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**ADMINISTRATIVE AND LEGAL COMMITTEE
ADVISORY GROUP**

**Second Session
Geneva, October 26, 2007**

ARTICLE 14(2) OF THE 1991 ACT: ACTS IN RESPECT OF HARVESTED MATERIAL
(ARTICLE 5(4) OF THE 1978 ACT); AND ARTICLE 16 OF THE 1991 ACT:
EXHAUSTION OF THE BREEDER'S RIGHT

Document prepared by the Office of the Union

Introduction

1. At the first session of the Administrative and Legal Committee Advisory Group (CAJ-AG), held on October 20, 2006, the CAJ-AG agreed that the Office of the Union should prepare a document elaborating key issues of Article 14(2) "Acts in respect of the harvested material" and Article 16 "Exhaustion of breeder's right" of the 1991 Act of the UPOV Convention, to be discussed in the CAJ-AG at its second session to be held on October 26, 2007.
2. In preparing the document for the CAJ-AG, it was agreed that the Office of the Union should draw on the materials which exist within the members of the Union. In that respect, Circular E-475 was sent on May 8, 2007 requesting materials concerning "Acts in respect of harvested material" and "Exhaustion of the breeder's right".
3. The Office of the Union received contributions from the Netherlands, Hungary, Japan and the International Seed Federation (ISF). Those contributions are reproduced in the Annex to this document.

4. The CAJ-AG agreed that the following issues should be elaborated in the explanatory notes on “Acts in respect of harvested material” and their relation to the “exhaustion of the breeder’s right”:

(a) Clarification in relation to the last sentence of Article 14(2) of the 1991 Act “unless the breeder has had reasonable opportunity to exercise his right in relation to the said propagating material”. Aspects for possible consideration:

(i) to consider the difference between an opportunity to “exercise his right” and the opportunity to obtain a right;

(ii) to consider “reasonable opportunity” to exercise the breeder’s right in relation to farm-saved seed;

(b) Clarification of the terms “unauthorized use of propagating material” in relation to Article 14(2) of the 1991 Act.

(c) Preparation of information materials concerning Article 14(2) of the 1991 Act to be coordinated with the information materials concerning the provisions on the exhaustion of the breeder’s right (Article 16 of the 1991 Act) and with the provision that “the breeder may make his authorization subject to conditions and limitations” (Article 14(1)(b) of the 1991 Act). The development of information materials on Article 14(1)(b) of the 1991 Act, could include consideration of the interaction between contract law/practices and other provisions of the UPOV Convention such as the exceptions to the breeder’s rights (e.g. bag tag clauses);

(d) Consideration of the definition of material under Article 16(2)(iii) and the optional provision of the scope of the breeder’s right in Article 14(3) (“Acts in respect of certain products”) of the 1991 Act; and

(e) Clarification of the territorial scope of the exhaustion of the breeder’s right in Article 16(1) and (3) of the 1991 Act.

5. Document UPOV/EXN/HRV Draft 1 “Explanatory Notes on Acts in Respect of Harvested Material” has been prepared on the basis above. In order to provide coherent guidance concerning the provisions on acts in respect of harvested material (Article 14(2) of the 1991 Act and Article 5(4) of the 1978 Act), the Explanatory Notes also explain the relationship between those provisions and the provisions that a breeder may make his authorization subject to conditions and limitations (Article 14(1)(b) of the 1991 Act and Article 5(2) of the 1978 Act) and the exhaustion of the breeder’s right (Article 16 of the 1991 Act).

6. In the absence of an immediate need being identified, document UPOV/EXN/HRV Draft 1 does not seek to provide guidance on the definition of material under Article 16(2)(iii), nor the optional provision of the scope of the breeder’s right in Article 14(3) (“Acts in respect of certain products”) of the 1991 Act.

7. With respect to the consideration of the interaction between contract law/practices and provisions of the UPOV Convention, such as the exceptions to the breeder’s rights (e.g. bag tag clauses), the Office of the Union has anticipated that it would be a matter for each member of the Union concerned, in relation to its relevant legislation, to consider whether it would be acceptable for a breeder to introduce conditions and limitations in relation to propagating

material of a protected variety which do not fall within the provisions in Articles 15 and 16. Hence, that might not be a matter on which UPOV could provide practical guidance.

