the decision of the United States Court of Appeals for the Federal Circuit decided on April 9, 2004 by writ of certiorari under 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

The Sherman Act, 15 U.S.C. § 1:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding $100,000,000 if a corporation, or, if any other person, $1,000,000, or by imprisonment not exceeding 10 years, or by both said punishments, in the discretion of the court.

The Utility Patent Act, 35 U.S.C. § 101: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

STATEMENT OF THE CASE

The Court of Appeals for the Federal Circuit has allowed Respondent Monsanto, through licensing agreements with all American soybean seed companies, to prohibit farmers' saving seed for replanting. Farmers saving seed for replanting instead of buying expensive new seed every year can be traced to the time when "agriculture began over 10,000 years ago." Ewens, *Seed Wars: Biotechnology, Intellectual Property and the Quest for High Yield Seeds*, 23 B.C. Int'l & Comp. L.Rev. 285, 286 (2000). "Ever since humans began the transition from nomadic herders to farmers, saving seed for planting the following year's crop has been a basic tenet in the practice of agriculture." Oczek, *In The Aftermath Of the "Terminator" Technology Controversy: Intellectual Property Protections For Genetically Engineered Seeds And The Right To Save And Replant Seed*, 41 F.C. L.Rev. 627, 647 (2000).

This case began when Respondent filed suit in the United States District Court for the Eastern District of Missouri against Petitioner Homan McFarling, a Pontotoc, Mississippi soybean farmer. Joint Appendix (hereinafter "JA"), pp. 533-43.[1] The complaint alleges that McFarling

[1] The term "JA" refers to the Joint Appendix filed in the United States Court of Appeals for the Federal Circuit.

infringed Monsanto's patents and breached a contract by saving and replanting patented Roundup Ready® soybeans, which he had purchased from a Monsanto licensee. JA534-38. McFarling answered, denying liability, and claiming Monsanto's claims were "inconsistent with the Sherman Antitrust Act." JA546. The district court denied McFarling's motion to dismiss for lack of personal jurisdiction and granted Monsanto's motion for preliminary injunction. These rulings were upheld on appeal to the United States Court of Appeals for the Federal Circuit. *Monsanto Co. v. McFarling*, 302 F.3d 1291 (Fed. Cir. 2002), cert. denied, 537 U.S. 1232 (2003).

Upon remand, the district court, in a bench ruling, granted Monsanto's motion for summary judgment on the contract issues and on Monsanto's claim for infringement of one of its patents. The district court also granted Monsanto's motion for summary judgment on Petitioner's Sherman antitrust counterclaims. The district court entered a final judgment based on the contract's liquidated damages provision of $780,000.00 and certified this judgment as final pursuant to Fed. R. Civ. P. 54. JA1-3. McFarling appealed to the United States Court of Appeals for the Federal Circuit.

On appeal, the Federal Circuit rejected McFarling's antitrust counterclaims, holding that the practices complained of related to matters within the terms of Monsanto's patents and could, therefore, not violate the antitrust laws. App. 31.[2] In granting summary judgment against

[2] However, the Federal Circuit nullified the contract providing for 120 times the technology fee as liquidated damages as an unlawful penalty. App. 30.

McFarling, the Court of Appeals did not consider the economic effect of the licensing agreements, which is to require farmers to subsidize Monsanto-licensed seed companies which had nothing to do with inventing the patented technology.

FACTS

Monsanto Company patents technology which causes soybean seed to resist Roundup® herbicide or any other glysophate. This patented technology allows farmers to spray Roundup® herbicide (or any other glysophate) over Roundup Ready® soybeans, killing the weeds but not the soybeans. JA600. Roundup Ready® technology eliminates the need for cultivating soybeans. JA600.

Roundup Ready® soybean seed were first marketed in 1996. It is a huge success. By the year 2000, Roundup Ready® seed comprised over two-thirds of the United States market in soybeans. JA614.

Monsanto distributes its Roundup Ready® seed through licensing agreements with all 200 American seed companies. Monsanto refers to these 200 licensee soybean seed companies which sell Roundup Ready® seed as its "seed partners."[3] JA788, 881. The agreements which Monsanto has with its 200 "seed partners" assure that farmers who buy Roundup Ready® seed will return each year for new soybeans, rather than replant saved seed.

