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**SYMPOSIUM ON CONTRACTS RELATING
TO BREEDER'S RIGHTS**

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**SESSION II: EXPERIENCES OF BREEDERS: ROLE OF CONTRACTS IN THE
EXERCISE OF BREEDER'S RIGHTS**

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1.- INTRODUCTION

The breeder's right, as envisaged in the UPOV Convention, is based on the grant of a series of exclusive rights relating to material for reproducing or propagating the protected variety¹. Such rights do not cover the whole of the plant material constituted by the new variety, but only its reproductive elements and, in principle, exclude other elements such as the harvested material².

¹ Article 14, "Scope of the Breeder's Right", UPOV Convention (1991 Act).

² The 1991 Act of the Convention has provided for the extension of the breeder's right to the harvested material, including entire plants and parts of plants, obtained through the unauthorized use of propagating material of the protected variety, unless the breeder has had reasonable opportunity to exercise his right in relation to the said propagating material. It does not, however, define when an opportunity may be considered "reasonable", which gives rise to some uncertainty in the application of a fundamental aspect of the Convention.

However, in numerous crops of great economic importance (flowers, fruit and vegetables) the activity of breeders is aimed, in many cases, at creating and developing new varieties whose added value lies exclusively in the “harvested material” (final product), which brings advantages in terms of quality, beauty, organoleptic qualities, presentation, conservation, etc., and not in the propagating material. For such cases, a general pattern of use of a variety based on propagating material is difficult, since the variety provides no added value in said propagation phase (seedbeds and nurseries). In many cases, the breeder must follow the *downstream* strategy in order to capture that added value and guarantee the profitability of his investment, by moving closer to the producer, marketer and consumer of the final product as beneficiaries of the advantages generated by the new variety.

Furthermore, the exercise of the breeder’s rights against the unauthorized acts of third parties may be extremely difficult in the sectors mentioned. Firstly, through the gradual displacement of a large part of the production to third countries, which would lead breeders to face impossible costs to be assumed if they tried to protect the variety in all the potential producer countries (supposing moreover that that were possible, given that in many countries sufficient legislation does not exist to protect the breeder’s rights, or its practical application gives rise to enormous difficulties and costs). In this regard, it should be taken into account that the ornamental, horticultural and fruit sector generate a great deal of commercial momentum, and that the breeders who carry out their activities in that sector have to handle a very broad range of varieties (several hundreds in many cases), the commercial life of which is short lived (five or six years). Secondly, because in such circumstances the possibilities for exercising the rights in the material for propagating the protected variety are very limited and in many cases far beyond any “reasonable” consideration, while the breeder is obliged to act on the harvested material (cut flower, fruit). This gives rise to the need to identify the variety from that harvested material and to determine whether its source is legitimate or it has been produced using unauthorized reproduction material.

It is not our intention to debate here the scope of the breeder’s right, as it is defined by the UPOV Convention. This matter has already been broadly discussed. Nevertheless, the contracts used by breeders in relation to their protected varieties, particularly when third parties are authorized to use the variety, are a fundamental element of breeders’ strategy to guarantee the exercise of their rights. In this presentation, we will try to present a number of examples of such strategies used to allow the exercise of the rights in the harvested material, and will explain the basic characteristics of the contracts used for that purpose.

2.- PRIOR CLARIFICATION

The cases, conclusions and opinions which will be described are drawn from 12 years’ experience working for GESLIVE, an organization formed by breeders in Spain and devoted to the management and defense of their intellectual property rights, during which several thousand licenses for some 800 plant varieties have been managed, and approximately 200 cases of legal proceedings initiated, especially for infringement of breeder’s rights.

The examples put forward refer to protected varieties in accordance with the system established by the UPOV Convention, and are based on experience focused especially on the European Union. However, insofar as the applicable laws may differ between countries, we cannot guarantee that the conclusions and opinions put forward are valid for all countries.

