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**INTERNATIONAL UNION FOR THE PROTECTION OF NEW VARIETIES OF PLANTS**

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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 JURISPRUDENCE – EUROPEAN COMMUNITY**

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**1. LEGAL BASIS**

Council Regulation 2100/94 (“Basic Regulation”) sets out the legal basis for the Community plant variety right system. The Basic Regulation complies with the 1991 UPOV Convention.

The Basic Regulation contains a limited number of provisions relating to contractual aspects of exploiting varieties protected under the Basic Regulation. The Community Plant Variety Office’s (the CPVO) core business is to assess applications for Community plant variety rights. The CPVO is not involved in contractual aspects other than registering transfers of ownership, registering certain licenses in the register and publishing agreements on farm saved seed. The CPVO may also grant compulsory licenses.

Article 13 of the Basic Regulation provides that the acts listed below under (a)-(g), subject to the exemptions under Articles 15 and 16, in respect of variety constituents, or harvested material of the protected variety, shall require the authorization of the holder:

- (a) production or reproduction (multiplication);
- (b) conditioning for the purpose of propagation;
- (c) offering for sale;

- (d) selling or other marketing;
- (e) exporting from the Community;
- (f) importing to the Community;
- (g) stocking for any of the purposes mentioned in (a) to (f).

Article 13 further states that “*The holder may make his authorization subject to conditions and limitations.*”

In Article 27 of the Basic Regulation, it is further specified that Community plant variety rights may form in full or in part the subject of contractually granted exploitation rights. Exploitation rights may be exclusive or non-exclusive. It is further specified that the holder may invoke the rights conferred by the Community plant variety right against a person enjoying the right of exploitation who contravenes any of the conditions or limitations attached to his exploitation right.

Accordingly, a holder may decide, instead of producing and marketing the protected variety himself, to grant a license to another firm enabling it to do so.

## 2. LICENSE AGREEMENTS

In practice, many of the contracts that a holder enters into are license agreements. A license agreement could comprise almost all rights of the holder, or it can be limited to certain acts and/or territories. Frequently terms in license agreements relates to duration of the agreement, territorial limitations, levels of royalties to be paid, number of plants to be produced, grant of sub-licenses, policing, actions for infringements and auditing, assignment, EDV, applicable law, settlement of disputes and termination of the contract.

Under Article 87.2(f) of the Basic Regulation, the CPVO shall, on request, enter any contractual exclusive exploitation right or compulsory exploitation right in the Register. The request shall be made in writing accompanied by supporting documents.<sup>1</sup>

## 3. COMPULSORY LICENSES

Whilst licenses are entered into after negotiations between parties, the CPVO shall, if certain conditions are fulfilled, grant a compulsory license. The CPVO would only act on an application by the person or those persons wishing to acquire a license and after consulting the Administrative Council of the CPVO.

The CPVO shall, when granting a compulsory exploitation right, stipulate contractual obligations such as the type of acts covered and reasonable conditions. Reasonable conditions shall take into account the interests of any holder of plant variety rights who would be affected by the grant of the compulsory exploitation right. The reasonable conditions may include a possible time limitation, the payment of an appropriate royalty as equitable remuneration to the holder, and may impose certain obligations on the holder, the fulfillment of which are necessary to make use of the compulsory exploitation right. The CPVO has not yet received a request for a compulsory license.

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<sup>1</sup> Article 80 of Commission Regulation 1239/95

#### 4. TRANSFER

In case of a license, the holder remains the same whilst the licensee is authorized to certain acts covered by Article 13.2. However, the entire title may also be transferred.<sup>2</sup> A transfer is in fact a contractual arrangement in which the former holder transfers his title to the successor. The new holder must be registered in the CPVO Register.<sup>3</sup> A transfer shall be made in writing and shall require the signature of the parties to the contract, except when it is a result of a judgment or of any other acts terminating court proceedings. Otherwise it shall be void.

