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**SYMPOSIUM ON CONTRACTS RELATING TO BREEDERS'
RIGHTS**

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

Mrs. Dominique THEVENON
AIGN®, France

Introduction

Good morning, Ladies and Gentlemen,

I wish to thank you for allowing me to speak today on the role of contracts in the exercise of breeders' rights.

My special thanks go to UPOV and its Vice Secretary-General, Mr. Rolf Jördens, for their invitation.

Before I begin, I would like to say a few words on behalf of breeders – those who create innovations in the plant world: here, I am referring to the creators of ornamental and fruit vegetative reproduction varieties, in particular in the area of fruit, where I have worked for over 20 years.

Breeders do not want to be people who spend a large share of their lives working behind the scenes in the cause of variety innovation, waiting for some unlikely recognition of their investment and contribution to an entire profession.

They hope – and rightly so – that the fruit of their labors will be recognized, used, enhanced and protected. In other words, they expect just recognition and remuneration for their contribution to innovation in a profession, and the possibility to enjoy the intellectual property rights granted to them within a secure framework.

The contractual approach, based on specific legislation, affords them this opportunity, which is why it is important to examine closely the role that contracts can play in the exercise of breeders' rights.

May I therefore suggest that we look at the issue based on experience acquired in the granting of licenses for fruit varieties. We speak in general of licensing contracts, because there is a written agreement authorizing a third party to use the rights in question.

I will begin by talking about contracts as a tool for the exercise of breeders' rights, then explore the possibilities offered by multi-contracts which allow for special organizational arrangements.

First of all, what is the **definition of a contract?**

The definition given in the encyclopedia is the following: a contract is an “agreement whereby one or more persons takes on a commitment towards one or more others...”. This notion of commitment is essential, because any commitment is only worth the good will the contracting parties invest in it.

Next, because there is a commitment, there is a commitment of one party towards the other to do, to implement or respect... specific terms or conditions. The purpose of the contract is therefore to specify what this commitment covers.

Role of a contract

A licensing contract must specify:

- the rights held by the licensor;
- the scope of the operating license and the terms of use;
- the breeder's compensation for the operating authorization granted (remuneration);
- the sanctions which apply in the event of breach of contract;
- the applicable law and the competent courts;
- the means by which the licensee may help the breeder protect his rights.

Rights held by the licensor

I said previously that a contract was only worth the good will of the parties to implement it successfully, but the other prerequisite is that it must be built on a solid foundation, i.e.:

- robust, valid rights with clear title of ownership, whether it be a plant breeder's certificate pertaining to the variety itself or a commercial brand;
- applicable regulations.

Rights held by the licensor (cont. 1)

(a) robust, valid rights with clear title of ownership

A breeder or a holder of rights in a plant variety may only grant authorization to use the plant variety if his rights are well established, or in other words:

- if a plant breeder's certificate has been issued in his name for the variety in question, the validity of which is ensured by the payment of maintenance allowances;
 - o a license may be granted before the certificate is issued; in this case, the contract makes it possible to specify and clarify the situation between the filing of the application for protection and the grant of the title; if the title is not granted, the breeder runs the risk of losing control over the propagation of his variety and over the payment of fees.
- in the case of a commercial brand license, the brand must be properly registered in his name and its validity maintained by means of periodic renewal of registration.

Rights held by the licensor (cont. 2)

(b) Applicable regulations

The regulations on which the contract is based must be those of the place in which the license is used.

If the use of the license concerns the European Union, the contract will be based on the European Community text of 1994, Article 13 of which stipulates that the authorization of the holder of a Community plant variety right is necessary to effect the following acts in respect of variety constituents, or harvested material of the protected variety:

- (a) production or reproduction (multiplication);
- (b) packaging for the purpose of propagation;
- (c) offering for sale;
- (d) selling or other marketing;
- (e) exporting from the Community;
- (f) importing into the Community;
- (g) storage for any of the purposes mentioned in (a) to (f).

The text provides that the previous provisions shall apply to the Variety Essentially Derived from an initial variety.