As regards contracts, the impact that may result from other legal rules different from the legislation protecting plant varieties, particularly general rules on obligations and contracts, should be taken into account in terms of their civil and commercial aspects, where such a difference is relevant.

Similarly, it is important to draw attention to the possible application of anti-trust and defense of competition laws, which are extremely rigorous in some countries, and in relation to which a clash with certain contractual aspects may not be excluded, particularly when the contracts establish commercial restrictions. We will refer to this later on.

Finally, it should be remembered that the law is not an exact science, for which reason the conclusions drawn in each case may differ between specific legal experts, and also, as shown by experience, between the courts in a single country, such that no result can be guaranteed.

3.- CERTAIN GENERAL CONSIDERATIONS: EXPLICIT REFERENCES TO PROTECTION AND SALE CONDITIONS

The first condition for the existence of the breeder's right is obviously the grant of legal protection for the plant variety, in accordance with the law in force in the particular territory. In addition to this basic consideration (which, however, is still ignored in certain cases, for example in the horticultural sector), we wish to refer to the importance of recording the protection of the variety in all documentation referring to the plant material of that variety.

In many cases, the third party acquiring the plant material (in particular farmers, but also distributors and merchants) may be unaware that said material belongs to a protected variety and that, for that reason, certain acts require prior authorization from the breeder. Irrespective of whether such a lack of knowledge actually exists, knowledge of protection has direct consequences in legal action which the breeder may take in the case of infringement. In particular, in those cases where the infringement of the breeder's rights is punished as a crime, it is customary to require proof of the knowledge of protection by the infringer as an element necessary for the existence of the crime.

For that reason, breeders are actively encouraged to make express reference to the existence of protection and also to the prohibition to carry out acts of reproduction, propagation and trade without their prior authorization, where species are concerned for which no "farmer's privilege" exists, or limits and conditions apply within which this privilege may be exercised as permitted by applicable legislation. That reference must appear in all commercial documentation (commercial catalogues, general conditions of sale, delivery notes, invoices, material packaging) which refers to a protected variety, and imposing also the obligation to include such a reference to their licensees authorized to propagate and sell material of the protected variety, where those exist.

In addition, in the cases in which it is the breeder himself who propagates and sells the material of his variety, and there exists the risk of, or reasons to suspect, subsequent unauthorized reproduction of that material, it may be advisable for both parties (breeder and acquirer of the plant material) to draw up a specific contract ("operating contract") which highlights the protection of the variety, the prohibition (or as applicable the terms of authorization) of subsequent reproductions, and the capacity for the breeder or an authorized agent to carry out inspections and checks on site in the premises belonging to the acquirer, in order to verify appropriate use of the material and that unauthorized reproductions do not

exist. Where the breeder's marketing arrangements do not allow such a detailed check, it is at least advisable to include such references in the commercial documentation and particularly in the general conditions of sale. As an example, we may state that the Horticultural Section of the *European Seed Association* has expressly adopted this recommendation for all firms involved, as a way to combat the increasing illegal propagation of horticultural varieties (tomato, melon, lettuce, water melon etc.).

Such precautions appear to be reflected in a specific contract ("operating contract") concluded by the acquirer of the material of the protected variety. The extension of these precautions not only to the material for reproducing the variety (seeds, plants) but also to the harvested material (flower, fruit) is more complex. There is, however, no doubt that said harvested material is in many cases susceptible to subsequent reproduction, even though the results are not ideal and are a long way from the technical recommendations for a good crop. For example, in GESLIVE we have detected in various cases the reproduction by seed farmers of hybrid horticultural species (tomato, melon). The seeds used for the propagation had been obtained directly from fruit on the market, where of course there was no mention of the existence of breeder's rights. This is a complex issue which may affect the whole commercial chain, to which we will return later.