When reviewing agreements which parties furnish to the CPVO in support of a request to transfer the rights, it is not always clear if the agreement entered into is a transfer or a license agreement. The CPVO then asks the parties for clarification. A transfer may also be the result of a larger transaction when all assets of a company is purchased by another company or when two companies merge. Such requests must also be supported by documents showing that the CPVR was part of the transaction before a change in the register is made. A transfer can also take place in cases when the holder dies. An application for Community plant variety rights may also be subject to a transfer, under the same conditions as the transfer of rights.<sup>4</sup> A person may request a national court to have the Community plant variety right transferred to him in case the person believes that he, and not the holder, is entitled to the right, Article 98 of the Basic Regulation.

#### 5. UNIFORM EFFECT WITHIN THE EU

An important element is that Community plant variety rights shall have uniform effect within the territory of the Community.<sup>5</sup> Accordingly, Community plant variety rights may only be granted, transferred or terminated for the entire territory of the Community. As an example, variety X cannot be granted in Member States ABC to holder XX and in Member States EFG to holder YY. However, a holder may grant a license limited to Member States ABC to licensee XX and another license for Member States EFG to licensee YY.

#### 6. LIMITATIONS OF THE RIGHTS

Article 13(2) specifies that the exclusive right is subject to the exemptions in Articles 15 and 16. In essence, Article 15 deals with the private use of protected varieties, experimental use and the breeders' exemption. Article 16 deals with the exhaustion of rights. Article 14 provides a derogation from Article 13(2) allowing farmers, under certain conditions, to use a protected variety without the authorization of the holder.

Article 13.8 states that the exercise of the rights conferred by Community plant variety rights may not violate any provisions adopted on the grounds of

- public morality
- public policy or public security

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<sup>2</sup> Under Article 23 of the Basic Regulation, a Community plant variety right may be the object of a transfer to one or more successors in title.

<sup>3</sup> Article 87.2(d) of the Basic Regulation and Article 79 of Commission Regulation 1239/95

<sup>4</sup> Article 26 of the Basic Regulation

<sup>5</sup> Article 2 of the Basic Regulation

- the protection of health and life of humans, animals or plants
- the protection of the environment
- the protection of industrial or commercial property, or
- the safeguarding of competition, of trade or of agricultural production.

Article 13.8 reflects the conditions under which EU Member States may hinder free movement of goods under the Treaty (Articles 28 and 30). Similar provisions are found in the TRIPS agreement.

The aim of this presentation is not to deal with the exemptions as such. I will nevertheless focus on some issues that can affect the extent to which parties may conclude agreements.

## 7. ARTICLE 13.8 – THE EXERCISE OF THE CPVR

Of the areas listed in Article 13.8, it is the rules on safeguarding competition that has led to decisions from the Commission (acting on powers conferred to it by the Council) and the European Court of Justice (ECJ).

Under EU Competition law, agreements which may affect trade between Member States and which have as their object or effect the prevention, restriction, or distortion of competition within the common market are prohibited.<sup>6</sup> Such agreements shall be automatically void<sup>7</sup> unless an exemption is given by the Commission.<sup>8</sup> Any abuse of a dominant position is also prohibited.<sup>9</sup>

To assess whether a company breaches competition law can be rather complex since it does not only entail an analyses of specific articles in agreements, but also the effects the agreement has on the market. The market power of the companies parties to the agreement is also an important element of the assessment.

In many cases, licensee agreement between a holder of an intellectual property and a producer is not considered as harmful for competition since the holder/licensor merely gives the licensee the right to do what the holder himself has the right to do. However, competition law has been applied in cases when parties divide the single market, where parties are obliged to buy only from one source, when one party is not permitted to make further research or when parties agree on price fixing arrangements. In general, objection might be taken to terms which are perceived to be an attempt to extend the IP right holder's monopoly power beyond the protection afforded to it by the law and/or which might be considered to be oppressive to a person in a weak bargaining position.

Below are summaries of four decisions when the ECJ or the Commission has reviewed license agreements on plant variety rights from a competition law perspective.

