



Australian Government

Advisory Council on Intellectual Property



A review of enforcement of Plant Breeder's Rights

Final report

January 2010

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Australian Government

Advisory Council on Intellectual Property

Senator the Hon Kim Carr
Minister for Innovation, Industry, Science and
Research
Parliament House
CANBERRA ACT 2600

Dear Minister

In 2005 the former Parliamentary Secretary, The Hon Warren Entsch MP, asked ACIP to review the enforcement of plant breeder's rights (PBR) in Australia and to consider possible strategies to assist PBR owners to effectively enforce valid rights. As Chair of ACIP I am pleased to present you with the report.

PBR encourage investment and research in new plant varieties by providing breeders with exclusive rights to the propagating material of a new variety for a limited period. ACIP has found that PBR owners face significant obstacles to the effective enforcement of their rights and that this is discouraging the development of new plant varieties. As a consequence, ACIP recommends that a number of legislative and procedural changes be made. These include making a new right to the purchase of propagating material available to PBR owners, and including PBR matters within the jurisdiction of the proposed second tier of the Federal Court in order to provide PBR owners with an appropriate forum for enforcing their rights.

In preparing this report, ACIP widely circulated an issues paper and an options paper, and held consultations with interested parties. The majority of stakeholders advocated that significant changes were necessary to assist PBR owners to enforce their rights and thereby to maintain the value of PBR.

I look forward to the Government's response to the report.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Leon Allen
Chair
20 November 2009

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1 Glossary of terms

ACIP	Advisory Council on Intellectual Property
Accumulator	Crop handling authority
ADR	Alternative Dispute Resolution
ASF	Australia Seed Federation
CIOPORA	International Community of Breeders of Asexually Reproduced Ornamental and Fruit Tree Varieties
DAFWA	Department of Agriculture and Food, Western Australia
DPP	Commonwealth Director of Public Prosecutions
EPR	End Point Royalty
FCA	Federal Court of Australia
FMC	Federal Magistrates Court
GRDC	Grains Research and Development Corporation
Grower	Licensee of a PBR, farmer
IP	Intellectual Property
PBR	Plant Breeder’s Rights
PBRAC	Plant Breeder’s Rights Advisory Committee
PBR Act	Plant Breeder’s Rights Act 1994
PBRO	Plant Breeder’s Rights Office
PBR owner	Grantee of a PBR under the PBR Act, breeder
PVR Act	Plant Variety Rights Act 1987
Taxa	Groups in the system of classifying plants, such as genus or species. Plural of taxon.
TRIPS	World Trade Organization agreement on Trade Related Aspects of Intellectual Property
UPOV	International Union for the Protection for New Varieties of Plants

2 Terms of reference

In 2005, the Government asked ACIP to:

inquire, report and make recommendations to the Australian Government on issues relating to the enforcement of plant breeder’s rights in Australia and to consider possible strategies to assist Australian plant breeder’s rights holders to effectively enforce valid rights. The review should include a consideration of whether any practices and procedures relating to the enforcement of plant breeder’s rights are appropriate to be referred to the Federal Magistrates Court.

3 Executive summary

Nature of PBR

The objective of PBR is to encourage the development of new varieties of plants for Australia’s domestic industries and for export. PBR are intended to provide a balance between providing plant breeders with an opportunity to obtain a reward for producing a new plant variety, and providing the benefits to growers and society through access to new and improved plant varieties. Compared with other IP rights, PBR have a unique set of criteria and provide a limited scope of protection. This is due to the difficulty of reliably reproducing a plant variety, the lower levels of newness and inventiveness involved in traditional plant breeding and the importance of plants as a basic resource.

Industry concerns

In recent years PBR owners have repeatedly expressed concerns about the difficulties associated with enforcing PBR. This issue has not been isolated to PBR, with concerns also being raised about the enforcement of other IP rights. ACIP released a report in 2004 on the enforcement of trade marks and is currently finalising a review of post-grant enforcement strategies for patents. ACIP considers that there are significant barriers to the effective enforcement of PBR and that this discourages the development of new plant varieties. ACIP recommends that a number of legislative and procedural changes be made to address this.

Industry structure

The plant breeding industry can be divided into three main sectors - agricultural (broad acre field crops, such as cereals), horticultural (fruit, nuts and vegetables) and ornamental/amenity (nursery, floriculture and turf). Industry members can be also identified as either a PBR owner (breeder) or a grower (farmer). A significant proportion of breeders are small to medium enterprises.

PBR operate in different sectors in different ways. In general, breeders supply new varieties to commercialisers/propagators, who multiply the plants and supply them to growers. Growers sell the harvested product to a wide variety of entities, such as traders, accumulators, wholesalers, processors and exporters, who then supply retailers. PBR owners typically obtain a royalty from the purchaser of the initial propagating material and/or an ‘end point royalty’ (EPR) from the grower. EPRs are usually paid under contract and are based on the volume of the harvested product.

EPRs have the benefits of reducing upfront seed costs for growers, overcoming loss of sales through farmer’s privilege (discussed below) and sharing the risk of crop failure between growers and PBR owners. For some varieties, such as grains, the harvested product can also be used as propagating material. In some sectors it is traditional for the grower to save some of the harvested grain to grow another crop (farmer’s privilege).

Scope of rights awarded – s.11, 14 and 15

Section 11 of the PBR Act provides the PBR owner with the right to exclude others from doing certain acts in relation to the propagating material of a variety, including the sale of the material. PBR owners in the grains industry are experiencing significant difficulties in obtaining a return on their investment because it is not cost-effective to audit the harvests of the tens of thousands of growers in the industry.

ACIP considers that an appropriate solution is to introduce a new right to the purchase of propagating material that is available for those taxa for which a case justifying the new right has been made to, and accepted by, the PBR Office. A purchase right would enable the establishment of more efficient royalty collection systems because PBR owners would be able to require narrower points in the supply chain, such as grain accumulators, traders and end users, to report on and/or collect EPRs. ACIP acknowledges that the administration of such a right would incur some costs and, as IP Australia is a cost-recovery agency, an increase in PBR application and/or renewal fees may be required.

Recommendation 1.

A new “purchase” right be added to s.11. This new right would only apply to those taxa that are specifically declared in the regulations. Industry sectors such as wheat breeders would apply to the PBR Office to have particular taxa so declared.

ACIP also considers that the PBR Act should be amended to clarify that harvested material that is also propagating material is to be considered propagating material for the purposes of s.11. This would ensure that PBR owners can require the payment of royalties on harvested grain under s.11 rather than have to rely on private contracts or extended rights (discussed below).

Recommendation 2.

The PBR Act be amended to clarify that harvested material that is also propagating material is to be considered as propagating material for the purposes of s.11, even if it is not being used for that purpose.

Sections 14 and 15 provide that, where there has been unauthorised reproduction of the propagating material and the PBR owner has not had a reasonable opportunity to exercise its right, PBR extend to harvested material (eg. fruit) or products made from harvested material (eg. fruit juice). This ensures that the PBR owner has an opportunity to obtain a royalty where this has not been possible in relation to the propagating material.

There are significant concerns in the grains industry in relation to extended rights. These include uncertainty over what constitutes reasonable opportunity and whether crops grown from farm-saved seed are subject to extended rights. ACIP considers that most concerns can be addressed by clarifying that royalties can be obtained on harvested grain under s.11 (Recommendation 2 above) and that no changes should be made to extended rights.

Recommendation 3.

No changes be made to extended rights under s.14 and 15.

Farmer’s privilege – s.17

The ‘farmer’s privilege’ or ‘farm-saved seed’ exemption allows growers to save the propagating material harvested from a legitimately obtained, protected, plant variety to grow further crops on their own farm. PBR owners who believe that farmer’s privilege prevents them from obtaining a fair return on their investment in breeding can apply to have the exemption declared not available for specific taxa. To date, none have done so. Uncertainty around the scope of the exemption may be encouraging illegitimate acts by growers such as the selling of crops without the PBR owner’s permission. ACIP considers that s.17 should be amended to make it clear to non-expert users of the system and their advisors that such acts require the authorisation of the PBR owner.

Recommendation 4.

There be no change to the operation of farmer’s privilege under s.17.

However, s.17 should be amended to state in easily understood terms that s.17 does not provide the farmer with the right to perform the acts listed in s.11(a) to (g). For example, the farmer will still require the PBR owner’s authorisation to sell the reproduced propagating material, the harvested material or the product of the harvested material.

Recommendation 5.

As part of IP Australia’s education and awareness programs, raise industry awareness of the opportunity under s.17(2) to have specific taxa excluded from the farmer’s privilege exemption.

Recommendation 6.

Encourage PBR owners to make clear to growers the conditions of sale of propagating material and their obligations in relation to future generations of it. This includes making clear that growers require the authorisation of the PBR owner to sell crops grown from farm-saved seed.

There is uncertainty within the horticultural and ornamental sectors as to whether farmer’s privilege encompasses asexual propagating material, such as buds, cuttings and grafts. There is concern that enabling growers in these sectors to save PBR-protected propagating material to grow another plant will make it difficult for PBR owners to obtain a return on their investment in breeding. ACIP considers that there is an insufficient case to modify farmer’s privilege in regards to asexual propagation at

this time. However, should further evidence come to light of farmer’s privilege having a significant detrimental impact on the horticultural and ornamental sectors, ACIP considers that the issue should be re-visited.

Recommendation 7.

No changes be made to s.17 in relation to asexual propagation at this time.

Essentially derived varieties – s.12

PBR protection in a first plant variety extends to a second, PBR protected, variety that is ‘essentially derived’ from the first protected variety. An essentially derived variety (EDV) is one that is predominantly derived from the first variety, retains the essential characteristics of the first variety and does not exhibit any important features that differentiate it from the first variety. Important features are understood to mean significant changes that affect performance, value or place in the market. A large number of PBR owners are concerned that EDV protection does not extend to varieties that are not subject to a PBR application or grant. ACIP considers that this loophole should be closed and EDV declarations should be able to be made in respect of any variety.

Recommendation 8.

Enable EDV declarations to be made in respect of any variety.

ACIP considers that it is best to retain with the PBR Office power to make an EDV declaration, as this provides a quicker and cheaper process than that which would be provided by the courts. The test for important features should be replaced with a test for essential characteristics, as this would provide a test that is clearer and that the PBR Office is better able to administer.

Recommendation 9.

Amend s.4(c) by replacing the test for important features with a test for essential characteristics.

Recommendation 10.

Retain responsibility for EDV declarations with the PBRO and ensure the PBRO has the ability to assess such applications. This may involve the PBRO seeking advice from an external body or expert.

If, in the future, a Patent Tribunal is established and proves successful, consideration should be given to expanding its remit to include declarations of EDV.

Exhaustion of rights – s.23

Once propagating material has been sold by the PBR owner or with its consent, PBR is ‘exhausted’ over the material unless there is further production or reproduction of that material. The courts have interpreted the wording of the PBR Act to mean that PBR is exhausted for the first crop G1 produced by a grower from purchased propagating material, but not for subsequent generations G2+ produced from

propagating material saved from crop G1. Although this interpretation has created some confusion in the industry, in the interests of ensuring compliance with the UPOV Convention and harmonisation with other UPOV countries, ACIP considers that no changes should be made to s.23 in relation to existing s.11 rights.

However, in order to ensure the effectiveness of a new purchase right (Recommendation 1), ACIP considers that s.23 should be amended to provide that, in relation to a purchase right, PBR is not exhausted by *any* act of reproduction of the propagating material. The PBR Act should also be amended to clarify that the mere sale of propagating material for the purposes of growing and selling crop G1 does not necessarily imply a licence to purchase crop G1. This would help to ensure that no party has ‘automatic’ authorisation to purchase crop G1 in those situations where a purchase right has been declared to apply to the variety in question.