[3] Its "seed partners" are also Monsanto's competitors since Monsanto owns three seed companies which sell twenty percent of the American market in soybeans. JA340-44, 354-55.

The agreements require the "seed partners" to obtain farmers' signatures on "technology agreements" forbidding the saving and replanting of the Roundup Ready® seed as a condition to purchasing the genetically-altered seed. JA76, 587-88, 621, 698-99.

The licensing agreements jointly benefit Monsanto and the soybean seed companies. The agreements require the seed companies to collect a $6.50 per bag technology fee from the farmer to be paid to Monsanto. The soybean seed companies then charge a separate price for the new seed, which is much more than the farmers would have invested in saved seed. Thus, for every fifty-pound bag of new seed sold, the soybean seed companies make the profit from the sale of the new seed each year, and Monsanto reaps a $6.50 per bag technology fee for use of the patented technology. JA76, 887-89. Since the farmers who wish to plant Roundup Ready® seed must return each year for a new supply, the agreements give the seed companies an incentive to sell Roundup Ready® seed instead of competitor conventional seed. JA809-10.

The farmer, when purchasing a fifty-pound bag of seed, pays the $6.50 technology fee to Monsanto and also pays $18.00 for the fifty-pound bag of seed to a seed company. JA272, 635.

On the other hand, a farmer who saves his seed would have only invested about $7.00 per bag in seed. JA618. Thus, the net effect of the licensing agreements is that a farmer who plants Roundup Ready® seed must subsidize seed companies by paying them far more for new seed than he would have invested if they were allowed to save and replant their own seed. JA807.

Economic Testimony

According to Mississippi State Agricultural Economist Dr. David Parvin, Monsanto's agreements with its licensees, prohibiting farmers from saving and replanting their own seed, is a destruction of a "secondary market" which causes the price of Roundup Ready® seed to be artificially high. JA670-71. If farmers could save and replant their own seed, the seed companies would have to lower the prices in order to make sales of new seed. JA272-73. According to Dr. Parvin, the fact that disallowing the saving and replanting of seed will cause higher prices is "sophomore economics." JA670. Prohibiting a farmer from saving and replanting his own seed causes the market to be inefficient and results in higher prices for new seed. JA675.

To demonstrate that prices would be lower if seed-saving were allowed, Dr. Parvin relied on a Government Accounting Office Biotechnology study of the differing prices for Roundup Ready® soybeans in Argentina as compared with those in the United States. JA729-41. In Argentina, where there is no prohibition against saving and replanting Roundup Ready® seed, new Roundup Ready® seed sells for approximately $12.00 to $15.00 per bag, as opposed to $20.00 to $23.00 per bag in the United States. JA676. Of course, the fact that foreign farmers are allowed to save and replant Roundup Ready® seed puts them at a competitive advantage over American farmers.

Dr. Robert D. Tollison, a University of Mississippi economist, swore that requiring the farmers to purchase new seed as a condition to obtaining the patented technology is an anticompetitive "tying" agreement. Dr. Tollison's expert opinion states:

> Second, there is the broader linkage which the saved seeds program facilitates involving the requirement that farmers buy new seeds every year. The less restrictive alternative in this case is clearly to allow Monsanto to collect a technology fee, while not requiring that farmers buy new seeds each year. The purchase of new seeds is "bundled" with the technology as a way to extract monopoly profits from farmers, who would otherwise simply pay the technology fee to Monsanto and use saved seeds. These tying arrangements appear to be part and parcel of Monsanto's efforts to extract monopoly profits in this case. The effect of the Monsanto prohibition of seed-saving is that farmers pay a much higher price than they would otherwise have invested in seed. According to the information I have received, farmers consider saved seed to be superior in quality, and they have much less investment in saved seed than they have in purchasing new seed. Accordingly, in a competitive market, the farmers would save their own seed, rather than buying new seed each year.

JA819-20.

Petitioner's Execution of the Technology Agreement Prohibiting Saving and Replanting Seed

Petitioner Homan McFarling is a Pontotoc County, Mississippi farmer who farms approximately 5,000 acres of soybeans in northeast Mississippi.