8. *The CAJ-AG is requested to:*

(a) comment on document UPOV/EXN/HRV Draft 1; and

(b) consider if guidance should be developed for those matters set out in paragraphs 6 and 7.

[Annex follows]

ANNEX

HUNGARY

(Contribution by the Hungarian Patent Office)

*Materials concerning acts in respect of harvested material
and exhaustion of the breeder's right*

1.) Questions (a), (b) and (c)

Article 109 of Act XXXIII on the protect of inventions by patents (the Patent Act) implements the provisions of Article 14 of the 1991 Act of the UPOV Convention.

Article 109 of the Patent Act provides as follows:

Rights conferred by plant variety protection

Article 10

(1) Plant variety protection shall confer on the holder of plant variety protection (hereinafter referred to as “the holder”) the exclusive right to exploit the variety.

(2) On the basis of the exclusive right of exploitation, the holder shall be entitled to prevent any person not having his consent from the following acts in respect of the propagating material of the protected variety:

- (a) production or reproduction (multiplication),
- (b) conditioning for the purpose of propagation,
- (c) offering for sale,
- (d) selling or other marketing,
- (e) exporting,
- (f) importing,
- (g) stocking for any of the purposes mentioned in (a) to (f).

(3) The provisions of paragraph (2) shall also apply to harvested material obtained through the unauthorized use of propagating material of the protected variety or to products made directly from such harvested material through the unauthorized use of the harvested material, unless the holder has had reasonable opportunity to exercise his right in relation to the said propagating or harvested material.

(4) The provisions of paragraphs (2) and (3) shall also apply in relation to varieties

- (a) which are essentially derived from the protected variety, where the protected variety is not itself an essentially derived variety;
- (b) which are not clearly distinguishable in accordance with Article 106(3) from the protected variety;
- (c) who production requires the repeated use of the protected variety.

(5) For the purposes of paragraph (4)(a), a variety shall be deemed to be essentially derived from another variety (“the initial variety”) when

- (a) it is predominantly derived from the initial variety, or from a variety that is itself predominantly derived from the initial variety, while retaining the expression of the essential characteristics that result from the genotype or combination of genotypes of the initial variety;

(b) it is clearly distinguishable in accordance with Article 106(3) from the initial variety; and

(c) except for the differences which result from the act of derivation, it conforms to the initial variety in the expression of the essential characteristics that result from the genotype or combination of genotypes of the initial variety.

(6) The exclusive right of exploitation shall not extend to

(a) acts done privately or not involved in an economic activity;

(b) acts done for experimental purposes relating to the plant variety;

(c) acts done for the purpose of breeding other varieties, and, except where the provisions of paragraph (4) apply, acts referred to in paragraph (2) and (3) in respect of such other varieties.

(7) For the purposes of safeguarding agricultural production, the exclusive right of exploitation shall not extend to the use for propagating purposes on the farmer's own holding of the product of the harvest which they have obtained by planting, on their own holding, propagating material of a protected variety other than a hybrid or synthetic variety.

(8) The extent and conditions of the rights to which farmers are entitled on the basis of paragraph (7), shall be governed by the provisions of Article 14 of Council Regulation (EC) No. 2100/94 on Community plant variety rights.

It should be noted that we lack information and experience in case law related to the said definitions and terms, therefore further clarification of these questions is not possible.

2.) Question (d)

The optional provision of the scope of the breeder's right in Article 14(3) of the 1991 Act can be found in Article 109(3) of the Patent Act:

(3) The provisions of paragraph (2) shall also apply to harvested material obtained through the unauthorized use of propagating material of the protected variety or **to products made directly from such harvested material through the unauthorized use of the harvested material**, unless the holder has had reasonable opportunity to exercise his right in relation to the said propagating or harvested material.

3.) Question (e)

Article 110 of the Patent Act contains the provisions with respect to the exhaustion of the breeder's right.

Exhaustion of the exclusive right of exploitation conferred by plant variety protection

Article 110

(1) The exclusive right of exploitation conferred by plant variety protection shall not extend to acts concerning any material of the protected variety, or of a variety covered by provisions of Article 109, paragraph (4), which has been sold or otherwise marketed by the holder or with his consent in the territory of the **European Economic Area**, or any material derived from the said material.