Recommendation 11

In relation to s.23 and exhaustion:

- A. No changes be made to s.23 as it applies to the current acts referred to in s.11.
- B. Section 23 be amended to provide that PBR does not extend to an act of purchase of the material referred to in s.11 that takes place after the propagating material has been sold by the PBR owner unless that act involves *any* production or reproduction of the propagating material. This includes growing the first generation crop comprising propagating material that is grown from purchased propagating material.
- C. Clarify in the PBR Act that the mere sale of propagating material G0 for purposes of growing and selling G1 does not necessarily imply a licence to purchase crop G1.

Clarity of the legislation

A large number of stakeholders are concerned about the clarity, certainty and scope of parts of the legislation. ACIP considers that such uncertainty may be significantly reducing the efficiency of the industry and that it should be addressed where possible. Some parts of the Act can be clarified through amending the legislation, and recommendations to this effect have been made in this report. However, for enforcement issues such as reasonable opportunity, propagating material and implied licences, this is not possible. ACIP considers that a properly constituted, authoritative Expert Panel would provide guidance which would be highly valued and followed by industry. An increase in PBR fees may be necessary to cover the costs of such a panel.

Recommendation 12.

An on-going Expert Panel be established to provide guidance and opinions on general issues or specific cases concerning the PBR Act and related law. The Panel should comprise appropriate people with expertise in relevant areas who provide their services as required.

Upon request from any person and for a moderate fee, the Panel may provide detailed guidance and opinions on general issues or specific cases concerning the PBR Act and related law. The Panel should focus on the enforcement of granted rights and not provide advice on the registrability of individual applications for PBR. The Panel’s opinions should be made publicly available in a manner that respects commercially sensitive material. The Panel may refer matters to the Government or ACIP as it sees fit.

Pre-grant enforcement – s.39(1)

Under the PBR Act, a PBR owner is not able to take infringement action until PBR has been granted. Some stakeholders were concerned that this provided a barrier to the enforcement of PBR for horticultural varieties because such plants can be propagated more easily and have longer time frames between filing a PBR application and the final grant of the right. Some growers were known to exploit this delay. ACIP considers that there is an insufficient case to amend the pre-grant enforcement provisions.

Recommendation 13.

No changes be made to the pre-grant enforcement provisions.

Federal Court

At present, civil proceedings under the PBR Act may be commenced in the Federal Court of Australia (FCA). Since the introduction of the PVR Act in 1987, only a small number of proceedings have been commenced under the PVR and PBR acts. The Federal Magistrates Court (FMC) was established in 1999 to deal with a range of less complex federal disputes that would otherwise go to the Federal Court of Australia (FCA) or Family Court of Australia. The FMC is directed to operate informally and to use streamlined procedures. In May 2009 the Government announced that the Federal Courts will be restructured and the FMC will be merged into new, lower divisions of the Family Court and the FCA.

Many stakeholders supported extending the jurisdiction of the FMC to cover PBR matters if it could deliver on its potential for providing a quicker, cheaper and less intimidating forum than the FCA. ACIP considers that the proposed second tier of the FCA would provide an appropriate and effective forum for PBR matters.

Recommendation 14.

The jurisdiction of the second tier of the Federal Court of Australia to include PBR matters.

Appropriately qualified magistrates must be made available and there should be appropriate measures taken to ensure the processes of the second tier are faster and cheaper than in the first tier. Examples include simplifying and standardising procedures for expert evidence and DNA testing through the issuing practice notes, use of alternate dispute resolution where appropriate, and curtailing of the discovery phase.

Alternate Dispute Resolution

Alternative dispute resolution (ADR) is an umbrella term used to describe various ways of resolving disputes other than through litigation. Some ADR processes already exist for PBR owners, including through the FCA. Most submissions to ACIP argued that the high cost of court actions was a major impediment to the effective enforcement of PBR. ACIP considers that legal action will always be too expensive for many PBR owners and that there is value in IP Australia providing basic information on ADR to PBR owners, including a register of ADR service providers.

Recommendation 15.

IP Australia facilitates ADR for parties in dispute by establishing, maintaining and making publicly available basic information on the ADR options available to PBR owners and a register of ADR service providers with PBR and plant breeding experience.

As part of its review of post-grant patent enforcement strategies, ACIP is currently considering the establishment of an IP dispute resolution centre. The centre envisaged by ACIP would provide mediation, appraisal, and validity and infringement opinion services, delivered by experts drawn from a panel on a case-by-case basis. If such an IP dispute resolution centre is established for patents and proves successful, consideration should be given to extending its services to PBR matters.

The IP dispute resolution centre envisaged by ACIP would also provide non-binding determinative service through a Patent Tribunal. If a Patent Tribunal is established and proves successful, consideration should be given to extending its jurisdiction to PBR matters.

Criminal sanctions - s.74 and 75

Enforcement of a PBR through the courts may be conducted through civil actions initiated by the PBR owner and criminal actions initiated by the Crown. Criminal cases brought to the attention of the Australian Federal Police (AFP) are evaluated to ensure that the AFP’s resources are directed to the matters of highest priority. The Commonwealth Director of Public Prosecutions (CDPP) is responsible for prosecuting offences against Commonwealth law, including PBR matters. Since 2004 there have been two PBR-related referrals to the AFP and both matters were not pursued. There is considerable concern in the industry that the AFP has been unable to

investigate cases brought before it to date. ACIP believes that it is arguable that PBR is a special case and that there is value in IP Australia discussing this issue with the AFP and CDPP.

Recommendation 16.

IP Australia to liaise with the AFP and CDPP with a view to increasing the number of investigations and prosecutions of PBR cases due to the special circumstances (including the marginal profitability of some sectors and an apparent widespread lack of compliance) that exist in the plant breeding industry.

Acquisition of evidence

At present, PBR owners have three main options for obtaining evidence of infringement prior to instigating a proceeding in court:

- seeking an Anton Piller order from a court to inspect the defendant’s premises and to seize or copy any relevant information;
- applying to the FCA under Order 15A, Rule 6, for an order for a person to provide any document that would assist the applicant to decide whether he or she has the right to obtain relief;
- inspecting the property under the terms of an existing private contract.

Many PBR owners argue that it is too difficult to obtain evidence of infringement under the current provisions. ACIP considers that a UK-style information notice system would provide an appropriate solution which balances the legitimate interests of PBR owners and growers.

Recommendation 17.

Introduce an Information Notice system into the PBR Act based on the UK Information Notice system.

This would enable PBR owners to obtain information from suspected infringers on the source of plant material. Where this is not supplied within a reasonable time, legal proceedings may be commenced in which the presumption is made that the plant material was obtained through unauthorised use of propagating material and that the PBR owner did not have a reasonable opportunity to exercise its rights in relation to the material.

Import and export

The Australian Customs and Border Protection Service (Customs) has the power under various IP legislation to seize imported goods that allegedly infringe copyright, trade marks and protected Olympic expressions. Customs does not have similar powers in relation to patents or PBR. Some stakeholders argued that the lack of Customs seizure provisions in the PBR Act was a major obstacle to effective enforcement. ACIP considers that a system should be introduced which enables Customs to seize allegedly infringing goods without unduly burdening the resources of that agency.

Recommendation 18.

Introduce into the PBR Act PBR seizure powers for Customs which incorporates features of the Australian notice system for trade marks and the European system. The system should minimise the resources and skills required of Customs, enable the PBR owner to identify the imported material and allow cases where there has been infringement to be resolved quickly and without legal action.

Exemplary damages

Exemplary damages are those awarded against an infringing party, to be paid to the plaintiff, for flagrant or willful breaches of the law. Exemplary damages are not currently available in relation to PBR. Many stakeholders supported the introduction of exemplary damages for PBR so as to provide further deterrence for potential infringers. ACIP considers that this is appropriate because of the high cost of legal action and a culture of non-compliance in some sectors.

Recommendation 19.

Introduce exemplary damages provisions for PBR based on s.122 of the Patent Act.

Peak bodies and collective enforcement

At present, peak bodies, industry and licensing associations exist for some sectors of the PBR industry. Many stakeholders expressed concern about the fragmented nature of the breeding industry and supported a central coordinating organisation which could represent breeders’ interests or provide independent investigation and specialist enforcement skills. ACIP considers that there are potentially significant benefits to be gained from such organisations, but at this stage it is an issue for the industry to resolve, rather than Government.

Recommendation 20.

The Government take no action in establishing an industry peak body or collecting agency at this time. The Government should reconsider this approach should sectors of the plant breeding industry come to an agreement on the structure and function of a central body and seek the Government’s assistance.

Education and awareness

There is clear evidence of widespread ignorance and misunderstanding of PBR throughout the industry. ACIP considers that industry is best placed to fund and provide the most appropriate and targeted educational material, however there is a role for Government in providing education curricula in the tertiary sector. ACIP approves of IP Australia’s recent achievements in the VET sector and recommends that this be expanded to universities and agricultural colleges where possible. As IP Australia is a cost-recovery agency, an increase in PBR fees may be necessary to fund such an expansion.

Recommendation 21.

IP Australia focus its PBR educational and awareness efforts on the tertiary sector. This should involve increasing its involvement in facilitating PBR education curricula and other information fora. IP Australia should investigate facilitating the inclusion of PBR curricula in university science and science-related courses and at agricultural colleges.

Standard contracts

At present, in the plant breeding industries there are a large number of different types of contracts which change over time. This is considered to be a major source of confusion and frustration for growers. However, members of the agricultural breeding community recently developed a standardised contract for the use of PBR protected varieties by the grains industry. ACIP encourages other organisations to develop similar contracts for other sectors of the industry.

Recommendation 22.

The Government take no action in relation to the development of standard contracts and licence agreements at this time.

Mendacious variety declaration

The effectiveness of EPR systems depends on the correct identification of harvested material. At present, under the PBR Act it is not an infringement to knowingly declare a PBR protected variety to be a non-PBR protected variety. ACIP considers that, if existing legislation does not make it illegal to knowingly misrepresent the identity of a PBR protected variety, then a specific provision should be introduced into the PBR Act. This would provide a significant deterrent to avoiding the payment of royalties through mis-declaration.

Recommendation 23.

It is not clear whether sections 52 and 53 of the *Trade Practices Act 1974* and various State and Territory Fair Trading Acts provide sufficient protection against mendacious variety declaration. If existing legislation does not make it illegal for a corporation or person to knowingly and falsely represent a PBR protected variety, the PBR Act should be amended to make such an act an infringement of PBR.

PART A INTRODUCTION

4 Background to the review

4.1 ACIP

The Advisory Council on Intellectual Property (ACIP) is an independent body established to provide advice to the Minister for Innovation, Industry, Science and Research (the Minister) and IP Australia on matters of policy and administration. The Council has been requested to take a broad strategic view of the role of intellectual property and its contribution to the development of Australian industry. Members of the Council are drawn from business and manufacturing sectors, the patent attorney and legal professions, the tertiary and research sectors, and technology and commercialisation groups.

The Plant Breeder’s Rights Advisory Committee (PBRAC) is an independent body established to provide advice to the Minister and the Registrar of Plant Breeder’s Rights on PBR matters. IP Australia is an agency within the Department of Innovation, Industry, Science and Research and is responsible for administering the patent, trade mark, design and plant breeder’s right systems.

4.2 Enforcement concerns

In recent years the owners of plant breeder’s rights (PBR) have repeatedly expressed concerns about the difficulties associated with enforcing PBR. Sectors of the plant breeding industry and select members of the legal fraternity have brought anecdotal evidence to the attention of the PBR Office concerning the state of enforcement of PBR in Australia. This issue has not been isolated to PBR, with concerns also being raised about the enforcement of other IP rights. ACIP released a report in 2004 on the enforcement of trade marks¹ and is currently finalising a review of post-grant enforcement strategies for patents².