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<sup>6</sup> Article 81(1) of the Treaty

<sup>7</sup> Article 81(2) of the Treaty

<sup>8</sup> Article 81(3) of the Treaty

<sup>9</sup> Article 82 of the Treaty

Case law

*Nungesser v Commission*<sup>10</sup> was one of the first cases in which the licensing of intellectual property rights was reviewed by the ECJ. The French breeding institute INRA had entered into a license agreement with Mr Eisele based in Germany. Mr Eisele was a supplier of seeds as well as the active partner and majority shareholder of the firm Nungesser, specialised in the production of seeds and their trade. The agreement allowed Mr Eisele to prevent all imports into Germany or exports from Germany to other Member States of officially certified seeds of varieties of the maize varieties subject to the agreement. The agreement obliged INRA to refrain from having the relevant seeds produced or sold in Germany by other licensees or by INRA itself. The Commission decided that there was a violation of Article 81(1) EC<sup>11</sup>. Nungesser appealed the Commission decision.

The ECJ distinguished between an *open exclusive license* whereby a licensor agrees not to license anyone else in the licensee's territory, and not to compete therein itself, and an *exclusive license* which confers *absolute territorial protection* with the effect that all competition from third parties is eliminated, such as parallel importers or licensees for other territories. As to the open exclusive license the ECJ noted that a licensee of new technology might be deterred from accepting the risk of cultivating and marketing a new product unless it knew that it would not encounter competition from other licensees in its territory. It followed that an open license which does not affect the position of third parties such as parallel importers does not have as its object the restriction of competition. On the other hand, absolute territorial protection would automatically be caught by Article 81(1) and would not be eligible for exemption under Article 81(3). The court stated that<sup>12</sup>

*As it is a question of seeds intended to be used by a large number of farmers for the production of maize, which is an important product for human and animal foodstuffs, absolute territorial protection manifestly goes beyond what is indispensable for the improvement of production or distribution or the promotion of technical progress, as is demonstrated in particular in the present case by the prohibition, agreed to by both parties to the agreement, of any parallel imports of INRA maize seeds into Germany even if those seeds were bred by INRA itself and marketed in France.*

In *Louis Erauw-Jacquery Sprl v La Hesbignonne*,<sup>13</sup> a Belgian court referred to the ECJ questions on the compatibility to competition law of two clauses in a license agreement for the propagation and sale of certain varieties of cereal seeds. Erauw-Jacquery had granted a license to La Hesbignonne to propagate *basic seeds* and to sell seeds reproduced from the basic seeds, *reproductive seeds*. One clause prohibited the export of basic seeds, the other clause required the licensee not to resell the reproductive seeds below minimum selling prices. The ECJ held that the export ban in relation to basic seeds did not infringe Article 81(1). A plant breeder is entitled to reserve the propagation of basic seeds to institutions approved by him and an export ban is objectively justified in order to protect his right. Basic seeds are not intended for sale to farmers for sowing, but are intended solely for the purpose of propagation. The ECJ held that an export ban of this kind arises from the existence of the plant variety right and is not an improper exercise of it. The ECJ then

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<sup>10</sup> Case 258/78 [1982] ECR 2015

<sup>11</sup> Commission Decision N° 78/723/EEC of 21 September 1978

<sup>12</sup> paragraph 77 of the judgment

<sup>13</sup> Case 27/87 [1988] ECR 1919

concluded that the provision on minimum pricing had as its object and effect the restriction of competition only if it is found, having regard to the economic and legal context of the agreement containing the provision in question, that the agreement is capable of affecting trade between EU Member States to an appreciable degree. The ECJ stated that it was up to the national court to decide if the agreement is capable of affecting trade between member states to an appreciable degree.