(2) The exclusive right of exploitation shall extend to acts referred to in paragraph (1) if such acts involve further propagation of the variety in question, or involve an export of such material of the variety which enables the propagation of the variety, into a country which does not protect varieties of the plant genus or species to which the variety referred to in paragraph (1) belongs, except where the exported material is for final consumption purposes.

(3) For the purposes of paragraphs (1) and (2), material means propagating material, harvested material and any product made directly from the harvested material.

JAPAN

Extract from Explanatory Material of the Seed and Seedlings Act of Japan

Article 2(4):

The term “processed products” as used in this Act shall mean the products made directly from the harvested material obtained from the seeds and seedlings, which are designated by the Cabinet Order.

Article 2(4) defines the term “processed products”

1. Article 14(3) of UPOV 1991 Act states that each contracting party may provide the acts in respect of products made directly from harvested material of protected variety shall require the authorization of the breeder. Following to the article, “the Seed and Seedlings Act” (hereinafter referred to as “Act”) was amended in 2005 so as to the harvested material designated by the Cabinet Order in the Act means those made directly from harvested material, which designated by the Cabinet Order, following the indication of UPOV 199 Act.

2. A harvested material may be designated by the Cabinet Order considering conditions such as the necessity of designation referring to current state of infringements, the possibility that characteristics of the variety remained in the processed material enable to judge if the variety accounts the main part of the processed material, and the availability of the DNA profiling techniques to identify the variety in the processed material.

Article 2(5)(ii):

Production, offering for transfer or lease, transferring, leasing, exporting, importing or stocking for the purpose of these acts, of the harvested material obtained through using seeds and seedlings of the variety (limited to cases where the holder of the breeder’s right of the holder of the exclusive exploitation right has not had reasonable opportunity to exercise his/her right for the acts mentioned in the preceding item).

Article 2(5)(iii):

Production, offering for transfer or lease, transferring, leasing, exporting, importing or stocking for the purpose of these acts, of the processed products of the variety (limited to cases where the holder of the breeder’s right or the holder of exclusive exploitation right has not had reasonable opportunity to exercise his/her right for the acts mentioned in the preceding two items).

Article 2(5)(ii) and (iii) provide the cascade principle of enforcement of breeder’s rights.

1. UPOV 1991 Act provides the principle that the breeder’s right should be exercised to propagating material or harvested material for the first instance and the exercise of the right to harvested material should be restricted to the cases where the right holder has not have “reasonable opportunity to exercise his right” to the propagating material. Likewise the exercise of the right to processed material should be restricted to the cases where the right holder has not have “reasonable opportunity to exercise his right” to neither the propagating material nor the harvested material. The above mentioned principle is called the cascade principle of the exercise of the breeder’s right, which the Act adopts.

The intention of the principle is to balance the protection of the breeder's rights against the public interest to stabilize the production and distribution of harvested or processed material of protected varieties, preventing possible confusion of production and distribution of harvested or processed material by the act of the right holders to exercise their rights to the utilization of harvested or processed material intentionally without exercising their right to propagating material. According to the principle, the authorization of utilization of the harvested material has been positioned as the complementary measure to that of propagating material, and likewise the authorization of utilization of processed material has been positioned as the complementary measure to those of propagating material and harvested material.

2. "Reasonable opportunity to exercise his right" indicates the situation where right holders can collect royalty from propagating material in the case of harvested material, and from propagating material or harvested material in the case of processed material by making contract with third party for utilization of the protected varieties. In other words, if the right holder knows the fact that the third party is using the protected variety and the right holder can exercise his right legally in the form of authorization, the right holder is said to have "reasonable opportunity to exercise his right".

"Rights" here means authorizations of utilization of propagating material or harvested material, and do not mean neither rights of injection nor the right of claim compensation for damages caused by infringement, hence these rights arise as a consequence of infringement. Followings may be examples of the cases where there had not been "the reasonable opportunity to exercise their rights";

- Cases where protected variety had propagated in foreign country without authorization and harvested material or processed material of the variety had imported to Japan
- Cases where protected variety had propagated in Japan without authorization whereas the right holder had not known the fact or the person who had done the act

The act to reuse the harvested material as propagating material falls under the production of propagating material and the case where there had not been "the reasonable opportunity to exercise their rights". Therefore, the right holder can exercise his right to the act of the reuse if it is not the case of the exception of the right in relation to the farmer's privilege.