Late in 2006 IP Australia undertook market research to determine the key factors that influence the filing of PBR applications. This was done in response to a slow decline in the numbers of applications for PBR being lodged. The research found that factors which affects the return on investment in plant breeding would likely impact on the number of applications filed. Some in the industry were critical of the actual protection provided by PBR, as an inability to enforce the rights resulted in a significant amount of infringement. Over time this is reducing the attractiveness of PBR and leading industry to look at other forms of protection, or none at all, and may result in a reduced investment in plant breeding. Lack of clarity in the PBR Act, industry practices and the time, cost and negative publicity of enforcement actions were considered to be factors that made enforcement difficult.

¹ *Review of trade mark enforcement*, ACIP, April 2004.

² *Post-grant patent enforcement strategies Issues Paper*, ACIP, November 2006.

The effective enforcement of plant breeder’s rights is fundamental to an effective and efficient plant breeding industry capable of benefiting all Australians. The PBR system is significantly devalued if owners of PBR cannot enforce their rights in a speedy and cost efficient manner.

The enforcement of PBR is perceived by many stakeholders as an expensive, complicated and uncertain process. PBRAC conducted preliminary analysis of the issues and in 2005 recommended that ACIP consider whether the jurisdiction of the Federal Magistrates Court (FMC) should be extended to include PBR matters. In a previous review, ACIP had considered the role of the FMC in dealing with IP matters other than PBR. As a consequence, the then Government requested that ACIP review the issues and consider whether there is a role for the Federal Magistrates Court (FMC) in dealing with PBR matters. In May 2009 the Government announced that the FMC would be merged into new, lower divisions of the Federal Court of Australia (FCA) and the Family Court³.

4.3 Review scope and process

Scope

ACIP has interpreted the terms of reference to encompass a broad range of issues that impact on the ability of PBR owners to enforce their rights. However, ACIP has not reviewed whether the *Plant Breeder’s Right Act 1994* (the PBR Act) as a whole is achieving its original objectives and goals. ACIP’s review and the final report cover the following four main areas:

- **A. Substantive law.** This relates to the current law as provided by the PBR Act and includes issues of exclusive/extended rights, exhaustion of rights, lack of clarity, pre-grant enforcement and essentially derived varieties.
- **B. Procedures.** This encompasses procedural issues that are relevant to the enforcement of PBR, including access to the Federal Magistrates Court, alternative dispute resolution and civil versus criminal sanctions.
- **C. Remedies.** The remedies available to PBR owners are considered and relate to the issues of acquiring evidence, exemplary damages and the role of the Australian Customs Service.
- **D. Sector-generated support.** This considers supportive measures which are primarily the responsibility of industry but where some government involvement may be appropriate. This includes a central / peak industry body, education and awareness, end point royalties⁴ and standard contracts.

³ This is discussed in more detail in Chapter 8 of this report.

⁴ End point royalties (EPRs) are royalties paid on every tonne of product produced (usually grain) by growers. EPRs provide an alternative to royalties being paid on the initial propagating material (eg. seed).

Issues Paper

In May 2006, the review of enforcement of plant breeder’s rights was advertised in Australia’s major newspapers and selected industry publications. Following preliminary consultations with some sectors of the Australian plant variety industries, ACIP circulated an Issues Paper to interested parties in March 2007. The purpose of the Issues Paper was to seek written submissions on the points raised in the paper, and any other matters or issues that respondents felt were relevant to the terms of the inquiry. ACIP received forty submissions in response to the Issues Paper from a wide range of stakeholders. In June and July 2007, ACIP held consultations with interested parties in Sydney, Canberra, Melbourne, Brisbane and Perth.

Options Paper

After consideration of the information provided through submissions and consultations, in June 2008 ACIP circulated an Options Paper to those who had made submissions and potentially interested stakeholders. The purpose of the Options Paper was to further explore the key issues and seek views on possible solutions. ACIP received thirty three submissions in response to the Options Paper and held a small number of consultations with specific stakeholders.

Final report

After further consideration of the issues, ACIP has produced this final report making recommendations to the Government. Upon the Minister releasing this report, the usual process to be followed is for the Government to develop a response to the report and to accept, accept in part or reject each of the recommendations made. This process typically involves further consultation with key government agencies and effected stakeholders.

4.4 Summary of stakeholder views

Stakeholder groups

The plant breeding industry consists of a number of relatively distinct sectors. The groups that make up the industry are often divided according to various categories such as the type of plant material, the method of cultivation, the varietal life cycle and/or the area of breeder/grower specialisation and varietal end use. Three groups commonly separated are:

- Agricultural (broad acre field crops, eg. cereals),
- Horticultural (fruit, nuts and vegetables) and
- Ornamental/Amenity (nursery, floriculture and turf).

Industry members can be also identified as either a PBR owner (breeder) or a grower (farmer). Three other important stakeholder groups are:

- government / advisory organisations,
- the legal profession and
- researchers.

ACIP received submissions and comments from each of these six groups and is greatly appreciative of the valuable input provided. However, ACIP notes that the views of the ornamental/amenity sector and the end users of plant varieties were probably underrepresented.

A significant number of submissions, or parts of submissions, were confidential. All non-confidential submissions and consultations are listed in the Appendices and the full text of non-confidential written submissions are available on the ACIP website at www.acip.gov.au/reviews. The views expressed in confidential submissions have been considered by ACIP but have not been cited in the Options Paper or this final report.

Views

Across all industry sectors there was general agreement on the importance of the PBR system in encouraging investment in the development of new and improved plant varieties. However, many stakeholders expressed serious concerns over the enforcement of PBR and this reflected on the continuing effectiveness of the system. Concerns common to all sectors of the plant breeding industry included the following:

- Difficulties arise from the small and diffuse nature of infringements.
- Current systems for collecting evidence of infringements are inadequate.
- Current end point royalty collection systems have high transaction costs, low levels of compliance among some end users and uncertain legal status.
- Appropriate enforcement mechanisms and statutory rights need to be tailored to deal with different types of infringing behaviour (i.e. flagrant/wilful infringement and unintentional/inadvertent infringement).
- A culture of non-compliance.
- Widespread lack of knowledge about the PBR system and limited advisory resources.
- Significant uncertainty over the interpretation of parts of the PBR Act.

Many submissions also identified concerns with the current enforcement environment relative to a specific industry sector. These concerns included:

- PBR owners need broader rights to be able to use more efficient end point royalty (EPR) systems (Agriculture).
- There is widespread propagation of protected fruit trees without the authorisation of the PBR owner (Horticulture).
- Breeders of essentially derived varieties obtain an unfair share of the benefits of PBR protected varieties (Horticulture).
- The Australian Customs and Border Protection Service lacks the necessary powers to seize imported illegally propagated cut flower varieties (Ornamental).
- PBR owners need to be able to begin infringement proceedings prior to grant of PBR (Horticultural).
- PBR owners are unable to secure a fair return following their investment in a successful enforcement action (Horticultural, legal profession and Government).

5 Operation of PBR in industry

The contribution of the PBR system to the Australian economy is significant. For example, in 2005-06 the gross value of Australian wheat production was valued at \$5.1 billion. Approximately 60% of production was high quality grain exported for human consumption⁵. 49% of these exports were of PBR protected varieties and this proportion is likely to have increased in recent years⁶.

The plant breeding industry can be divided into the agricultural, horticultural and ornamental/amenity sectors. PBR operate in different sectors in different ways and, to a lesser extent, in different ways in each sector. The following are some typical examples but there will be significant deviations from these for some species.

Most Australian agricultural based industries have elected to invest in research and development including plant breeding. This is facilitated by the *Primary Industries and Energy Research and Development Act 1989* which mandates that the Federal Government will match grower investments in research and development up to a maximum based on a percentage of industry value. This investment is delivered through a number of research and development corporations who are also charged with strategic planning for research and development. These functions are carried out by the Grains Research and Development Corporation (GRDC) for about twenty eight grain species, the Sugar Research and Development Corporation for sugarcane and Horticulture Australia Limited (HAL) for horticultural species.

5.1.1 Agricultural sector - cereals

Around 25% of new applications for PBR are for plants in the agricultural sector. **Breeders** of new cereals include the State Government Departments of Agriculture, the CSIRO, universities and private investors, most in collaboration with the Grains Research and Development Corporation (GRDC). This has begun to change as State Agricultural Departments reduce their investments in direct breeding and emphasise pre-breeding research. Currently, the majority of wheat breeding is in the private sector. This trend emphasises the need to have a plant breeders' rights system that delivers an equitable return on investment in plant breeding.

Breeding a new variety typically takes about 8 to 14 years. Once this is achieved a **commercialisation partner** multiplies the seed through contractors and sells it through a network of regional merchants to the **growers**. At this point a seed royalty may be required to be paid to the PBR owner, depending on the type of cereal involved and the structure of the industry.

The growers purchase the seed they need prior to planting, grow and harvest the grain. Growers typically retain seed from crops they have grown for planting subsequent crops. This is permitted under the farmer's privilege provisions of the PBR Act. Often the grower will purchase a small quantity of a new variety and use this to produce the

⁵ 1301.0 – Year Book Australia, 2008, Australian Bureau of Statistics. February 2008.

⁶ Grains Research and Development Corporation, March 2008.

larger quantities required for commercial production of the variety. Harvested grain is delivered to a handling authority (**accumulator**) who accumulates grain on behalf of a trader and/or end user or directly to an end user. In some cases the accumulator is also a grain trader⁷. Accumulators do not purchase the grain.

In the case of wheat, up until 2008 AWB Ltd. was the sole exporting trader who collected payment from customers and paid the grower. A number of entities, including AWB Ltd., are now accredited bulk wheat exporters. AWB has collated information on the varieties being sold and collected EPRs on behalf of some PBR owners on a fee-for-service basis. The information on which the royalties were determined has been based on figures obtained from grain accumulators. The percentage of wheat crop received by AWB that attract EPRs increased from 35% in 2004-05 to 49% in 2005-06⁸. There are several export entities for barley.

End users of grain include domestic flour millers, animal feed merchants and feed lot operators. The grower selling grain directly to end users may potentially avoid the payment of royalties. Growers may also illegally sell or barter the harvested grain to other growers to use as seed for the subsequent crop, which may also facilitate the avoidance of royalties payments. Growers may also use harvested grain as animal feed on their own properties without infringing PBR.

Barley shares the same royalty collection issues as wheat. Oats and triticale are quite different as they are primarily used on farm as animal feed as grain, forage or hay. This makes it almost impossible for a PBR owner to determine how much harvest has been produced, and royalties are generally based on the seed, not the harvested product.

Figure 1 on page 23 approximates the current supply chain and potential points for collecting royalties in the wheat industry.

5.1.2 Horticultural sector - apples

Around 25% of new applications for PBR are for varieties in the horticultural sector. In the apple industry, breeders of new varieties use variety commercialisers and wholesale nurseries to multiply the plants, which are then sold to growers. Payment of royalties may be required in either of these stages. Growers then sell harvested fruit to:

- accumulators, who pass it on to retail outlets, and/or
- the three major supermarkets, who handle 42% of production, and/or
- a few **processors**, who handle 30% of production, and/or
- nine wholesale markets in large centres, who handle 22% of production, and/or
- Fewer than 20 exporters, who handle less than 5% of production, and/or

⁷ For example, CBH Group, which is controlled by grower-shareholders and classifies, receives, handles and markets grain on their behalf. It is not clear whether such accumulators are acting on behalf of growers, rather than the trader.

⁸ GRDC, March 2008.

- other domestic retail outlets and consumers, who together handle under 2% of production.

Apple breeding in Australia has been undertaken by State Departments of Agriculture with investment from Horticulture Australia Limited. As with the cereals, State Departments are reducing their investment in breeding. Most new apple varieties grown in Australia are bred overseas and about 40% of the Australian crop was grown to varieties that were subject to PBR in 2005.

Figure 2 on page 24 approximates the supply chain for the apple industry.