The contract may then:

- define and clarify the legal situation with regard to the Essentially Derived Variety, referring to the specific provisions in the regulations;
- explain what is commonly meant by Essentially Derived Variety, for example on the basis of the definition developed by Ciopora and recently disseminated;

- define a legal framework for the management of the Variety Essentially Derived from the variety forming the subject matter of the license, namely, the ownership and its dependency on the initial variety.

Operating authorization

The rights granted in a license vary, depending on the nature of the licensee:

- It may be a nursery: in general, if the licensing contract covers the plant material of the variety, the licensee is a producer of seedlings and the right granted covers actions ranging from the production to the commercialization of these seedlings, in other words the use of the plant material for the production of trees of the variety that will subsequently be sold to growers of fruit-bearing trees.
- The licensing contract may also be granted to a fruit tree-grower; in this case, the authorization covers the growing of seedlings of the protected variety for purposes of production and sale of the proceeds of the harvest; unless the licensor exceptionally authorizes him to produce his own trees, the producer is not authorized to use the plant material from the variety: if so, a rider is added to the contract specifying the number of seedlings which the tree grower is authorized to grow and the fact that he is not authorized to produce other seedlings. If the producer commercializes the fruit harvested himself, he may also, under the same contract, be authorized to use a brand belonging to the licensor.
- This may be a marketer (the intermediary between production and the trade): in this case, the contract covers not only the actions linked to the use of the plant material but also the use of the registered brand for the commercialization of the product: Regular use of a brand rather than the variety denomination for commercialization of a fruit means added value on the market, especially if the fruit's appearance sets it apart from the other fruit in its category and if it possesses qualities appreciated by consumers. In this case, the brand can virtually become a quality label.
- Importers or exporters may be involved: in this case, the contract generally concerns the brand as well and regulates the terms of use when the fruit from the protected variety circulates between production zones and consumption zones.

In the fruit-growing domain, licenses are granted more rarely for imports or exports of plant material because production and consumption zones tend to converge.

Operating authorization (cont.)

Terms of authorization

- A licensing contract may or may not be exclusive:
 - o if the license covers the use of the variety, an exclusive contract generally obliges the licensee himself to grant sub-licenses in order to ensure maximum development of the variety;

- if the license covers a brand, the decision whether or not to opt for exclusivity will depend on the quantity of the product to be commercialized and the licensee's ability to handle this commercialization;
- As a licensing contract covers a given territory, this territory should logically coincide with the territory in which the variety is protected. However, this territory may be divided up between several licensees, in particular for the production of seedlings that may be limited to one or a few countries rather than for example covering the European Union as a whole. This would be more difficult in terms of commercialization because the law prohibits any barriers to the free movement of goods;
- A licensing contract has a specific term: if it covers the plant material, the license generally lasts for the duration of the period during which the variety is protected, or in other words, the period during which the licensor may validly lay claim to his right. If it covers a commercial brand, a license is warranted as long as the brand is effectively maintained and remains valid. Yet the licensor (breeder) is perfectly entitled to subject the licensee to a performance obligation and make provision for a short-term license, renewable periodically depending on the results obtained by the licensee.

Mutual obligations

When granting the license, the licensor stipulates a number of obligations which must be met by the licensee. However, the licensor himself is also responsible for ensuring that the contract is implemented properly. The following list does not claim to be exhaustive but mentions the most important obligations on both sides:

Licensor's obligations

- Maintain the validity of the rights for which use is authorized;
- Provide the licensee with certain services, for example supply certified propagation material;
- Protect the rights which form the subject matter of the license, for example against any challenges to their validity or against unauthorized use by third parties.

Licensee's obligations

- Use exclusively plant material provided by the licensor (breeder) or derived from a source duly authorized by him;
- Meet quality standards regarding, for example, plant health or the authenticity of the variety;
- Give the licensor access to his premises for verification purposes;
- Correctly identify the licensed material in the commercialization stage (label seedlings showing the official denomination of the variety and indicating that it is a protected variety, with possible references to the protection title as well as the brand name, as need be);

- Declare to the breeder/licensor his activity linked to the right granted; keep all written records; and remain at the breeder's disposal for verification;
- Pay the contractual fees;
- Inform the breeder of any unauthorized use of his variety or of any cases of counterfeiting of which he may be aware; as need be, help the breeder protect his rights.

Breeder's remuneration

The breeder's remuneration, as compensation for the operating authorization he grants, is the payment of a fee by the licensee.