3. The right holders can not exercise their right to utilization of harvested and processed material after the exhaustion of the breeder's right.

Article 21(4):

When seeds and seedlings, harvested material or processed products of a registered variety etc. are transferred by the holder of a non-exclusive exploitation right, or as the result of the acts listed in any of the items of paragraph (1) or this Article, the effects of the breeder's right for the said registered variety shall not extend to the exploitation of the transferred seeds and seedlings, harvested material or processed products. However, this provision shall not apply to the production of seeds and seedlings to a State which does not protect varieties of the plant genus or species to which the said registered variety belongs nor to the exportation of harvested material to the said State for a purpose other than final consumption.

Article 21(4) provides so called exhaustion of the breeder's right.

1. The exhaustion of the breeder's rights means that the breeder's right shall not extend to acts concerning propagating material, harvested material and processed material of the protected variety which has been sold with the authorization of the right holders. If a propagating material has been sold with authorization, the breeder's right does not extend to utilization of harvested material nor processed material.

2. The breeder's right would be regarded as exercised if the propagating material, harvested material and processed material had been sold with the authorization of the right holders, hence the purpose of the breeder's right had been accomplished. Moreover, if the authorizations of propagating material, harvested material and processed material which have been distributed in general would be required for each time of deals at each stage of markets, wholesale and retail, they prevent smooth distribution of the materials. Therefore, the article has been provided to balance the benefit of right holders against smooth distribution of the materials.

NETHERLANDS

(Contribution by Mr. Krieno Fikkert, Head and Secretary,
Board for Plant Varieties (Raad voor Plantenrassen) of the Netherlands)

“Possible situations

When studying the condition of ‘unauthorized use’ one can discern two situations.

1. The unauthorized use of propagating material of the protected variety and the marketing of the harvested product take place in a state in which the PBR is valid.
 - a. No license contract.
This is definitely ‘unauthorized use’.
 - b. Use of propagating material not in conformity with provisions of license contract.
Question: Is any use only ‘unauthorized’ when it comes in conflict with the absolute right
or is use also ‘unauthorized’ when the licensee does not follow the special conditions formulated in the license contract.
The last mentioned, ‘broad’ interpretation seems acceptable. Do the minutes of the Diplomatic Conference in 1991 give any directions?
2. The unauthorized use of propagating material of the protected variety takes place in a state in which the PBR is not valid, while the marketing of the harvested product takes place in a state in which the PBR is valid.

Assuming that the broad interpretation mentioned under 1.b. is acceptable, there is at least ‘unauthorized use’ when the buyer of the propagating material neglects contractual conditions imposed on him when obtaining the propagating material.

Such conditions may be:

”Party B, the buyer of propagating material of a certain variety, shall use that material only for the production of flowers. In particular he shall not multiply that material and he shall not offer to third parties propagating material of the variety concerned. Furthermore he shall impose this condition on anyone obtaining material of the variety concerned with the obligation to transfer this condition to further parties.”

But what if the propagating material was sold without any special conditions?

Example:

A grower from Guernsey (where no PBR scheme exists) buys in Holland cuttings of a protected chrysanthemum variety. The only condition for the delivery is payment of the bargained price. Having fulfilled this condition he takes home the material, where he multiplies it. Some time later he harvests the flowers and exports them to Holland in order to market them.

Can one say that using propagating material without violating an absolute right (PBR) or contractual conditions is ‘unauthorized use’? I am inclined to say “NO”. The fact that the harvested product (the flowers) happens to come on a market where PBR for the variety concerned is valid, cannot turn that use into ‘unauthorized use’.

Relation to article 16 ('Exhaustion of the Breeder's Right')

One may say that, when studying the question whether in situation 2 the extension to the harvested product is in force, one should take into account the provision of article 16, section 1 in particular.

According to article 16 the breeder's right shall not be exhausted with respect to acts (concerning any material of the protected variety)

i . involving further propagation of the variety in question or

ii. Involving an export of material of the variety, which enables the propagation of the variety, into a country¹ which does not protect varieties of the plant species to which the variety belongs² (except when the exported material is for final consumption).