5.1.3 Ornamental / amenity sector

Around 50% of new applications for PBR are for plants in the ornamental / amenity sector. **Breeders** of new varieties licence them to **agents**, who sub-licence to **propagators**, of which there is a large number but only a few large entities. Propagators then reproduce the plants in bulk and provide the immature plants to a large number of **production nurseries**. There are a few large production nurseries which undertake most of the production. Propagators also record the number of plants sold and determine the royalties due to breeders. They sell labels to the production nurseries for each plant on which a royalty is collected. The production nurseries sell the mature plants to:

- **domestic retailers**, of which there are a large number, but only a few large entities, who account for the great majority of plant sales, and/or
- **export retailers**, who handle a small proportion of sales, and/or
- **flower producers**, who also handle a small proportion, and/or
- the **landscape industry**, who handle a significant proportion of sales.

Figure 3 on page 25 approximates the supply chain for the ornamental / amenity sector.

Figure 1. Wheat industry supply chain and options for royalty collection

Compiled with the assistance of Intergrain Pty Ltd.

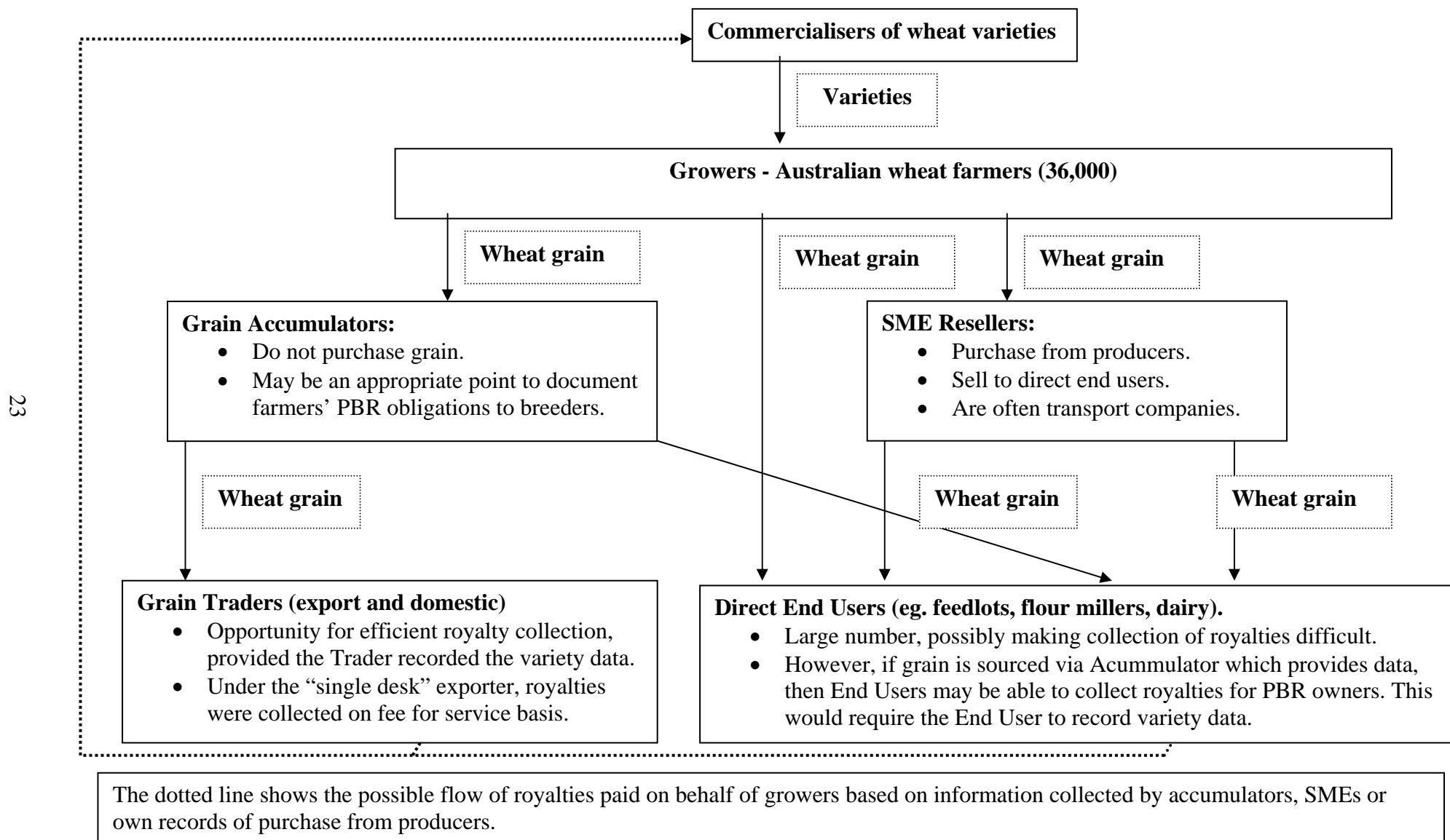


Figure 2. Apple industry supply chain
 Compiled with the assistance of Apple & Pear Australia Limited.

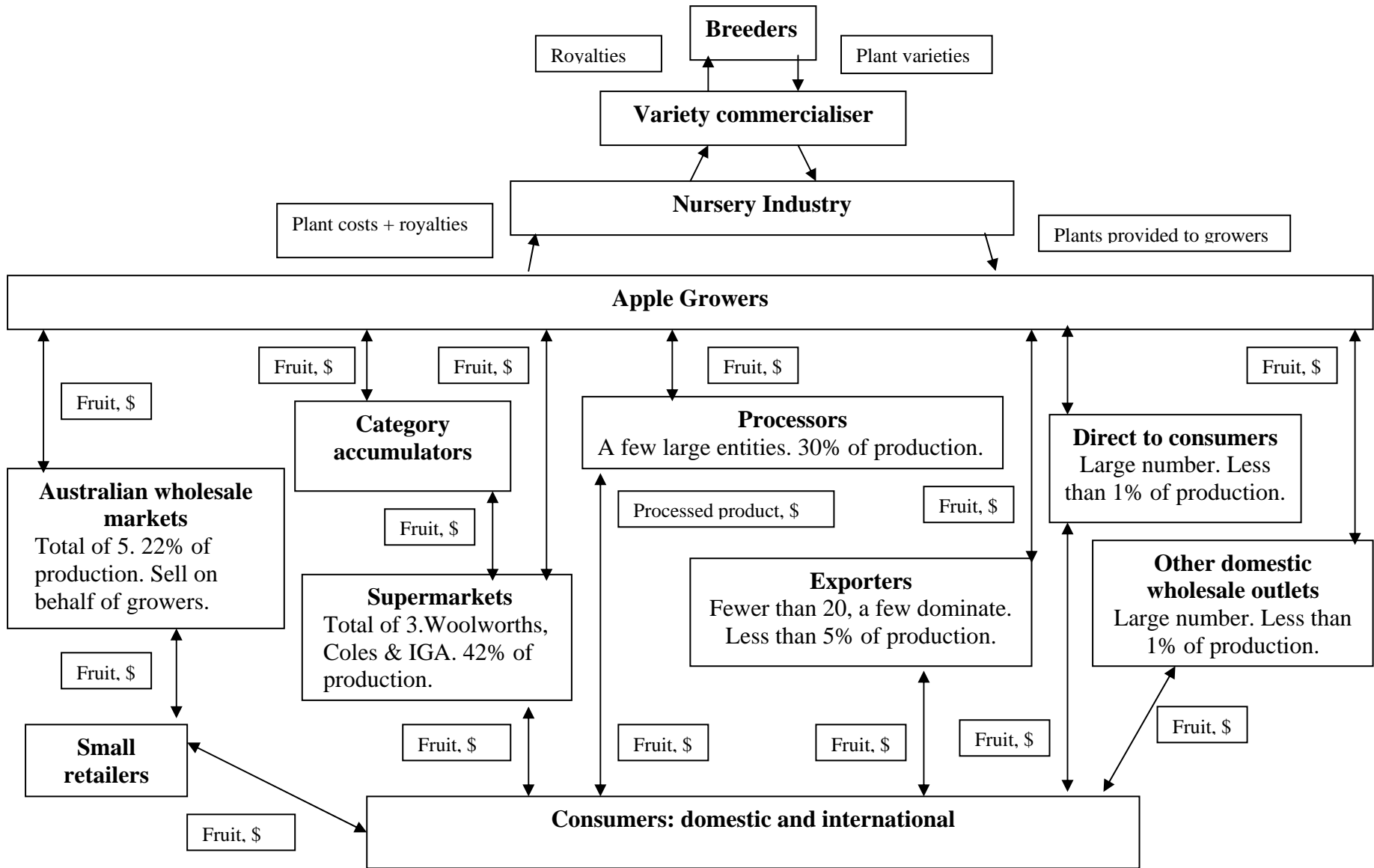
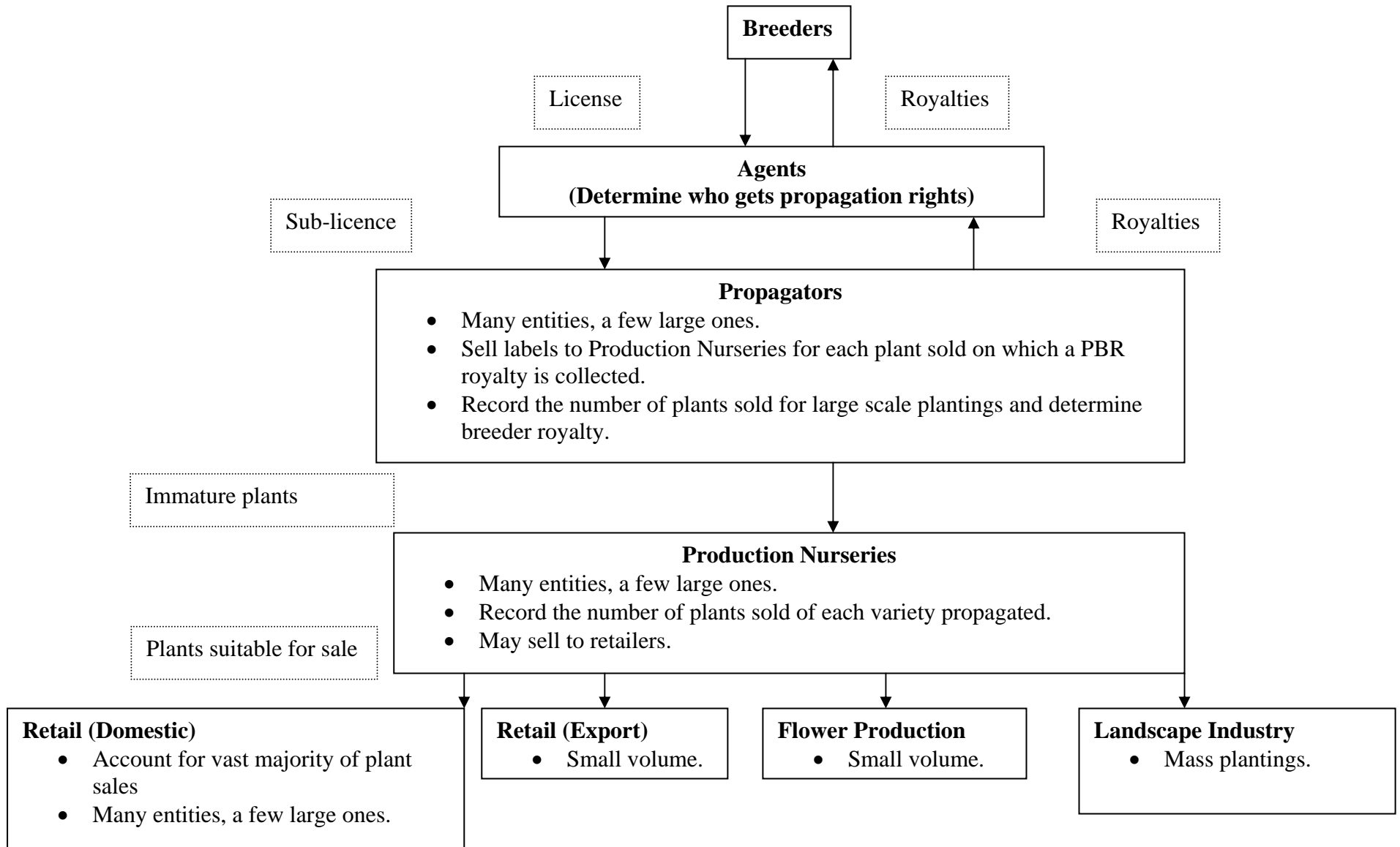


Figure 3. Ornamental / amenity industry supply chain
 Compiled with the assistance of Nursery and Garden Industry NSW & ACT



PART B SUBSTANTIVE LAW

Part B of the report relates to the substantive law as provided under the *Plant Breeder’s Rights Act 1994 Part 2 – Plant Breeder’s Right*.

