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**SYMPOSIUM ON CONTRACTS IN RELATION TO  
PLANT BREEDERS' RIGHTS****Geneva, October 31, 2008**SESSION I: LEGAL FRAMEWORK IN SELECTED UPOV MEMBERS:  
RELEVANT LAWS AND JURISPRUDENCEJAPANESE LEGAL SYSTEM RELATING TO PLANT BREEDERS' RIGHTS  
LICENSING CONTRACTS AND ITS CURRENT SITUATION

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**1. INTRODUCTION**

In order for the Plant Variety Protection system (PVP system) to fully meet its objectives, it is important to ensure that right holders are able to, by utilizing their rights effectively, recover the costs paid to finance their breeding activities. Contract relating to Plant Breeders' Right (PBR) plays an essential role in the utilization of their PBRs, for which such a contract should be designed to work effectively and provided with provisions for ensuring right holders' benefits. On the other hand, it is also important to ensure that inequitable or unfair contracts may not undermine the benefit of the users of the registered variety, so as to promote the utilization of PBRs. For these reasons, it is necessary to examine the contents of the contracts relating to PBR as well as their effectiveness and validity, in order to promote the utilization of PBRs so as to ensure the effectiveness of the PVP system.

Many contracts relating to PBR have been concluded so far in Japan, and, as a legal expert, I have been, in collaboration with concerned parties including right holders, conducting

researches on current status of such contracts and legal issues thereof, with a view to contributing to the further development of Japanese PVP system. Among several types of contracts relating to PBR, I would like to pick up the most important one; PBR licensing contract, and explore:

- Japanese legal system relating to PBR licensing contracts,
- current situation of and issues in the contents of PBR licensing contracts in Japan, and
- current situation of and issues in the effectiveness of PBR licensing contracts in Japan.

## 2. LEGAL SYSTEM RELATING TO PBR LICENSING CONTRACTS

### (1) Provisions of Plant Variety Protection and Seeds Act relating to PBR Licensing Contract

Plant Variety Protection and Seeds Act (hereinafter referred to as the “Act”) which provides for Japanese PVP system has following provisions relating to PBR licensing contracts.

#### (a) *Authorization of PBRs*

In conformity with the UPOV Convention Act of 1991, the Act provides that PBR holders shall have an exclusive right to exploit, in the course of business, the registered variety or varieties which are not, on the basis of their characteristics, clearly distinguishable from the registered variety (hereinafter collectively referred to as “registered variety etc.”) in the form of propagating material, harvested material and processed products specified by Cabinet Order (Article 20 (1), Article 2 (5)). In relation to PBR licensing, the Act provides for two types of rights; exclusive exploitation right and non-exclusive exploitation right.

First, PBR holders may grant an exclusive exploitation right on his/her PBR (Article 25(1)), and the holder of an exclusive exploitation right has an exclusive right to exploit, in the course of business, the registered variety etc. to the extent laid down in contract granting the right (Article 25(2)). When a PBR holder grants an exclusive exploitation right, he/she loses the right to exploit the registered variety etc. concerned to the extent laid down in contract granting the right while, according to general interpretation, still being capable of seeking injunction. Grant of an exclusive exploitation right takes no effect unless they are registered in the Register of Plant Varieties kept in the office of the Intellectual Property Division, Plant Production Bureau, the Ministry of Agriculture, Forestry and Fisheries (Article 32(1)(ii)).

Second, PBR holders may grant a non-exclusive exploitation right on his/her PBR (Article 26(1)), and the holder of a non-exclusive exploitation right has a right to exploit, in the course of business, the registered variety etc. pursuant to the Act or to the extent laid down in contract granting the right (Article 26(2)). In the case of non-exclusive exploitation rights, unlike exclusive exploitation rights, registration in the Register of Plant Varieties is not a requirement for their legal effect. But, with registration, a non-exclusive exploitation right may be effective against anyone subsequently acquiring the PBR concerned, although few such registrations have been made. The status of the holder of an unregistered non-exclusive right is unstable because administrators in bankruptcy are able to cancel the licensing contract in cases where the PBR holder files a bankruptcy case (Article 53(1) of the Bankrupt Law), which has been a matter to be considered.

Contract granting an exclusive exploitation right or a non-exclusive exploitation right may include temporal or geographic scope to which the registered variety etc. may be exploited, and the unauthorized exploitation of the registered variety etc. beyond that scope is regarded as an infringement of the PBR.