Is the condition under subsection i. applicable in the case the variety, after export of material, is propagated in a territory where no PBR is in force? The answer seems to be "NO", since propagation after export is dealt with in subsection ii.

The condition under subsection ii may be applicable in certain cases. In those cases the extension to acts in respect of harvested material is in force³ **provided that the harvested material has been obtained through the unauthorized use of propagating material.**

This leads to the conclusion that the provisions concerning the exhaustion of the breeder's right do not have any impact on the applicability of article 14, section 2."

¹ In this context it is not relevant to dwell on the question whether Guernsey "is a country which does not protect varieties of the plant species to which the variety belongs".

² This clause is not applicable to propagation in countries where, although varieties of the species in question can be protected, no PBR for the variety concerned is valid.

³ Such extension is also in force without the provision of article 16, section 1, subsection ii.

RUSSIAN FEDERATION

(Contribution by Mr. Yuri A. Rogovskiy, Deputy Chairman,
Head of Method Department State Commission of the
Russian Federation for Selection Achievements Test and Protection)

Materials concerning acts in respect of harvested material and exhaustion of the breeder's right

Some comments under clarification of Article 14(2) of 1991 Act of the UPOV Convention

Article 14(2) provides to the breeder the right for restriction of acts in respect of harvested material only at the following particular circumstances:

- a) if the harvested material has been grown from a counterfeit (i.e. from illegally grown or imported into a country without breeder's authorization) propagating material;
- b) if the breeder has had no opportunity to prevent the use/commerce of such propagating material in the territory of the country and, therefore has had no opportunity to prevent the growth of the harvested material obtained from that propagating material.

This Article provision is directed to prevention/reduction of infringements of breeder's rights and takes effect after the fact of above mentioned circumstances has been established, by mutually agreed (between a patentowner and a person who has grown of the illegal harvested material) or in court. Establishing fact of such circumstances is affair of the breeder.

There was no case of suits under Article 14(2) in the RF to present day.

INTERNATIONAL SEED FEDERATION (ISF)

(Position paper unanimously adopted at the ISF Congress,
Christchurch, New Zealand, May 2007)

Implementation of Article 14(2) and 14(3) of UPOV 1991 in relation to the phrase
“reasonable opportunity”
(Christchurch, May 2007)

ISF is of the opinion that the history of article 14 of the UPOV Convention and the below-mentioned case clearly indicates that the phrase “unless the breeder has had reasonable opportunity to exercise his right in relation to the said propagating material”, relates only to an existing right as granted and does not extend to the obligation to protect the variety in other countries where the variety can be protected and might be reproduced.

Paragraphs (2) and (3) of article 14 UPOV 1991 extend the protection of the protected variety, as formulated in paragraph (1), to the harvested material and, optionally, to the end product. This important extension of the breeder’s right however is only applicable if the propagating material was used unauthorized *and* if the holder of the Plant Breeder’s Right (PBR) had no *reasonable opportunity* to exercise his right on the preceding propagating or harvested material.

The question here is whether the requirement that the breeder should first have tried to exercise his breeder’s right on the propagating material, before he can obtain his rights on harvested material, imposes the obligation on the breeder to protect his varieties in all countries where there is a PBR system and where there is the risk that the variety in question may possibly be propagated and exported to the country where it is protected.

From the history of this provision as reflected in the minutes of Diplomatic Conference of 1991, it can be concluded that it has clearly not been the intention to require breeders to protect their varieties in other UPOV countries, but that the aim of this phrase is to oblige the breeder to exercise his existing right at the earliest possible opportunity in the trade chain.

Recent jurisprudence, the decision of the German Supreme Court of 14 February 2006, No. X ZR 93/04, confirms this interpretation. In this case harvested material of a variety of *Calluna vulgaris*, only protected by German PBR, was after reproduction in France traded in Germany. The Court reasoned that as the breeder had no opportunity to act on the propagation material, because he had no PBR in France, he was entitled to exercise his rights on the harvested material. This decision supports the view that the provision as discussed is only related to the exercise of an acquired PBR.

[End of Annex and of document]