A seed store clerk told McFarling that he would have to sign a technology agreement in order to be allowed to purchase Roundup Ready® seed. This agreement forbids

seed-saving and provides that Monsanto be paid 120 times the technology fee if seed is saved. JA76.

McFarling saved seed from his 1998 crop and replanted about 1,500 acres in 1999 with saved seed. JA587-634. He did so because saved seed is "much cheaper." JA618, 1447-48. He defended Monsanto's suit on the grounds that Monsanto's agreement with its 200 seed partners in prohibiting seed-saving violates the Sherman Act.

Monsanto's Patents

First, Monsanto owns United States Patent Number 5,352,605 (the "605" patent) which claims a "chimeric gene" and a " promoter." JA251.

Second, Monsanto owns United States Patent Number 5,603,435 (the "435" patent), which claims "seed of a glysophate tolerate plant." JA231.

Opinion of the United States Court of Appeals for the Federal Circuit

The United States Court of Appeals for the Federal Circuit held that since Monsanto has a patent both on the patented technology and on the seed, Monsanto's prohibiting seed-saving cannot constitute either patent abuse or an antitrust violation. App. 27.

The Court of Appeals refused to scrutinize the licensing agreements for an antitrust violation because "the anticompetitive effect of which McFarling complains is part and parcel of the patent system's role in creating incentives for potential inventors." App. 13. The opinion

never mentions the crucial fact that the "incentive," i.e., the profit from the sale of new seed, goes not to the inventor (Monsanto) but to the seed company licensees who did not invent the patented technology.

REASONS FOR GRANTING WRIT

I. The Writ should be granted because the United States Court of Appeals for the Federal Circuit, by declining to consider the anticompetitive effect of the licensing agreements, acted inconsistently with other circuits, and frustrated the national policy of encouraging competition.

The Sherman Act, 15 U.S.C. § 1, outlaws "[e]very contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, . . . " The Sherman Act prohibits all unreasonable restraints of trade. *Jefferson Parish Hospital Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984); *Fortner Enterprises, Inc. v. United States Steel Corp.*, 394 U.S. 495 (1969).

The heart of McFarling's argument is that agreements to prohibit seed-saving are an unreasonable restraint of trade, since the farmer is not allowed to purchase the Monsanto technology without also agreeing to buy overpriced new seed. Monsanto ties unwanted new seed to the right to purchase the patented technology. This tying is not for the benefit only of Monsanto. Instead, its seed company licensees derive a financial windfall since farmers have to buy overpriced new seed from the seed companies each year. A farmer cannot purchase the technology unless he also agrees to purchase new seed each year.

> farmers pay a much higher price than they would otherwise have invested in seed . . .

JA819.

Monsanto even admitted that its genetically-altered technology (the patented "trait") and the new seed constitute two separate markets. In attempting to justify to the Antitrust Division of the Justice Department its purchase of a cottonseed company (Delta and Pine Land Company), Monsanto had earlier written:

> Although Monsanto supplies traits [the patented technology] to DPL [Delta and Pine Land] and to other cottonseed companies, *the trait market is not a part of the seed market.* Rather, the trait market involves discreet and separable intellectual property that responds to different pricing factors than do seeds. Indeed, some traits in some crops are worth far more than the seed itself, while other traits are worth far less than the seed.

JA862 (emphasis added).

By ignoring the fact that Monsanto admits the "trait" and the seed are two separate markets and bound only on the fact that Monsanto has patents on both, the Court of Appeals ignores the principles that "[t]he legality of petitioners' conduct depends on its competitive consequences, . . ." *Jefferson Parrish Hospital Dist., No. 2, supra*, at 22, n. 34.[4]

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[4] Daniel Charles has noted that Monsanto's establishing a subsidy system for the seed companies has created a prosperous seed industry at the expense of farmers. He writes: "Seed companies never had earned substantial profits. But it suddenly became clear to many in the

(Continued on following page)