In the *Sicasov* decision,<sup>14</sup> the standard license agreements of Sicasov, a French cooperative of breeders, was assessed by the Commission. The Commission explains in detail the distinction between *basic seeds*, intended only for propagation, and *certified seeds*, intended for sale to farmers for sowing. Following the findings in the *Nungesser* case, the Commission concluded that the holder is entitled to control the destination of basic seeds that have been put onto the market with its consent. It followed that the obligation not to entrust basic seeds to a third party, not to export them and related provisions did not infringe Article 81(1). However, a restriction on the export of certified seeds did infringe Article 81(1) but was exempted pursuant to Article 81(3), since, *inter alia*, parallel imports was not prohibited.

In the *Roses*<sup>15</sup> decision, the Commission condemned two provisions in a standard agreement on the license of plant variety rights. The first was a clause which obliged the licensee to transfer all rights to new developments of the protected variety (even to applications) to the holder, a so called exclusive grant-back clause. The Commission held that this effectively removed the licensee from the market of mutations which it discovered. The second was a clause prohibiting the licensee to challenge the validity of the plant variety right on which the license was based, a so called no-challenge clause. The Commission held that the fact that plant breeders' rights are conferred only after a national authority's involvement does not mean that there might not have been an error of appreciation that could be challenged by a licensee.

#### Block exemptions issued by the Commission

In order to facilitate the assessment of whether a clause is caught by the prohibition under Article 81(1) of the Treaty and whether the agreement could be exempted under Article 81(3) of the Treaty, the Commission issued a so called block exemption on technology transfer Agreements in 1996 (Regulation 240/96).<sup>16</sup> This Regulation provided for a black list of prohibited clauses and a white list of clauses not infringing competition law. This Regulation was replaced by Regulation 772/2004<sup>17</sup> in 2004. In the recitals of Regulation 772/2004 it is explained that it is appropriate to move away from the approach of listing exempted clauses and to play greater emphasis on defining the categories of agreements which are exempted up to a certain level of market power and on specifying the restrictions or clauses which are not to be contained in such agreements. The recitals also stipulate that a distinction must be made between agreements between competitors (horizontal agreements) and agreements between non-competitors (vertical agreements). In general, horizontal agreements, often referred to as cartels, are treated less lenient than vertical agreements. In case the undertakings parties to the

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<sup>14</sup> Commission Decision of 14 December 1998, No IV/35.280, OJ [1999] L 4/27

<sup>15</sup> Commission Decision of 13 December 1985, No IV/30.017, OJ [1985] L 369/9

<sup>16</sup> Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements, OJ L31 31.1.1996, p.2

<sup>17</sup> Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123 27.4.2004 p.11

agreement are competitors, the block exemption applies if the combined market share of each of the parties does not exceed 20% on the affected relevant technology and product market. For non-competing undertakings, the equivalent level of market share is 30%.<sup>18</sup>

It is not my intention to deal with this complex subject in this short presentation. It should however be mentioned that plant variety rights are comprised by Regulation 772/2004.<sup>19</sup> It can also be mentioned that the Regulation raises specific suspicions on clauses on price fixing, absolute territorial restrictions, grant back clauses and no-challenge clauses.<sup>20</sup>

## 8. ARTICLE 14 - FARM SAVED SEED

Article 14 of the Basic Regulation states that notwithstanding Article 13 (2), and for the purposes of safeguarding agricultural production, farmers are authorized to use for propagating purposes in the field, on their own holding the product of the harvest which they have obtained by planting, on their own holding, propagating material of a variety other than a hybrid or synthetic variety, which is covered by a Community plant variety right. The exemption is limited to agricultural species of fodder plants, cereals, potatoes and oil and fibre plants.<sup>21</sup>

One of the conditions for giving effect to this derogation is that farmers (except small farmers<sup>22</sup>) using farm-saved seed shall be required to pay an *equitable remuneration* to the holder, which shall be sensibly lower than the amount charged for the licensed production of propagating material of the same variety in the same area.<sup>23</sup>

The level of equitable remuneration to be paid to the holder may be specified in a contract between the specific holder and the specific farmer concerned.<sup>24</sup> In the absence of such a contract, the level of remuneration covered by agreements between organizations of holders and of farmers for the species concerned shall be used as guidelines, provided such associated levels and conditions have been:

- notified in writing to the Commission, and
- published in the Official Gazette by the Community Plant Variety Office.