If the rights granted pertain to the use of the plant material for the variety, the fee applies to the "material" or the activity as defined by the contract, as follows:

- In the case of a propagation contract covering a variety, the fee generally applies to the seedling which is produced and sold. The licensor may subject the licensee to an annual minimum requirement: this is a performance obligation which the licensor places on the licensee and which can provide grounds for termination of the contract if the licensee does not meet this requirement;
- In the case of a growing contract granted to a fruit producer, the breeder may either set a fee for each seedling grown or fix a lump sum on the basis of the area under cultivation.

In the case of a contract with a license covering the use of a brand for the sale of fruit, the fee is based on the quantity of produce (fruit) sold under the said brand. The licensee is therefore obliged to declare to the breeder the volume he has commercialized, which is then used as a basis for calculating the fee due.

Payment of contractual fees is one of the obligations which must be borne by the licensee. In the event of non-payment, the licensor may terminate the license and demand the return of the material covered by the contract; in the case of a tree-grower, the licensor may require the orchard to be torn up, which is an effective means of applying pressure.

In any event, the breeder's remuneration provides a means of ensuring that his activity is economically viable and enables him to continue his efforts to create and innovate in the interest of fruit production.

Application of sanctions

This is quite naturally the other side of the obligations which the licensee accepted when he signed the licensing contract and which apply in case of non-compliance. The most common sanctions are as follows:

- termination of the contract by the licensor;

- an obligation for the licensee to relinquish the material from the plant variety;
- payment of damages by the licensee to cover the costs incurred and the financial loss sustained by the licensor;
- in the case of a production contract, the obligation to tear up the trees.

Competent courts

The contract must also contain provisions applicable in the case of disputes between the parties in the event that an amicable settlement – the initial preferred solution – proves impossible, and referring to:

- the applicable law;
- the competent court;
- recourse to arbitration, although this is not a common practice in the ornamental and fruit domain.

A tool for the protection of rights

The licensor is fully entitled, under the terms of the contract, to request the licensee's assistance as follows:

- helping him to identify cases of counterfeiting pertaining to his protected variety; through his contacts on his market, the licensee is well placed to hear of any facts or behavior liable to infringe the breeder's rights, and is thus obliged to pass any such information on to the breeder;
- If counterfeiting has been proven, helping the breeder take steps to protect his rights.

More generally, when the commercialization of a variety is “contractually defined”, this creates a legal situation outside of which we may consider that everything that is not legal is illegal; in other words, a synergy develops owing to the existing contractual network that makes it possible to identify illegal situations or acts.

For example, a breeder may pass on to customs authorities the list of his licensees with contracts in order, with a view to checking any goods based on his variety entering the protected territory from an unauthorized source.

Combinations of rights

Once a breeder's rights have been established, it is very much in his interest to combine them and introduce a contractual network enabling him to secure to the maximum extent possible commercial development of his variety; guarantee that it is brought to market in such a way as to ensure optimum dissemination; and check the plant material and product.

The system is a rather complex one, and its introduction and implementation require major investments in terms of time, energy and money, as well as partnerships with all players in the commercial chain.

It can only be justified, financially speaking, for a variety that is widely disseminated and has a long life.

This kind of system makes it possible to do the following:

- check the dissemination/circulation of the plant material;
- check plantations and hence the development of production (gradual, controlled increase in plantations, application of quotas, etc.);
- control the product from the time it is produced until it is brought to market (from producer to marketer);
- control the commercialization of the product by marketers (obligation to declare quantities of fruit brought to market);
- control the movement of the product from production zones to commercialization zones (export–import licenses) and consumption zones;
- verify the lawfulness of the product in trade all the way down to the dealer (checks on store shelves of identification, origin, etc.).

In short, a system to ensure the secure commercial development of a variety, based on the linkages and complementarity offered by a contractual network.

Conclusion

For **intellectual property** rights holders, the contractual system:

- enables them to set up a legal framework for the exercise of their rights;
- offers them the possibility of checking and organizing the commercial development of a variety;
- ensures that they are remunerated for their work and may continue their creative activity;
- helps them ensure respect for their rights.
- **BUT RIGHTS MUST BE ROBUST.**

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