6 Overview of rights granted

6.1 Objectives and nature of PBR

The aim of PBR is to encourage the development of new varieties of plants for Australia’s domestic industries and for export⁹. PBR are intended to provide a balance between providing plant breeders with an opportunity to obtain a reward for producing a new plant variety, and providing the benefits to growers and society through access to new and improved plant varieties.

The modern PBR system was developed in the 1950s because the patent system, to which PBR is most closely related, was considered to be unsuited to the particular characteristics of plants. These characteristics include:

- the lower levels of newness and inventiveness involved in traditional breeding methods,
- the difficulty of reliably reproducing a plant variety from a standard technical description, and
- the importance of plants as a basic resource, particularly for food. This leads to social issues such as control over the resource and traditional farming practices¹⁰.

As a consequence, PBR have a different set of criteria and provide a more limited scope of protection than patents. It is arguable that PBR are inherently more complicated than other IP rights due to the self reproducing nature of plants. Is it more difficult to control how an innovation is used when a purchaser may easily use the innovation to produce copies of it.

6.2 Legislation and process

In Australia, intellectual property rights are granted for new varieties of plants under the *Plant Breeder’s Rights Act 1994* (the PBR Act). The PBR Act complies with the 1991 Revision of the *International Convention for the Protection of New Varieties of Plants* (UPOV Convention), to which Australia is a signatory. The UPOV Convention is administered by the International Union for the Protection of New Varieties of Plants (UPOV). The World Trade Organization (WTO) agreement on *Trade-Related Aspects of Intellectual Property Rights* (TRIPS) is another significant international treaty with which Australian law on plant variety rights is, and must remain, compliant¹¹.

⁹ Plant Variety Rights Bill 1986, Second Reading.

¹⁰ Llewelyn, M. and Adcock, M., *European plant intellectual property*, Hart Publishing, 2006, Chapter 3.

¹¹ TRIPS Article 27(3) stipulates that member states must provide protection for plant varieties either by patents or by an effective *sui generis* (ie. unique) system or by any combination thereof.

The PBR Act is administered by the Plant Breeder's Rights Office (PBRO) within IP Australia. Using the technical services of a Qualified Person, the breeder of a variety submits an application to the PBRO. A PBR is granted on that variety if the application passes an exhaustive examination process which includes a comparative growing trial. The total time from filing an application to grant typically takes from two to three years, depending on the variety. The PBR owner must pay annual renewal fees to maintain PBR on a variety. Each year, around 350 applications are received by the PBRO and around 250 PBR are granted.

IP Australia is self-funded by cost-recovery for its services. The great majority of funding for the PBRO is from PBR application and renewal fees. In 2007-08 the PBRO recovered \$2.2 million in fees.

The following is an overview of the principal parts of the PBR Act relating to the rights granted. More detailed information can be found in Chapters 7.1 to 7.8 of this report.

6.3 Subject matter protected (Section 3)

Australia's PBR Act provides protection for 'plant varieties'. This includes all species, including fungi and algae, but does not include bacteria, bacteroids, mycoplasmas, viruses, viroids and bacteriophages. To be a variety eligible for PBR, the variety must satisfy a number of criteria relating to its characteristics and suitability for propagation.

6.4 Requirements for protection (Section 43)

To be a registrable plant variety, a variety must:

- have a breeder¹²,
- be distinct¹³, uniform¹⁴ and stable¹⁵, and
- not have been exploited, or has been exploited only recently¹⁶.

By comparison, to be patentable an invention must be¹⁷:

- a 'manner of manufacture', essentially meaning that it is of practical use, rather than of the 'fine arts',
- novel,
- inventive,
- useful, meaning that it fulfils its promise, and
- not secretly used beforehand by, or on behalf of, the patentee.

¹² To be a breeder of a variety, a person (or persons) must have bred that variety. A plant breeder can include a single breeder, a group of breeders, an employee, or a group of employees.

¹³ The UPOV Convention states that, 'the variety shall be deemed to be distinct if it is clearly distinguishable from any other variety whose existence is a matter of common knowledge at the time of the filing of the application'.

¹⁴ A variety is uniform if, subject to the variation that may be expected from the particular features of its propagation, it is uniform in its relevant characteristics on propagation (PBR Act s. 43(3)). Relevant characteristics are taken to be those characteristics of the variety that make it clearly distinguishable from other varieties whose existence is a matter of common knowledge at the time of filing of the application.

¹⁵ A variety is stable if its relevant characteristics remain unchanged after repeated propagation (PBR Act s. 43(4)).

¹⁶ Section 43(1)(e) of the PBR Act.

¹⁷ *Patents Act 1990*, s18(1). Plants are not eligible for an innovation patent, which only requires an innovative step rather than an inventive step.

6.5 Rights granted (Sections 11-15)

A PBR provides the breeder with the right to exclude others from using the registered variety for a range of commercial activities and from misusing the variety name. In particular, s.11 of the PBR Act provides the right to exclude others from doing certain specified acts in relation to the *propagating material only* of a variety, namely production, reproduction, conditioning, sale, import, export and stocking of the material for these purposes. Typical examples of propagating material are seed, cuttings and grafting stock.

By comparison, a patent provides the exclusive right to ‘exploit the invention’. This covers a wider range of activities and is in relation to the whole invention.

PBR protection extends to ‘essentially derived’ varieties (s.12) and certain dependent plant varieties (s.13). In certain circumstances, such as where there has been unauthorised propagation and the PBR owner has not had a reasonable opportunity to exercise its right, harvested material (eg. fruit) or products made from harvested material (eg. fruit juice) are covered by the rights to the same extent as is propagating material (s.14 and 15).

The maximum duration of plant breeder’s rights is 20 years for all species, with the exception of trees and vines where the maximum term is 25 years¹⁸. The maximum duration may be extended for specific taxa¹⁹. For grants made under the previous *Plant Variety Rights Act 1987*, all varieties were protected for up to 20 years. Once the PBR or PVR has expired, the variety may be freely used by the public.

6.6 Exemptions, defences and limitations

Exemptions (Section 17)

The PBR Act contains important exemptions that allow people to use protected plant varieties in certain ways without having to obtain the permission of the PBR owner. These are:

- using a protected plant variety privately and for non-commercial purposes, or for experimentation; or to breed other varieties²⁰.
- farmers saving the propagating material harvested from a legitimately obtained, protected plant variety for their own use in growing further crops on their own farm. This is known as the ‘farm-saved seed exemption’ or ‘farmer’s privilege’.

However, common law contracts between the PBR owner and other parties can be used to limit such uses.

By comparison, patents do not have such exemptions. However, there has generally been an industry assumption and practice of experimental uses not constituting infringement²¹.

¹⁸ Section 22.

¹⁹ Taxa is the term for particular groups of plants in the classification system, such as a genus, species or sub-species.

²⁰ Section 16.

²¹ *Patents and Experimental Use*, ACIP, 2005, pg 2 and Part 8.

Defences (Section 57)

If a person satisfies a court that, at the time of the infringement, the person was not aware of, and had no reasonable grounds for suspecting the existence of a PBR in a particular plant variety, the court may refuse to award damages or to make an order for an account of profits against the person. This is known as ‘innocent infringement’. However, this defence is not available where the propagating material of the protected plant variety has been labelled to indicate the existence of PBR and it has been sold to a substantial extent before the date of infringement.

Limitations

Restriction on PBR in certain circumstances (Section 18)

The PBR Act recognises that a law of the Commonwealth or of a State or Territory might authorise a person to do an act that would otherwise require authorisation of the PBR owner. If, before the person does that act, the person either pays ‘equitable remuneration’ to the PBR owner or arranges for the payment of such remuneration, then the grantee is not entitled to exercise PBR in the plant variety against the person in respect of that act²².

Statutory Licences (Section 19)

Reasonable public access to varieties is guaranteed under the PBR Act. Reasonable public access is satisfied by making propagating material available to the public at a reasonable price, or free, in sufficient quantities to meet demand. If this is not available it is possible for a party to make a written application to the Secretary²³ for a compulsory licence to be granted to the party. If a compulsory licence is granted, the Secretary can licence a person to grow and sell the variety for whatever time and under whatever conditions are deemed necessary.

Exhaustion of PBR (Section 23)

Once propagating material has been sold by the PBR owner or with the rights owner’s consent, PBR is ‘exhausted’ and no longer applies unless there is further production or reproduction of that material, or export to a country that does not provide PBR in relation to the variety for a purpose other than final consumption.

²² The Plant Breeder’s Rights Amendment Bill 2002 repealed the previous Section 18, which exempted from PBR any acts defined in Section 11 which enabled the propagating material to be used as a food, food ingredient or fuel, or any other purpose which did not involve production or reproduction of the material.

²³ Secretary of the Department of Innovation, Industry, Science and Research.

7 Concerns with current law

The PBR system is inherently complex. Many submissions received by ACIP, from both a breeder’s and a grower’s perspective, were concerned about the uncertainty surrounding the operation of and the relationship between the exclusive rights granted to the PBR owner, the extensions of these rights, their exemptions and their limitations. The key areas of concern were:

- the scope of protection provided by the exclusive rights (s.11);
- the definitions of (and relationship between) propagating material and harvested material (s.11, 14 and 15);
- the concept of ‘reasonable opportunity’ to exercise rights (s14 and 15);
- the farm saved seed exemption (s.17),
- the scope of protection provided by the provision on essential derivation (s.12), and
- the exhaustion of PBR (s.23).

7.1 Exclusive rights granted

7.1.1 Current situation

Legislation

Section 11 of the PBR Act provides the exclusive rights on which all extensions, exemptions, defences and limitations are based:

11. Subject to sections 16,17,18,19 and 23, PBR in a plant variety is the exclusive right, subject to this Act to do, or to licence another person to do, the following acts in relation to propagating material of the variety, as follows:
- a) produce or reproduce the material;
 - b) condition the material for the purpose of propagation;
 - c) offer the material for sale;
 - d) sell the material;
 - e) import the material;
 - f) export the material;
 - g) stock the material for the purposes described in paragraph (a), (b), (c), (d), (e), or (f)

Note: In certain circumstances, the right conferred by this section extends to essentially derived varieties, certain dependent plant varieties, harvested material and products obtained from harvested material.

As mentioned in Chapter 6.1, PBR are a significantly more limited right than patents. This is largely because PBR is focused on the *propagating material* of the variety, not all parts of the variety, and PBR is limited to certain acts in relation to the propagating material, not all acts.

UPOV Convention

The original reasons that the UPOV Convention focused protection on the propagating material include:

- it was one way to keep varieties as freely available to the public as possible, whilst providing a modicum of protection for the breeder²⁴,
- a fear of extending protection beyond that which can reasonably be recognised as a variety and giving breeders too much power in the market place²⁵,
- propagating material was an appropriate part of the plant for determining homogeneity²⁶, and
- unique systems of plant protection were originally developed primarily for agricultural crops, for which the propagating material is the key part of the plant²⁷.