Additionally, the opinion conflicts with the D.C. Circuit, which holds that owning patents on all products covered by a licensing agreement does not immunize the agreements from antitrust scrutiny. In *U.S. v. Microsoft Corp.*, 253 F.3d 34 (D.C. Cir. 2001), plaintiff charged that Microsoft was illegally attempting to restrain trade by requiring consumers to purchase the Microsoft browser as a condition of the purchase of a Microsoft operating system. Microsoft defended, in part, on the grounds that both products were within the terms of its patent. The Court of Appeals for the D.C. Circuit rejected this position, stating:

> Microsoft's primary copyright argument borders upon the frivolous. The company claims an absolute and unfettered right to use its intellectual property as it wishes: "[I]f intellectual property rights have been lawfully acquired," it says, then, "their subsequent exercise cannot give rise to antitrust liability."
>
> . . .
>
> That is no more correct than the proposition that use of one's personal property, such as a baseball bat, cannot give rise to tort liability.

253 F.3d at 63.

U.S. v. Microsoft Corp, supra, is correct. By Monsanto's receiving the "technology fee," it has been rewarded for its invention. No purpose of the patent laws is served by allowing Monsanto to enter an agreement with its licensees, whereby the licensees charge inflated,

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industry that they had become very valuable indeed." Daniel Charles, *Lords of the Harvest: Biotech, Big Money, and the Future of Food*, p. 197 (2001).

artificial prices for the seed which farmers are required to buy in order to purchase the patented Monsanto technology.

Monsanto receiving payment for its patented technology is all the reward due for its invention. Monsanto forcing farmers to subsidize seed companies is not carrying out any patent law policy and is frustrating the antitrust policy of promoting competition.

The Federal Circuit differs with the Fifth Circuit and the Third Circuit. *Mannington Mills, Inc. v. Congoleum Industries, Inc.*, 610 F.2d 1059, 1071 (3rd Cir. 1979) held:

> Where the license restriction results primarily in benefits for the licensees rather than the patentee, the anticompetitive restriction cannot be justified as a subsidy for the patentee's inventive activity. See Baxter,[5] Supra, 76 Yale L.J. at 313-14. In such cases, there is no sound reason to immunize the patentee's conduct from antitrust scrutiny.

Accord, *In re Yarn Processing Patent Validity Litigation*, 541 F.2d 1127, 1136 (5th Cir. 1976) (allocating royalty benefits to a licensee, which did not hold a patent, is not protected by patent policy).

Besides conflicting with other circuits, the Federal Circuit has radically extended the previous reach of the patent laws as this Court has defined them. Monsanto's "435" patent purports to patent the "genetically-altered seed" and its progeny. The seed contains not only a genetically-altered gene, but also contains thousands of other

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[5] Baxter, *Legal Restrictions on Exploitation of the Patent Monopoly: An Economic Analysis*, 76 Yale L.J. 267, 313 (1966).

genes which are not made by Monsanto but by God.[6] This Court has repeatedly emphasized that the reach of the patent laws cannot be extended to include products of nature. *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Intern., Inc.* 534 U.S. 124, 134 (1996):

> As this Court held in *Chakrabarty*, "the relevant distinction" for purposes of § 101 is not "between living and inanimate things, but between products of nature, whether living or not, and human-made inventions." [*Diamond v. Chakrabarty*, 447 U.S. [303], at 313 [1980].

The unpatented germ plasm and second generation of genetically-altered soybeans is not a "human-made" invention. It was created by God. It is, therefore, not subject to Monsanto's patents, according to the Federal Circuit's interpretation of the reason of the patent laws.

The judgment in this case, therefore, not only conflicts with that of other circuits, but also offends this Court's precedent establishing a distinction between "products of nature" and human-made inventions.

CONCLUSION

By approving a scheme whereby seed companies, which had nothing to do with inventing patented technology, extract huge subsidies from farmers, the United States Court of Appeals for the Federal Circuit has offended the antitrust

[6] The Bible, Genesis, 1:11: "And God said, Let the earth bring forth grass, the herb yielding seed, *and* the fruit tree yielding fruit after his kind, whose seed is in itself, upon the earth: and it was so." (Emphasis in original).

policy of the United States while doing nothing to advance the patent policy of rewarding investors.

The Writ should be granted.

Respectfully submitted,

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