4.- OPERATING LICENSES FOR PRODUCERS AND/OR MARKETERS OF THE FINAL PRODUCT

In order to respond to the needs described (capturing the added value of the variety; verification of unauthorized propagation; identification of the final product), in the past few years a new form of licenses has become common in certain species (particularly fruit), concluded directly between the breeder of the variety and the farmer or marketer of the final product.

Usually, in such contracts the breeder transfers to the third party the right to use his variety in return for a royalty established not on the basis of the reproduction material, but on the harvested material, or even a derived product ("*end point royalty*").

Even where these contractual arrangements have been discussed in certain countries (Spain, for example), we should clarify that, in many cases, their conception and legal basis are literally adjusted to the conception of the breeder's right contained in the UPOV Convention. Nothing prevents a breeder from granting to a third party (farmer, marketer) a license for his variety, for which the said third party *is authorized to propagate the reproduction material of his variety, for its use in the places, agreed quantities and conditions, in exchange for a fixed royalty per plant, surface unit, or quantities produced or marketed of the harvested material.* The participation of a third professional propagator (seedbed, nursery), where this occurs, in no way changes the substance of the contract, since it may be considered a service provider for the farmer, for whom it reproduces the material with which the farmer, or the breeder directly, has supplied it. The free commercialization of the material by the propagator is normally excluded. Similarly, the collection of royalties for the harvested material (in fixed amounts or as a percentage of the sale price for the said product) does not in itself imply any change in the scope of the breeder's right. Even if we try to retain a strictly orthodox approach to the subject matter of the right (the reproduction material and not the harvested material), there is no reason for the royalty not to be paid at the "exit door" (or even the yield gained from that plant or seed) instead of the "entrance door". Furthermore, it may be stated that this system of royalties is fairer to the farmer, since it will only pay the breeder a royalty

in proportion to the benefit actually obtained (which would not happen if a fixed royalty were paid when acquiring the reproduction material).

These arrangements may also include the operating license granted to a marketer, who for example may be interested in acquiring exclusive use, in the face of competition, of a particular variety of flower, fruit or vegetable. In such cases, the marketer-licensee is the one responsible for organizing the propagation of the licensed variety, by using the services of a professional propagator, and also his supply of harvested material, through contracts concluded with the farmers or agricultural cooperatives or firms which guarantee him a supply with the necessary regularity and quality. Examples of such contracts may be seen not only in the fruit sector, but also in horticulture and even cereals (exclusive licensing contracts concluded between the breeder of a new variety of barley and the brewing or malting firm, whose royalties are paid exclusively for the kilos of malt or the liters of beer produced; or between the breeder of a new variety of rice and the firm marketing the final product, a product used as a parameter to pay the applicable royalties).

The benefits which these contractual arrangements entail for the breeder are obvious, as we have already outlined. They enable:

- the added value of the variety to be captured at that point of the production-commercialization chain where the said value is perceived most clearly;
- the use of the variety to be verified appropriately, guaranteeing its quality and limiting the risk of unauthorized propagation;
- the lawful harvested material to be identified in the market, as derived from the checks made by the authorized producer or marketer. This aspect is of particular interest where the variety is produced in third countries in which no effective system of protection exists or, where it exists, its practical application meets with major difficulties;
- the licensee to reduce the cost of acquiring the material of the protected variety, which is replaced by a royalty generally in proportion to the benefit obtained through the variety.

A warning should be given regarding the limits to the possible content of such licensing contracts, in particular the imposition on the licensee of conditions and restrictions not justified in the subsequent commercialization of the harvested material of the variety, or the attempt by the breeder to exercise his rights in relation to third parties throughout the commercialization chain. The imposition of commercial restrictions on the licensee must take into account their possible clash with anti-trust and defense of competition laws, which prohibit certain forms of conduct and practices whose aim or result is to prevent, restrict or falsify free competition within the market, and particularly to limit or control production and the market; make the conclusion of contracts subject to the acceptance of additional benefits which, owing to their nature or according to commercial usage, have no relationship with the subject matter of said contracts; or the abuse of dominant position³. Notwithstanding, in the European Union the said stipulations may also benefit from an individual exemption in accordance with Article 81(3) of the European Community Treaty. Moreover, the absence of correspondence between the rights which assign protection for plant varieties to their owner