*(b) Contracts Restricting the Use of Farm-saved Seeds*

Except for 82 vegetatively propagated species or genera specified by the Ordinance of the Ministry of Agriculture, Forestry and Fisheries, authorization of PBR holders is not required in cases where farmers have obtained harvested material by using the propagating material of a registered variety etc. which have been transferred by the PBR holder etc. and further use, on their own holdings, the said harvested material as propagating material for the next production cycle (Article 21(2) main text and (3)). However, parties may otherwise agree upon by contract (Article 21(2) proviso), and in such cases, an unauthorized use of farm-saved seeds against such a contract is regarded as an infringement of the PBR. In the Act, there is no provision for limiting the amount of royalty in cases where use of farm-saved seeds is restricted.

Under this arrangement, PBR holders are able to require his/her authorization for the use of farm-saved seeds of a registered variety by incorporating a provision for limiting such use in licensing contracts, even for the use of farm-saved seeds of crops belonging to species or genera other than the specified 82 vegetatively propagated species or genera. For this reason, in PBR licensing contract in Japan, it is important to consider if some provisions for restricting the use of farm-saved seeds are necessary and, where restricting such uses, the amount of royalty.

But, even where the PBR holder (A) has concluded a contract to require his/her authorization for the use of farm-saved seeds, the effect of the contract is limited to both parties to the contract. So, according to general interpretation, when the other party to the contract (B) has further transferred the propagating material received from the PBR holder (A) to a third party (C), the third party (C) is, except for special cases, not bound by the said contract and is able to use, without authorization, farm-saved seeds of the registered variety concerned. Also, given the sentences handed down in similar cases in the past, even if the PBR holder (A) had, in transferring the propagating material of a registered variety, given an indication on seed package or labels that use of farm-saved seeds is prohibited and the indication had not been removed when the third party (C) received the propagating material, it may not be regarded, solely by the fact of the existence of such indication, that the PBR holder (A) has concluded a contract with the third party (C) to require his/her authorization for the use of farm-saved seeds. For such cases, in addition to requiring his/her authorization for the use of farm-saved seeds, PBR holder (A) would need to prohibit the further transfer of the propagating material he/she transfers to the other party (B). As above, even though the use of farm-saved seeds can be restricted by contract, there remain problems in connection with its legal relations and effectiveness.

It is to be noted that discussions have been made on those provisions relating to the use of farm-saved seeds by farmers, and the Ministry of Agriculture, Forestry and Fisheries is conducting a research on domestic and international actual situation of the use of farm-saved seeds by farmers.

## (2) Conditions and Limitations in Licensing Contracts

(a) In Japan, cases are seen where licensors make his/her authorization subject to conditions and limitations. Under the principle of the freedom of contract, such conditions and limitations are valid in the elementary sense, but their validity may be denied for the reasons of public order and morality or the doctrine of good faith under the Civil Law, and subject to the limitation based on Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (the Antitrust Law).

(b) I will examine here the issues in PBR licensing contracts in connection with the Antitrust Law. Article 21 of the Antitrust Law provides that “The provisions of this Act shall not apply to such acts recognizable as the exercise of rights under the Copyright Act, the Patent Act, the Utility Model Act, the Design Act or the Trademark Act.” This provision, according to general interpretation, applies also to PBRs, and thus the Antitrust Law applies to such acts not recognizable as the exercise of a PBR. Specifically, while acts that licensors make his/her authorization subject to conditions and limitations can be seen as “the exercise of a PBR”, acts of requiring temporal or geographic limitations, BEYOND the scope of the PBR as provided for by the Act, on the exploitation by licensee of registered variety may not be regarded as “the exercise of a PBR” and thus be a matter of Antitrust Law. An example of such acts may include the case where the licensor prohibits the licensee from exploiting the registered variety for the purpose of breeding new varieties, contrary to Article 21(1)(i) of the Act which provides, in conformity with Article 15(1)(iii) of the UPOV Convention Act of 1991, that PBRs may not extend to the exploitation of registered varieties for the purpose of breeding new varieties. Such a PBR licensing contract requires examination especially in the context of unfair trade practices (Article 19 of the Antitrust Law) among other types of acts prohibited by Antitrust Law.