The original reason for limiting protection to specific acts was to provide the public with reasonable access to the variety by limiting the exclusive rights of the PBR owner to commercial uses²⁸.

Cultivaust decision

Some plant varieties have the characteristic that the harvested material is also propagating material. The 2004 Federal Court decision *Cultivaust Pty Ltd v Grain Pool Pty Ltd*²⁹ considered a range of issues, including whether harvested barley (ie. the grain) is propagating material within the meaning of s.11. Justice Mansfield stated that it is³⁰.

The *Cultivaust* decision was in respect of the PBR-protected barley being grown in trial crops and normal crops. The PBR owner required and/or expected that all or most of crop G1 would be sold to Grain Pool of Western Australia (GPWA) for malting or feed purposes. In some situations it was understood that part of crop G1 would be retained to grow a subsequent crop G2, however this was not the primary purpose of crop G1³¹. This understanding relates to the issue of implied licences – see Chapters 7.2.1 and 7.3.1 of this report.

²⁴ Llewelyn, M. and Adcock, M., *European plant intellectual property*, Hart Publishing, 2006, pg 142.

²⁵ Llewelyn, M. and Adcock, M., *European plant intellectual property*, Hart Publishing, 2006, pg 469.

²⁶ *Actes des Conférences Internationales pour la Protection des Obtentions Végétales*, 1957-1961, 1972, UPOV, Geneva, for example pg 52.

²⁷ Llewelyn, M. and Adcock, M., *European plant intellectual property*, Hart Publishing, 2006, pg 152-153; *CIOPORA Green Paper on Plant Variety Protection*, November 2002, pg 4, 33.

²⁸ Llewelyn, M. and Adcock, M., *European plant intellectual property*, Hart Publishing, 2006, pg 175-176.

²⁹ *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638.

³⁰ For example, “It is not disputed that the seed [material when sown] or grain [material when harvested] of Franklin barley is... ‘propagating material’ within the meaning of s 11 of the PBR Act, except insofar as it is harvested material within s 14 of the PBR Act or insofar as it is a product made from harvested material within s 15 of the PBR Act, in which case it is to be treated as if it is propagating material for the operation of s 11”. See paragraphs 51, 55, 167, 188, 195-198. However, Justice Mansfield found that PBR has not been infringed because barley was exempted under the then s.18 ‘food exemption’, amongst other reasons. See paragraphs 217-227.

³¹ For example, see paragraphs 68-70, 75, 85, 96, 98, 179, 192-194.

7.1.2 Concerns

Agricultural sector

The majority of concerns expressed in submissions to ACIP relating to s.11 rights were in relation to agricultural varieties, particularly grains. ACIP understands that, at present, the following sections of the grains industry are exercising the exclusive rights provided in s.11 and so have a liability to the PBR owner:

- growers, when growing a crop (s.11(a)) or selling a crop (s.11(c) and (d));
- accumulators (bulk handling authorities), when stocking on behalf of traders or growers when selling the crop (s.11(g)). ACIP understands that accumulators do not purchase the grain themselves and generally act on behalf of traders;
- traders, when selling the crop (s.11(c) and (d)), and
- exporters, such as AWB Ltd. (s.11(c) and (f)).

ACIP understands that the following sections of the grains industry are *not* exercising the rights of the PBR owner:

- accumulators, when stocking on behalf of traders who purchase the harvested material;
- traders, when purchasing the harvested material, and
- end users such as feedlots and flour millers, when purchasing or using the harvested material.

The main concerns raised in relation to grains were:

- The large number of growers in some sectors makes it non-cost effective for PBR owners to monitor whether each grower is paying the appropriate royalties when selling harvested material.
- The significant proportion of harvested material that is sold directly to millers and other end users, rather than through traders or the bulk-handling system, makes it difficult for PBR owners to achieve high levels of royalty capture.
- There is a significant level of feeding of harvested product from protected varieties (particularly barley) to livestock on farm on which royalties are often not paid, although such actions may require the authority of the rights holder.

In the grains industries a number of rights holders have sought to spread the collection of royalties over seed sold to the grower and harvested material, or, more typically, on harvested material alone. Royalties on harvested crops are known as End Point Royalties (EPRs). This practice reduces the upfront seed costs to growers and encourages uptake of the variety, overcomes loss of sales through farm saved seed and shares the risk of crop failures between PBR owners and growers.

A number of stakeholders were very concerned that those sectors in the value chain which are best placed to collect and report the information necessary to quantify the grower's royalty obligations to the PBR owner, and possibly to collect the royalty on behalf of the PBR owner, cannot be obliged to do so because they are not exercising any of the rights of the PBR owner. The necessary information is the linking of a grower to the quantity of product produced from a particular protected variety. In the wheat industry there are around 36 000 growers, who exercise PBR rights, and a relatively small number of accumulators, traders and end users, many of whom are under no obligation to the PBR owner.

Australian Grain Technologies (AGT), one of the largest wheat breeding companies in Australia, made the following comments:

...the most efficient way for a variety owner to exercise their right is through the purchasers and users of grain rather than the many tens of thousands of grain producers. At present, however, there is limited ability within section 11 for a variety owner to exercise their rights over a variety that is traded and used domestically. Domestic users are currently able to purchase, stock and use PBR protected varieties with no obligation to report transaction details to the variety owner. This in turn makes it very difficult for the variety owner to exercise their right with the grain producer (seller).

The Western Australia Department of Agriculture and Food (DAFWA) has been involved in breeding a number of agricultural and horticultural species, including wheat, barley and apples. In 2007 DAFWA and the Grains Research & Development Corporation (GRDC) formed the commercial entity InterGrain Pty Ltd and transferred DAFWA's wheat breeding program into it. According to DAFWA, more than 40% of wheat production in Australia is from InterGrain bred varieties. DAFWA made the following comments:

The grain marketing environment and in particular the wheat market is rapidly evolving with increased numbers of traders, handlers and end users operating in the system. DAFWA has a vision of redesigning the grains EPR [end point royalties] collection system, where the Grantees utilise their rights further down the supply chain. Currently the EPR is placed on the grower but DAFWA would like to utilise its PBR by placing royalty on the grain traders or first end users.

DAFWA and InterGrain assert that they are able to direct grain traders who sell harvested material, and accumulators acting on their behalf, to provide the required information on which royalty determinations can be made. This is because selling and stocking for the purpose of sale are two of the s.11 exclusive rights of the PBR owner.

However, direct users such as feed lots, millers, maltsters and ethanol producers are under no obligation to report to the PBR owner, so the royalties due on any crops sold directly to end users are difficult to capture. Reporting arrangements could be mandated through private contract, but end users are under no obligation to agree to such arrangements. InterGrain said:

One of the key success factors of maintaining a coordinated and effective EPR system within the grains industry is having the collection of EPR applying to all parts of the grain marketing system. If the stock feed or ethanol sections of the industry are not part of the system then the effectiveness of the EPR system is eroded.

End point royalties are discussed in more detail Chapter 17. The Australian Seed Federation (ASF) is the peak national body representing the interests of the seed industry. The ASF also stressed that the market structure was changing, partly due to the increasing use of on-farm storage by growers, making the collection of royalties difficult:

This [increase in on-farm storage] is because the speed of harvest continues to increase, and they are seeking greater flexibility to market their grain over longer periods. More often than not it will be delivered from grower to the end user or via a marketing agent

and not into the central accumulation system. This area needs to be addressed, as the traditional collection points are changing, and the *PBR Act* in its current form, is outdated.

AGT and GRDC were similarly concerned that it is often not possible to determine when grain has been sold to feedlots or processing plants, especially where it has not been delivered into the bulk-handling system. GRDC also believed that there was a great deal of confusion in the industry over whether growers can legitimately avoid further feed costs by using the harvested grain from PBR varieties to feed their own livestock.

The farmer’s privilege provision of the PBR Act (s.17) enables farmers to condition harvested grain for production or reproduction and to produce or reproduce further harvested grain (s.17(d) and (e)) without infringing PBR. Section 11 does not list the feeding of propagating material to livestock as one of the exclusive rights of the PBR owner. In circumstances where the propagating material has been reproduced without the authorisation of the PBR owner, s.15 can extend PBR rights to products derived from the harvested material. However, the GRDC said this provision does not apply to livestock that has been fed harvested grain because the livestock is not a ‘product’. Flour millers were another category of end user who may or may not be required to pay royalties under s.15 on products derived from the harvested material, depending on whether the PBR owner has had a ‘reasonable opportunity’ to exercise its rights. Extended rights and reasonable opportunity are covered in detail in Chapter 7.2.

Some stakeholders in the grains sector also stated that there is confusion over:

- how s.11 operates in relation to extended rights under s.14 and 15, and
- whether particular grains are to be considered propagating material or harvested material.

DAFWA had received legal advice that harvested grains that are also propagating material can be treated as propagating material under s.11, despite not being used for that purpose. Other submissions said that the *Cultivaust* decision appeared to support this view. However, this view was not consistent with legal advice provided to others on the matter. There was concern that, if the advice provided to DAFWA is incorrect, PBR owners in the grains sector would have to incur the costs of securing private contracts to obtain EPRs on harvested grain, or rely on extended rights under s.14 and 15 and the uncertainty of “reasonable opportunity” (see Chapter 7.2). DAFWA and others sought clarification on the issue.

Kathryn Adams, Senior Research Fellow at the Australian Centre for Intellectual Property in Agriculture, made the following comments on the operation of sections 11, 14 and 15:

The current structure of sections 11, 14 and 15 causes confusion in a number of ways:

- Section 11 relates only to propagating material, but if sections 14 or 15 are triggered, then the harvested material or product is deemed to be treated as if they were propagating material.
- End point royalties which are put in place as a contractual term ...are often mistakenly treated as if they arise due to the activation of sections 14 and 15, whereas, in reality, very few end point royalty schemes in Australia arise because

the breeder has not had a reasonable opportunity to exercise rights over the propagating material...

- It is hard to distinguish when some species are being 'propagating material', 'harvested material' or products of harvested material.

Ornamental and horticultural sectors

Other sectors also raised concerns over s.11 rights. These included:

- PBR owners in some sectors are unable to exercise their rights at the stage where the value of the variety is expressed.
- PBR owners need more flexibility to adapt to the different characteristics and evolving market structures of different sectors.

The International Community of Breeders of Asexually Reproduced Ornamental and Fruit Tree Varieties (CIOPORA) argued that the traditional focus on propagating material, with rights only being extended to harvested material and subsequent products in certain circumstances, does not meet the needs of breeders of ornamentals and fruit varieties:

The main ambition of the breeders of ornamental and fruit varieties is to create new varieties of pot plants, cut flowers and fruit. Breeders of such varieties must be able to exercise their right (and notably collect their royalties) at the stage where the added value of the variety is normally expressed – which is the end-product *per se* for most cut flowers and fruit varieties.

Australian Forest Growers (AFG) is the national association representing the private forest growing sector of the wood and paper industry. AFG saw potential benefits in a more flexible system:

...the long life cycle of trees means that purchasers of tree stock may be reticent to use improved genetic material (and hence pay royalties) when it is unclear that improved material will deliver an advantage, something which may take many years to be quantitatively verifiable. For this reason, a split royalty payment - part at point of sale and part on achieving satisfactory growth...or for a short rotation of trees...upon harvest, may be an appropriate structure that facilitates future investment in forest tree breeding.

Options

To address the above problems, several stakeholders strongly supported extending the exclusive rights of the PBR owner. It was argued that this would provide the following benefits:

- enable simpler, lower cost and high compliance royalty systems and so enable PBR owners to generate an equitable return on investments;
- avoid the uncertainty surrounding extended rights and the condition of 'reasonable opportunity' (see Chapter 7.2);
- avoid relying on the interpretation that, for grains, harvested material is propagating material and therefore is subject to the exclusive rights of the PBR owner provided by s.11.