³ Articles 81 and 82 of the Treaty Establishing the European Community. See Council Regulation (EC) No. 1/2003, of December 16, on the implementation of the rules on competition laid down in Articles 81 and 82 of the EC Treaty, detailed in the Commission Notice of April 27, 2004, on the cooperation between the Commission and the courts of the EU Member States in the application of Articles 81 and 82; in addition to the legislation applicable in the State in question.

does not necessarily constitute a case for which individual authorization, based on these principles where the stated conditions are satisfied, may be granted.⁴ Furthermore, the attempt to exercise breeder's rights in relation to third parties throughout the commercialization chain must consider the principle of "exhaustion of the right"⁵, which implies that such rights do not extend to the acts relating to the material of his variety, or of a derived variety, which has been sold or commercialized differently in the territory of the country in question by the breeder or with his consent, or material derived from the said material, unless those acts involve a new reproduction or propagation of the variety in question, or export of material of the variety, which allows it to be reproduced, to a country which does not protect the varieties of the plant genus or species to which the variety belongs, except if the exported material is intended for consumption.

5.- USE OF MARKS LINKED TO THE PROTECTED VARIETY

The use of trademarks as a mechanism for protecting plant varieties is not new and in fact it has been used for quite a few years in sectors such as cut flowers and fruit. Initially, recourse to trademarks in many countries was the only way to achieve some form of protection, as there was no possibility of registration for numerous species of commercial interest (let us recall that the application of the protection of plant varieties to all plant genera and species was included for the first time in the 1991 Act of the UPOV Convention).

It should be emphasized that the protection granted by a trademark refers exclusively to the denomination or sign which constitutes the mark, and not to the plant material in itself. Thus, the breeder may not exercise any right against the third parties that could reproduce or commercialize material of his unprotected variety, omitting the use of the mark registered by the breeder. The whole usefulness of the mark as a protection mechanism depends exclusively on the capacity of the breeder and his licensees to create value on the market, by establishing demand based on the trust which identification by means of the mark for certain products generates.

However, in the current market it is common to encounter protected plant varieties which are linked to a trademark registered by the same breeder, and which is separate from the tradename (brand) of the breeder, producer or marketer. The purpose of such trademarks is clear:, i.e. to:

- establish a system of direct protection for the harvested material, based on the value of and demand for the specific trademark;
- guarantee the market quality of the material of the plant variety, produced and checked in accordance with specific criteria;
- allow the creation of integrated systems throughout the commercial chain, which enhance the specific plant variety;
- create added value for the breeder's activity, by establishing distinctive signs for his products in the face of competing products.

⁴ Regulation (EC) No. 772/2004 of April 27, on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, Article 1(b) and 1(h) of which expressly include the protection of plant varieties.

⁵ Article 16 of the UPOV Convention (1991 Act).

The mark may be integrated with the breeder's right in various ways, either directly (by imposing the use of the registered mark on the licensee) or indirectly, by creating specific or selective distribution channels for the product of a particular variety.

It should be noted that the mark constitutes a denomination independent of the true denomination of the variety, and is not a replacement thereof. In all cases of use of marks linked to a variety, it is recommended to specify clearly what the true denomination of the variety is, and to avoid confusion (at times totally intentional) generated in the market between both classes of denominations.

6.- SPECIFIC IDENTIFICATION SYSTEMS:

The common presence in the market of products belonging to protected varieties is creating growing concern among commercial operators as to the need to establish mechanisms for guaranteeing the lawful origin of such products, i.e. their production from reproduction material authorized by the breeder. This is particularly obvious for "fresh products" (cut flowers, fruits, vegetables), constituted directly by the harvested material of the protected variety. In many cases, the production of such products has moved to third countries in which no effective system of protection exists, or where the exercise in practice of the breeder's right is difficult. However, demand for and consumption of those products continue to be generated mainly in developed countries, in particular for top-of-the-range (high value added) products.