In order to give guidance on the application of Antitrust Law to acts for limiting the use of goods protected by intellectual property rights, Japan Fair Trade Commission published, on September 28<sup>th</sup> 2007, the “Guidelines for the Use of Intellectual Property Rights in the Context of Antitrust Law (hereinafter referred to as “guidelines”)”, in which PBRs are also covered. In the guidelines, three examples are given as an act which may be regarded as unfair trade practices; (1) acts of a licensor to limit research and development activities by a licensee, (2) acts of a licensor to impose a licensee an obligation to have the rights in relation to improved technologies developed by the licensee transferred to him/her, and (3) acts of a licensor to impose a licensee an obligation to pay, even after the rights has terminated, royalty. Since this guideline is thought to have been developed focusing mainly on patent rights, it would be necessary to consider the application of the guideline to PBR licensing contract taking into account the difference of licensing contracts between PBRs and patent rights.

## 3. CURRENT SITUATION OF AND ISSUES IN THE CONTENTS OF PBR LICENSING CONTRACTS

(1) In Japan, guidelines for public use relating to PBR licensing contracts or standard licensing contract have not been developed, and different contracts are placed from one PBR holder to another, one plant species to another and one transaction type to another. Regarding the amount of royalty and the way it is collected, various types can be seen even within one single species of plant, from lump-sum fixed payment at the time of concluding a contract to payments calculated based on amount of products produced or shipped to market. There are

cases where provisions for limiting the acts of the licensee are incorporated in PBR licensing contracts, some of which require examination from the view point of their validity.

## (2) Limitation on the Use of Registered Varieties for the Purpose of Breeding New Varieties

There are a few cases where provisions are incorporated in the PBR licensing contracts for limiting the use of registered variety transferred to the licensee for the purpose of breeding new varieties. One of the reasons of incorporating such provisions in the contract is that PBR holders fear that their sales of products derived from a registered variety might be influenced by new varieties bred using the said registered variety, especially in such cases where distinctness, as one of the conditions for variety registration, has been recognized in terms of a characteristic which may not be important for consumers' choice of cut flowers, or where the PBR holder regards that it has not been made clear by the legal authority what constitutes so called "essentially derived variety".

As mentioned above, the Plant Variety Protection and Seeds Act provides, in conformity with Article 15(1)(iii) of the UPOV Convention Act of 1991, that the effect of a PBR does not extend to the exploitation of a registered variety for the purpose of breeding new varieties (Article 21(1)(i)). This is because it is thought to be in consistent with the objectives of the Act of promoting the breeding of plant varieties to ensure free access to existing varieties, even to registered varieties, necessary for breeding new varieties, and that disadvantage suffered by the PBR holder from such uses is limited.

Such a contract puts additional limitation, contrary to the Article 21(1)(i) of the Act, on the use by the licensee of the registered variety, and it would be reasonable to regard, in the light of Article 21(1)(i) of the Act and the objectives of the Act, that the said article is a compulsory provision and contracts contrary to it are null and void.

In addition, such a contract is also a matter of the Antitrust Law, since the scope of PBRs does not extend to the use of registered varieties for the purpose of breeding new varieties. The guidelines provide that acts to limit research and development activities of licensees in principle fall within the scope of unfair trade practices, since such acts may, in general, undermine competition in future markets by affecting competition in the field of research and development, and thus have anticompetitive effect. For these reasons, provisions in the contract for limiting the use of registered varieties for the purpose of breeding of new varieties may fall within the scope of unfair trade practices and be regarded as illegal.

As above, provisions in the contract for limiting the use of registered varieties for the purpose of breeding new varieties should be examined in terms of its effectiveness and validity, taking into consideration the specificity of PVP system and situations in breeding industry, so that PBR licensing contracts might be more appropriate.

## (3) Provisions for Cases where Mutants are Detected

There are cases where provisions are incorporated in the PBR licensing contracts for having, where mutants such as bud mutation are detected in the population of registered variety, the ownership thereof or the title of applicant for variety registration transferred to the licensor, or for imposing the licensee an obligation to report to the licensor accordingly in the event of mutant detection.

Such a contract is a matter of Antitrust Law, since putting such an obligation on licensee is not regarded as an “exercise of the PBR”. The guidelines provide that acts of a licensor to impose a licensee an obligation to have the rights in relation to improved technologies developed by the licensee transferred to him/her in general are regarded as with no good reason and fall within the scope of unfair trade practices, since such an obligation unfairly strengthens the status of the licensor in the market. Although the guidelines may not be directly applied to abovementioned cases because in that case the licensee merely detected mutants by incidence (and did not develop a new technology), such a provision is favorable to the licensors who are in general already in a stronger position, for which the validity should be fully examined.