When no agreement is applicable, the determination of a level of remuneration on the basis of certain guiding principles laid down in Article 5(2), 5(3) and 5(5) of Regulation 1768/95. In essence, these guidelines provide for a remuneration level of 50% of the amounts due for the licensed production of propagating material (certain variations are nevertheless possible).

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<sup>18</sup> Article 3 of Regulation 772/2004

<sup>19</sup> Article 1.1(h) of Regulation 772/2004

<sup>20</sup> Article 5 of Regulation 772/2004

<sup>21</sup> For a complete list of the species, see Article 14.2 of the Basic Regulation,

<sup>22</sup> The concept of small farmers is defined in Article 14.3 indent 3 of the Basic Regulation and Article 7 of Commission Regulation (EC) No 1768/95 of 24 July 1995 implementing rules on the agricultural exemption provided for in Article 14(3) of Council Regulation (EC) No 2100/94 on Community Plant variety rights, OJ L173, 25.7.1995, p.14, as amended by Commission Regulation (EC) No 2605/98 of 3 December 1998, L328 4.12.1998 p.6

<sup>23</sup> Article 14.3 indent 4 of the Basic Regulation

<sup>24</sup> Article 5.1 of Commission Regulation (EC) No 1768/95, cited in foot note 21 above

In the case *Saatgut-Treuhandverwaltungs GmbH v Deppe and others*,<sup>25</sup> the ECJ, in a preliminary ruling requested by a German court, gave its opinion on certain aspects of the role of contracts and the guiding principles.

The questions were raised in the course of proceedings between STV, an German organization of holders of Community PVR ('the holders') and a number of farmers (farmers), regarding the payment of claims to remuneration for the planting of seeds of protected varieties. In particular, no consensus had been reached on the interpretation of the meaning of an *equitable remuneration* to the holder, which shall be *sensibly lower* than the amount charged for the licensed production of propagating material of the same variety in the same area. In this case, no specific agreement had been entered into between the parties. An agreement between breeders and farmers organizations had been entered into, with levels up to 80% of the amounts due for the licensed production of propagating material. The agreements had not been submitted to the Commission and had not been published in the CPVO Gazette.

The ECJ concluded that since the agreement had not been published it could not be used as a guideline. It did however comment on the 80% level stating, in essence, that a flat-rate remuneration of 80% of the amount charged for the licensed production of propagating material of the lowest category qualified for official certification, of the same variety in the same area does not satisfy the condition that remuneration has to be *sensibly lower* than the amount charged for the licensed production of propagating material within the meaning the Regulation. The ECJ held that in the absence of an applicable agreement between organizations of holders and of farmers, the remuneration of a holder had to be established, pursuant to Article 5(5) of Regulation No 1768/95.

## 9. CONCLUSIONS

The CPVO is involved in assessing contracts in order to establish who is entitled to apply for protection and who is the legitimate holder following a transfer of rights. The CPVO may also assess license agreement to be registered. On request, the CPVO may also take decisions on compulsory licenses. The CPVO may also publish agreements between farmers' organizations and breeders' organizations in the Official Gazette.

However, contracts entered into for the purpose of exploiting a variety commercially is a matter for the holder and other market players. The parties have a lot of freedom when negotiating the terms of such contracts. Account must nevertheless be taken to the scope of protection and the limitations as provided for in the Basic Regulation. Aspects such as competition law and national contract law must be respected. From case law it can be concluded that a holder may invoke stricter conditions on licensees for basic seeds than for certified seeds. It can also be concluded that price fixing, absolute territorial protection, no-challenge clauses and exclusive grant back in license agreements are often considered contrary to competition law.

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<sup>25</sup> Case C-7/05 - 9/05, 8 June 2006