Faced with the difficulties which the breeder may encounter in exercising his right in the country where his material is reproduced (in addition to the "reasonable opportunity" to which the UPOV Convention refers⁶ in extending such a right to the harvested material), the need arises to establish mechanisms allowing that right to be exercised in the country of final destination of the material of his variety, where we assume that the variety is protected.

Furthermore, in our experience it is also specific commercial operators who demand similar identification mechanisms for the lawful product from the breeder sector, which provide them with security in commercial operations. There are various possibilities:

"Black lists": lists with the producers or exporters suspected of infringing breeder's rights. These black lists present obvious legal risks and any kind of error may prove to be extraordinarily costly in terms of the responsibilities to which that might give rise.

"White lists": lists with the producers or exporters authorized by the breeder. These white lists do not present those disadvantages, but it may be difficult to produce them if the breeder has restricted himself to granting licenses for reproduction of his material to professional propagators in the country of origin, without any control over the subsequent use of that material and thus losing all traceability over the harvested material.

Open identification systems: These systems are "anonymous" (in principle they do not limit access to the material of the protected variety to any commercial operator) and are based on the establishment of a specific system of traceability over the material of the variety, based on the original use of reproduction material authorized by the breeder.

⁶ Article 14(2) of the UPOV Convention (1991 Act)

In order to allow “white lists” to be drawn up, there are numerous breeders who use direct contractual arrangements with the producers and marketers in the countries of origin, under whose responsibility the material of the variety is propagated, and who are therefore the only ones authorized to export the harvested material to recipient countries. As we have already commented, in many cases the breeder’s royalty is based on a percentage of the price collected at the end point. These systems provide the breeder with appropriate control over the use of his variety, both in legal terms and quality assurance-wise, and also an efficient tool to combat unauthorized production and export. They do, however, have the shortcoming of restricting access to the variety for third parties and therefore the commercial distribution of the variety, and impose a burdensome supervisory task, which in many cases the breeder is not qualified to undertake.

Open identification systems try to provide a response to the latter problem, allowing free movement in the market of the harvested material produced from reproduction material authorized by the breeder. They therefore satisfy all the requirements imposed by commercial operators.

It is simple, based on the use of a standard label, easily recognizable by the operator;

It is cheap, based on software which allows an Internet connection to a database which includes all the legal producers, and the corresponding printing of “in situ” labels by the producer or marketer;

It is secure, since the labels include a code with all the requisite information on the traceability of the product, from the original reproduction material;

It is open, in that it allows free and unrestricted movement of the identified product.

The foundation of the system is a database, accessible via the Internet, which includes all the licensed producers, the situation of their holding, the origin of the material and the estimated production figures for each campaign. The producer or, where appropriate, the marketer, is obliged by the licensing contract to use the system, accessible “in situ” as we have said, by printing standardized labels containing the necessary information on the origin of the product, labels which must accompany the product until it finally reaches the consumer, irrespective of how many commercial operations may take place in the meantime. Any interested marketer may, in principle, join the system, without obligation other than to respect the terms and conditions of use of the software, and the acquisition of products exclusively from authorized producers.

The system is in itself independent of the royalty mechanism used by the breeder, which may continue to be based on a fixed quantity by unit of reproduction material, surface unit, or volume of the harvested material commercialized. In the latter case, however, verification is facilitated greatly by allowing a specific and direct royalty to be established by unit, weight or volume, avoiding recourse to inspections and audits by the producer or marketer, which always entail disadvantages in terms of their difficult compatibility with commercial secrecy, a factor of great importance when breeder and licensee are competitors in the market.