Some noted that extending PBR rights is allowable under the UPOV Convention, in particular Article 14(4) which allows for 'additional acts' to be included in the exclusive rights of the PBR owner.

Use right

Several grains breeding organisations proposed that a “use” right be added to the existing bundle of s.11 exclusive rights. The aim would be to enable PBR owners to obtain royalties from growers feeding the material to their stock and end users such as feedlots, millers, ethanol producers, juice manufacturers and perhaps accumulators. This would capture most uses of protected material and provide a more effective and efficient collection process through a smaller number of organisations. DAFWA expected that some stakeholders may have concerns with such a broad expansion to s.11 and therefore recommended that it be curtailed to propagating material only by excluding ‘use’ from s.15 (rights extended to products of harvested material).

Kathryn Adams proposed that many of the above issues could be solved by combining s.11, 14 and 15 into a single section providing the PBR owner with rights to all uses of all the material of the variety:

Subject to sections 16, 17, 18, 19 and 23, PBR in a plant variety is the exclusive right, subject to this Act, to use, or to license another person to use, material of the variety, where use includes, but is not limited to:

- (a) produce or reproduce the material;
- (b) condition the material for the purpose of propagation;
- (c) offer the material for sale;
- (d) sell the material;
- (e) import the material;
- (f) export the material;
- (g) stock the material for the purposes described in paragraph (a), (b), (c), (d), (e) or (f).

This would cover propagating material, harvested material and product of harvested material (and would not be inconsistent with UPOV as UPOV allows optional extension of the rights in addition to their application to propagating material).

The section on *Exhaustion of PBR* would then need to say that the right can only *be exercised once* by the holder of PBR, unless it involves those things set out in 23(1)(c and d).

Similarly, CIOFORA said that:

...the essence of protection for such categories of new products must bear on the *manufacture (reproduction / propagation), offering for sale, sale, exporting, importing and USE for commercial purposes* of the whole protected variety, including harvested material and products made from harvested material. Contrary to seeds, any protection for vegetatively-reproduced plants falling short of such a scope is not sufficient.

Some supported a “use” right with certain provisos. The NSW Farmer’s Association agreed to the introduction of a use right, but only to the extent that it applied where a trader and/or accumulator had not already paid the royalties. However, the Stock Feed Manufacturers’ Council of Australia said:

What needs to be included in the assessment of [a use right] is the significant added cost and administrative burden that would be placed on feed grain end users... Feed grain end users do not have systems in place to track and record grain receipt by variety. This includes financial systems not being set up to manage EPRs...

Several stakeholders strongly argued against both a “use” right and a “purchase” right – see below.

Purchase right

Some stakeholders proposed that PBR owners be provided with an additional right over “purchase” of the material. The aim would be to provide PBR owners with the choice of what point in the value chain to collect a royalty. End users, traders and accumulators who are acting as agents for buyers would be purchasing the material and would therefore require a licence from the PBR owner. One submission stated that in the wheat industry the optimum opportunity to generate a return is when the trader or end user buys from the grower. As with a “use” right, a purchase right would capture more uses of protected varieties, reduce the amount of reporting required by growers to PBR owners on the varieties they use and the quantities grown, and increase such reporting requirements for the smaller number of organisations who purchase the material.

DAFWA preferred a use right, because:

[A purchase right] will not cover the use of PBR material in feed lots. If there is no exchange of ownership, this material will remain outside the PBR owner's control. We also note that (in the short term) the right over the ‘purchase’ of the material will be limited to sales without the consent of the PBR owner. This will be of limited benefit, and the changes required to s.23 [exhaustion] to extend this right are likely to be time consuming and complex.

The Plant Breeder's Rights Advisory Committee (PBRAC) considered that a purchase right had some merit and may help to restrict the movement of unauthorised material through the production chain, but that exhaustion of rights may present an insurmountable problem (see Chapter 7.6).

The NSW Farmer's Association believed a purchase right would be too complicated to regulate. The Stock Feed Manufacturers' Council of Australia argued that a purchase right would present significant challenges for the feed grains industry. While accumulators, millers and maltsters purchase a few varieties specific to their needs well in advance, the feed industry does not purchase according to variety, there is a much wider number of varieties in use and purchases are more opportunistic and unplanned.

Several representative bodies argued strongly against both a “use” and “purchase” right, saying that:

- they would place yet another obligation on farmers that would be open to abuse by PBR owners.
- current contractual options are sufficient.
- current EPR system should be improved before major legislative changes are made.

For example, the Victorian Farmer's Federation (VFF) opposed any major legislative change:

There are already opportunities for PBR owners to enter into robust agreements which would enable them to seek information through already established channels such as

[the National Growers Registration system³²]. ...Before considering any additional powers the VFF would strongly suggest a more cooperative approach.

The Network of Concerned Farmers (NCF) said that farmers already pay royalties a number of times on the same material:

Farmers:

- are the key contributors of GRDC funding through a compulsory 0.99% levy of the gross on-farm value of all grain. This research has now been redirected to pre-breeding yet farmers do not own the intellectual property they pay for;
- pay a high price when purchasing the certified seed, and
- pay an end-point-royalty on produce derived from variety plus a significant collection fee.

...If plant breeders find the EPR collection style unworkable, they should opt for the PBR collection at the point of sale or improve the system by making it more manageable. ...An easily accessible system of information and options for compliance must be constantly updated and available to farmers and industry participants.

The NCF also believed that a purchase right would introduce an anti-competitive “closed loop marketing system” whereby the research sector is in a position to dictate who will have the licensed right to purchase.

AACT and Crop and Food Research Australia believed that ‘double dipping’ by PBR owners, or abuse of an additional right, would be minimised through industry codes of practice and customers reacting by using other varieties. ACIP notes that it is already standard practice in some sectors to spread royalty payments over more than one point in the chain.

³² The NGR is a national registration system which was established after consultation with key industry bodies by ABB and GrainCorp, who together service 85% of Australia’s grain growers. It provides growers with a single delivery card to use with multiple handlers and marketers.

7.1.3 ACIP’s views

PBR is focused on the propagating material of the plant variety, but for many sectors and varieties an EPR system based on harvested material is a preferred method, both for breeders and growers. EPR systems can reduce upfront costs for growers, capture more royalties for PBR owners, which encourages innovation, and increase the uptake of improved varieties, which benefits the nation. Most concerns raised with ACIP over s.11 rights were in relation to the grains industry, where there are tens of thousands of growers and a relatively small number of accumulators, traders and end users (Fig. 1). It is not cost effective for PBR owners to audit the payment of royalties by such a large number of growers. An EPR system based on the narrower points in the supply chain transfers the administrative burden from growers to other organisations and can be a more efficient system overall. These entities would incur the transaction costs for royalty collection, which would have to be borne by the industry as a whole. In recent years there has been a strong push within the grains industry to reduce administrative burdens and improve EPR systems.

Propagating or harvested material

At present, EPR systems are normally established through private contract and only occasionally through extended rights under s.14 and 15. For the grains sector, if it was clear that harvested grains that also constitute propagating material are covered by s.11, EPR systems could be based on s.11 instead of contracts or extended rights. The first *Cultivaust* decision supports such an approach to harvested grains – see Chapter 7.1.1 of this report. ACIP believes that the best way of making it clear that harvested grains that also constitute propagating material are covered by s.11 is to clarify this in the PBR Act. Options for achieving this include making an amendment to the Definitions in s.3 or adding an explanatory note to s.11, such as:

Note: Where harvested material is also propagating material, such harvested material is to be considered to be propagating material for the purposes of s.11.

Use right

The introduction of a new “use” right would expand PBR to be more like patent rights. It would cover a wide range of acts and clearly enable royalties to be obtained from end users and from growers feeding protected material to stock. This would alleviate many of the problems that PBR owners in the grains industry are experiencing. However, PBR are designed to provide limited rights that are in proportion to the innovative threshold in traditional plant breeding and to accommodate social issues such as access to basic resources. ACIP considers that a new use right would be too wide ranging and not in proportion with the level of innovation. ACIP notes that, during the 1991 revision of the UPOV Convention, there was debate over introducing an additional right for the use of the propagating material. It was not supported by the majority of UPOV members as it was considered too indefinite and wide-ranging³³.

Expanding PBR to be even more comprehensive by covering all plant material, not just propagating material, and all uses, is an elegant solution to many of the problems of

³³ *Records of the Diplomatic Conference for the Revision of the International Convention for the Protection of New Varieties of Plants*, UPOV, Geneva, 1991, pg 294-308.

breeders. Nonetheless, ACIP considers that expanding PBR in such a significant way is not warranted.

ACIP appreciates that it may be confusing as to whether growers are authorised to feed harvested protected material to their own livestock. ACIP's understanding of the current law in the area of livestock feed is as follows:

- Under s.17, growers do not infringe PBR when reproducing protected propagating material to grow another crop.
- Subject to the conditions of the sale of the initial propagating material sold to the grower, growers are free to feed harvested grain to their own livestock because this is not one of the acts listed under s.11. PBR owners may stipulate as a condition of sale that harvested grain must not be fed to livestock.
- Growers cannot be obliged to pay royalties under s.15 on livestock that has been fed harvested grain because livestock would not be considered as a 'product' of the harvest.

ACIP does not believe that a use right should be introduced to provide PBR owners with the ability to control the feeding of harvested grain to livestock on farm. As discussed above, such a right would arguably be too broad and not in proportion to the level of innovation. At present, PBR owners may attempt to prevent the feeding of reproduced material to livestock by making it clear in the contract of sale of the initial propagating material that such acts are not authorised³⁴. The introduction of a use right would not make it any easier for a PBR owner to determine whether propagating material is being reproduced and fed to livestock on a grower's property.

Purchase right

A new "purchase" right would enable EPRs to be obtained from end users, traders and accumulators rather than growers. Because end users, traders and accumulators are less numerous and, as a general rule, more easily identified than growers, the existence of a purchase right would reduce transaction costs and probably increase compliance levels. There would be increased incentives to invest in plant breeding, but without extending PBR more than is appropriate. Those organisations who are purchasing propagating material such as grain would incur higher administrative burdens, but there would be potential efficiency gains for the sector in general. It has been a practice in some sectors for royalties to be collected both when the grower purchases the initial propagating material and when the grower sells the harvested product. It appears that it is increasingly more common to collect royalties on the harvested product alone³⁵. ACIP notes there are concerns that a new purchase right would enable royalties to be collected on both the sale and purchase of the harvested product, ie. at different points in the supply chain. This may be considered by some to be 'double dipping' and an abuse of the right. Others may consider this to be merely dividing the royalties payable between different parties.

A new purchase right must be compliant with the UPOV Convention. Article 14(4) of the Convention says:

³⁴ ACIP notes that the 2008 US Supreme Court decision *Quanta Computer v LG Electronics* (No. 06-937) 453 F. 3d 1364 showed that the exact wording of a licence agreement is critical to whether rights have been exhausted and certain acts are authorised.

³⁵ For example, see *PBR Agreement Fact Sheet*, GRDC, March 2008, in relation to grains.

[Possible additional acts] Each Contracting Party may provide that, subject to Articles 15 and 16, acts other than those referred to in items (i) to (vii) of paragraph (1)(a)³⁶ shall also require the authorization of the breeder.

UPOV Article 15 stipulates that rights shall not extend to acts done for purposes that are private and non-commercial, experimental or for breeding other varieties. This is reflected in s16 of the *PBR Act*.