#### (4) Limitation on Use after the Extinction of the PBR

There are cases where provisions are incorporated in contracts related to a variety on which a PBR has already terminated, for limiting the use of such varieties, or imposing the licensee an obligation to pay royalty for the use of such varieties. The guidelines provide that such an act falls within the scope of unfair trade practices, if it is regarded as undermining free access to technologies and having an anticompetitive effect, and thus the validity of such a contract should be examined.

(5) In addition to the ones mentioned above, there are other cases where provisions only favorable to the licensor are incorporated in the PBR licensing contracts, such as provisions for prohibiting the licensee from transferring propagating material even after the exhaustion of the PBR on it, for which the validity should be examined. Promoting appropriate PBR licensing contracts would contribute to the utilization of PBRs as well as to the benefit of the PBR holders. So, it is necessary to examine the validity of various PBR contracts, taking into consideration the specificity of PVP system and situations in breeding industry, so that more appropriate contracts might be promoted.

On the other hands, there are also cases where the contents of the contracts are not sufficient for PBR holders to protect their rights effectively. PBR licensing contracts should be with necessary and sufficient provisions for ensuring PBR holders’ benefits and for preventing future conflicts.

For these reasons, in order to promote the utilization of PBRs as well as to make the PVP system more effective, it would be necessary to develop and publish guidelines and standard licensing contracts after consideration on what are the necessary and sufficient provisions in PBR licensing contracts. This would be expected to contribute to the promotion of utilization of PBRs, by ensuring, from PBR holders’ perspective, reasonable and appropriate contents of PBR licensing contracts, as well as by enabling users of registered varieties to sign into a contract with security.

#### 4. CURRENT SITUATION OF AND ISSUES IN THE EFFECTIVENESS OF PBR LICENSING CONTRACTS

(1) With regard to PBR licensing contracts, it is also necessary to examine its effectiveness in terms of whether the initial objectives of its provisions are really met. This is a matter of, in addition to the contents of the contracts, PVP system itself and its related legislature, because it is closely related to the enforcement activities under those systems to ensure the compliance with the contracts.

(2) With respect to the contents of the contracts, for the purpose of figuring out the amount of products produced or shipped to markets, especially in cases where the amount of royalty is to be calculated based on those amounts, or for the purpose of verifying the compliance with the contracts, it would be necessary for the licensor to impose the licensee an obligation to report to him/her the amount of products produced or accept inspection as requested by the licensor. But, in such cases where licensees are given an authorization to use farm-saved seeds and are in return to pay royalty based on amounts of harvested material produced, it would be practically difficult to figure out precisely the amount of farm-saved seeds used in the licensees' own holdings.

(3) With respect to PVP system and related systems, in order to safeguard the effectiveness of PBR licensing contracts, some reform or reinforcement would be necessary for ensuring that PBR holders are able to exercise their rights effectively against persons infringing their PBRs.

In Japan, though a number of suspected acts of infringement on PBRs have been identified, PBRs have not been, for some reasons, really exercised by their holders. For this reason, the Act has special provisions related to Civil Procedure Code for reducing burden on the PBR holders in civil cases in which he/she claims compensation for damage on the ground of PBR infringement. In 2007, the Act has been amended to reinforce such special provisions in order to further facilitate the exercise of PBRs as well as to strengthen penal provisions pertaining to PBR infringement. The revised law is expected to prevent breach of PBR licensing contracts.

(4) Since it is a burden on PBR holders to conclude contracts, collect royalty and exercise their rights against infringement by themselves, in order to promote the utilization of PBRs, it would also be necessary to give them an option to outsource those services. Although there are organizations in foreign countries that carry out services in relation to conclusion of contracts and royalty collection for PBR holders, there is no such organization in operation in Japan. It should be noted that, in recent years, with the amendment of Trust business Law, there are a growing number of cases in which trust companies, trusted with PBRs, utilize those rights on behalf of the PBR holders. Attention has been paid to such cases as contributing to the utilization of PBRs.

## 5. POSTSCRIPT

So far, I have given an overview of the Japanese legal system related to PBR licensing contracts. Examining the contents of PBR licensing contracts would be very meaningful for the purpose of promoting the utilization of PBRs and further developing the PVP system. I would be willing to make further efforts for clarifying situations of and issues in PBR licensing contracts, and for making Japanese PVP system more effective.

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