The system described is already operational in different countries in the world for specific varieties of top-of-the-range fruit (citrus fruits, dessert grape) and its establishment for horticultural varieties is being studied. Its value and usefulness are proportionate to its extension, such that generalized standard establishment would allow its current cost to be greatly reduced and its impact on the product price to be virtually eliminated. In any case, completely independent control of the system is to be recommended, avoiding any commercial distortion or risk, so as to allow the said generalized extension.

7.- OTHER CONTRACTUAL ARRANGEMENTS (“INTEGRATED” CONTRACTS OR “CLOSED LOOP MARKETING”; “RENTING”, ETC.)

Finally, we would like to refer briefly to other contractual arrangements used in relation to breeder’s rights, some of which are fairly common and others which have appeared more recently.

Integration Contracts (“Closed Loop Marketing”): These contracts are so called because they integrate “vertically” different operators into the processes of producing and commercializing plant material. These are complex contracts which satisfy various objectives and in terms of which the use of the breeder’s rights in a specific protected variety may be of varying importance, depending on the specific value which the variety has in such processes.

In general terms, in such contracts the transmission to the farmer of reproduction material (seeds, plants) of a protected variety is linked to a broader contract for which the farmer must pass the harvested material on to a specific operator, in order to guarantee supply in a specific industrial process (semolina, malting, baking) in conditions of previously agreed quality and quantity. The contract may be extended throughout the production or commercial chain, until it reaches the final product intended for the consumer.

Two aspects which should be borne in mind in relation to this class of contracts are its possible clash with the “farmer’s privilege”, where this is applicable to the species in question; and the possible clash with the rules on defense of competition, previously referred to above, which are usually strict in relation to vertical or selective distribution agreements.⁷

“Renting” of plant material: Recently, certain varieties have appeared on the market, which are used by means of contracts in which the plant material of the variety, particularly fruit plants that are cultivated several times a year, is passed on to the farmer subject to some leasing arrangement, without excluding financial leasing, but where the breeder, or the licensee who owns the rights in the territory in question, retains full ownership of such plants.

Plant material production services: These contracts, which have also appeared recently, establish a service-provider relationship between the breeder or his licensee and the farmer, to whom the material of the protected variety is passed on. Similar to the previous case, the farmer does not at any time acquire ownership of the plants or reproduction material passed on, but obtains it as part of a contract through which it agrees to cultivate the material in its field or greenhouse in the interest of the breeder, to whom it must pass on the harvested product in full. Two essential elements for assessing whether in these cases we are faced with a real service-provider contract or a simulated contract are the system of royalties for the farmer (linked or otherwise to the commercialization of the harvested material) and the assumption of risk (who assumes the risk of the total or partial loss of the harvest).

The legality of all these contractual arrangements will, in many cases, depend on the laws of the country in which they are used, in particular the general rules relating to obligations and contracts, and so it is difficult to venture conclusions of general value.

⁷ In relation to the European Union, we have already referred to the possibility that agreements of this nature may enjoy, in appropriate cases, an individual exception in accordance with Regulation (EC) No. 772/2004 of April 27, on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, Article 1(b) and 1(h) of which, we repeat, expressly include the protection of plant varieties.

8.- CONCLUSION:

The work done by breeders is essential to guarantee the supply of new varieties to the market and consumers, varieties which provide substantial improvements in terms of their quality, beauty, organoleptic qualities, conservation, presentation, etc. The protection of such varieties in accordance with the UPOV Convention is, in many ways, an efficient intellectual property system which guarantees the royalty for the breeder and the incentive of his research and development work. However, for specific varieties whose economic value lies essentially in the final product, the current system based on reproduction material may, on occasions, limit the practical possibilities for breeders to exercise their rights. Efforts are made to overcome such limits by means of specific contractual tools, examples of some of which we have to tried to explain in brief, and which constitute an aspect of growing importance in the current market for fresh products in numerous countries.