UPOV Article 16 concerns the exhaustion of PBR rights and is reflected in s.23 of the *PBR Act*. Under s.23, PBR rights are exhausted when protected material is sold by the PBR owner or with its consent, unless there is “further production or reproduction of the material”. It is appropriate that a purchase right is exhausted on initial propagating material G0 sold by the PBR owner, as the PBR owner has no legitimate interest in seeking royalties on the on-selling of the initial material. However, as discussed in Chapter 7.6.1, “further production or reproduction” is interpreted by the courts to mean all crops G2+ after an initial crop G1. ACIP considers that this approach would reduce the effectiveness of a new purchase right and believes that amendments to s.23 should be made – see Chapter 7.6.3.

As with other IP rights, the normal use of a purchase right would not be considered a restrictive trade practice under the *Trade Practice Act 1974* due to the exception provided in that act for IP rights under s.51(3). Another potential area of concern is that, due to the circumstances of the sale, there may be an explicit or implied licence from the PBR owner to sell crop G1, and therefore an implied licence for any party to purchase it. This would leave the PBR owner with only the ability to control the purchase of crops G2+, which may be of limited practical value. However, ACIP understands that, without a contract between the PBR owner and the purchaser, there can be no implied contractual licence between them. Provided that the PBR owner does not give the public impression that any party is free to purchase the protected propagating material, there would be no implied or other licence to do so.

Only the agricultural sector has called for the introduction of a purchase right so as to better enable EPR systems. The horticultural and ornamental / amenity industries have expressed little interest in such changes to s.11. This may partly be because the harvested material in those sectors is usually not propagating material, and so a purchase right would only be of value where there has been unauthorised reproduction and the extended rights under s.14 and 15 apply. Also, the structure of these sectors is different to that of grains, with a smaller number of growers and larger number of buyers and propagators. Nonetheless, any new purchase right must be able to accommodate a range of sectors and any party should be able to apply to have a purchase right apply to specific taxa. This should be granted if it is clear that a purchase right is needed to encourage breeding in that sector.

ACIP considers that the Government, acting through the PBRO, is in the best position to make the final decision on which varieties warrant access to a new purchase right. A process was recently developed for determining an extension to the duration of term under s.22(3), however ACIP considers that this is not an appropriate model. ACIP believes that whether a variety deserves access to a new purchase right should be an

³⁶ These acts are listed in s.11 of the Australian PBR Act.

administrative decision by IP Australia which is appealable to the Administrative Appeals Tribunal.

ACIP acknowledges that the administration of such a right would incur some costs and, as IP Australia is a cost-recovery agency, an increase in PBR application and/or renewal fees may be required.

Recommendation 1.

A new “purchase” right be added to s.11. This new right would only apply to those taxa that are specifically declared in the regulations. Industry sectors such as wheat breeders would apply to the PBR Office to have particular taxa so declared.

The following is an example of how s.11 may be amended:

11 General nature of PBR

- (1) Subject to sections 16,17,18,19 and 23, PBR in a plant variety is the exclusive right, subject to this Act to do, or to licence another person to do, the following acts in relation to propagating material of the variety, as follows
- (a) produce or reproduce the material;
 - (b) condition the material for the purpose of propagation;
 - (c) offer the material for sale;
 - (d) sell the material;
 - (e) import the material;
 - (f) export the material;
 - (g) stock the material for the purposes described in paragraph (a), (b), (c) ,(d), (e), or (f);
 - (h) purchase the material.**

Note: In certain circumstances, the right conferred by this section extends to essentially derived varieties, certain dependent plant varieties, harvested material and products obtained from harvested material

- (2) Subection 11(1)(h) only applies to particular taxa declared for this purpose in the regulations.**

Recommendation 2.

The PBR Act be amended to clarify that harvested material that is also propagating material is to be considered as propagating material for the purposes of s.11, even if it is not being used for that purpose.

7.2 Extended rights and 'reasonable opportunity'

7.2.1 Current situation

Legislation

Section 14 extends the rights of PBR owners to harvested material in certain circumstances:

(1) If :

- (a) propagating material of a plant variety covered by PBR is produced or reproduced without the authorisation of the grantee; and
 - (b) the grantee does not have a reasonable opportunity to exercise the grantee's right in relation to the propagating material; and
 - (c) material is harvested from the propagating material;
- section 11 operates as if the harvested material were propagating material.

(2) Subsection (1) applies to so much of the material harvested by a farmer from propagating material conditioned and reproduced in the circumstances set out in subsection 17(1) as is not itself required by the farmer, for the farmer's own use, for reproductive purposes.

Section 15 provides a similar extension for products obtained from harvested material where the grantee does not have a reasonable opportunity to exercise their rights in the propagating or harvested materials.

The purpose of these sections is to enable the PBR owner to obtain a royalty in situations where PBR cannot be enforced over the propagating material. Some examples may be:

- where a cereal variety is propagated without the knowledge or authorisation of the PBR owner, but the PBR owner can identify the resulting flour produced from the harvested grain.
- where a protected fruit tree is reproduced by grafting without the authorisation of the PBR owner but the resulting fruit on the market can be identified.
- where a protected ornamental variety is reproduced without the PBR owner's knowledge but the resulting plants or cut flowers on the market can be identified.

Section 14(2) clarifies that rights do not extend to harvested material used by the farmer for growing another crop (see Chapter 7.3).

UPOV Convention

Sections 14 and 15 comply with UPOV Convention Articles 14(2) and 14(3). These articles require that:

- acts in respect of harvested material obtained through the unauthorised use of propagating material of the protected variety shall require the authorisation of the PBR owner, unless the PBR owner has had reasonable opportunity to exercise his right in relation to the propagating material;
- products made directly from harvested material falling within the above provision shall require the authorisation of the PBR owner, unless the PBR owner has had reasonable opportunity to exercise his right in relation to the propagating material.

During the 1991 revision of the UPOV Convention, a small majority of delegates believed that a PBR owner should exercise its right at the earliest possible stage, ie. over the propagating material. The reasons for this included:

- royalties should be charged only once in the production system,
- if the PBR owner was free to choose the stage at which it exercised its right, this would create uncertainty for trade and poorer relationships between breeders and users, and
- potential users of the UPOV Convention would not accept it otherwise.

However, if it had been “impossible” for the PBR owner to exercise its rights over the propagating material, UPOV delegates believed that the PBR owner should have an opportunity to exercise its right at a later stage. The term “reasonable opportunity” was introduced during final drafting. Example situations were:

- where a variety is reproduced in a country where PBR is not available and the harvested material is imported into a country where it is protected, and
- where the PBR owner was unaware of infringement of its rights over the propagating material but is aware of the resulting harvested material³⁷.

Cultivaust decision

The 2004 Federal Court decision *Cultivaust Pty Ltd v Grain Pool Pty Ltd*³⁸ considered two main issues relating to extended rights:

1. authorisation – whether propagating material had been produced or reproduced without the authorisation of the PBR owner (Cultivaust, who was the licensee from the State of Tasmania for Franklin barley), and
2. reasonable opportunity – whether the PBR owner did not have a reasonable opportunity to exercise its rights over the propagating material and therefore had rights under s.14 and 15.

The court found as follows:

1. Authorisation

The growing of first generation crops (G1) from seed (G0) bought from the PBR owner is authorised by the PBR owner because this was implied by the supply of the seed. First generation crops are therefore not subject to s.14 rights because they do not satisfy s.14(1)(a).

However, subsequent generations (G2+) grown from farm saved seed may be subject to s.14 rights because the grower requires the authorisation of the PBR owner to sell them. This is because authorisation to sell G2+ is not implied by the supply of the initial seed and, while the farmer’s privilege provision (s.17 – see Chapter 7.3) enables the grower to use G1 to grow crops G2+, it does *not* entitle the grower to do whatever they wish with G2+. Also, s.14(2) describes the status of subsequent generations of crop (other than saved seed) as also being treated as propagating material covered by s.11.

³⁷ *Record of the Geneva Diplomatic Conference on the Revision of the International Convention for the Protection of new Plant Varieties of Plants*, 1978, UPOV, Geneva, pg 120, 148. 177; *Records of the Diplomatic Conference for the Revision of the International Convention for the Protection of New Varieties of Plants*, UPOV, Geneva, 1991, pg 321-324, 331-337.

³⁸ *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638. See 185-199.

2. Reasonable opportunity

The PBR owner had known that farmers were saving the seed and harvesting second and subsequent generation crops (G2+) without authority, and so did have a reasonable opportunity to exercise its rights. The PBR owner had not taken action because the PBR owner preferred to direct its efforts towards securing an EPR through the statutory marketing authorities. Consequently s.14(1)(b) was not satisfied and the PBR owner did not have rights over the harvested material.

On appeal, the full Federal Court³⁹ was not required to make a determination on the issue, but queried the primary judge’s characterisation of the PBR owner’s rights as involving action under s.54⁴⁰. This may have led to s.14(1)(b) concerning reasonable opportunity being misconstrued. The Court said “it should not be thought that his Honour’s view of s14(1)(b) and 15(1)(b) would necessarily be endorsed if the question arises in the future”.

Implied licences

A relevant area of law is that of implied licences. Where a product is sold by a first party to a second party, even if the contract of sale does not explicitly licence the buyer to use the product in certain ways, it may contain an implied licence for such acts because this is the normal and expected reason for purchasing the product⁴¹. In the case of plant varieties, PBR owners have exclusive rights to the production or reproduction of the propagating material. However, the sale of propagating material to a grower may contain an implied licence to the grower to exercise the right of reproducing the propagating material (i.e. use it to produce a crop).

7.2.2 Concerns

A number of those who made submissions to ACIP had concerns about extended rights, including:

- uncertainty over what constitutes a ‘reasonable opportunity’ to exercise rights over propagating material;
- the burden of proof on PBR owners being too high;
- uncertainty over whether grain crops grown from farm saved seed are done so without the authorisation of the PBR owner and therefore subject to extended rights;
- uncertainty over whether royalties on harvested material that is also propagating material can be sought under s.11 and so avoid s.14 and 15 – see Chapter 7.1.2.

Several stakeholders stated that extended rights are of concern because there was a lack of detail in the first *Cultivaust* judgment and the comments of the appeal court had created uncertainty as to what constitutes a ‘reasonable opportunity’ to exercise rights. DAFWA said:

As one of the Parties involved in the *Cultivaust* case, DAFWA has significant legal background to the subject. Both DAFWA and our legal advisors...believe that the case

³⁹ *Cultivaust Pty Limited v Grain Pool Pty Limited* [2005] FCAFC 223. See 56 and 57.

⁴⁰ Section 54 provides that an action for infringement of PBR may be begun in the Court only by the grantee.

⁴¹ For example, *Lahore Patents, Trade Marks & Related Rights*, Volume 1 – Commentary, pg 24041-24116, 29090.

judgement [sic] did not provide adequate clarification and that we should be very cautious in relying on [Justice Mansfield’s] interpretation of the Act.

The Victorian Farmer’s Federation (VFF) said there was considerable confusion over how reasonable opportunity relates to farm saved seed:

Most growers feel that once seed has been paid for it can be saved for following years as propagating material. In general, growers are not aware that their responsibilities may continue beyond that, however nor is the legislation clear if it does.

Some stakeholders believed that the decision implied that, in order to rely on the extended rights provided by s.14 and 15, a PBR owner had to attempt a complex and costly series of contracts. Only if these failed would it be considered that the PBR owner did not have a reasonable opportunity over the propagating material.

The Plant Breeder’s Rights Advisory Committee (PBRAC) made the point that there will always be some element of uncertainty:

The concept of reasonableness is well known to the law. It concerns an objective assessment as to what is or what is not reasonable in all the circumstances. There has never been legislation codifying the meaning of ‘reasonable’ with good reason. For example the circumstances in any two cases are rarely the same.

Several stakeholders believed that the burden of proof on PBR owners to prove they did not have a reasonable opportunity was too onerous.

As outlined in Chapter 7.1.2, for the grains industry there was uncertainty over whether royalties on harvested material that is also propagating material could be sought under s.11. If they can, there would be no need to resort to extended rights and uncertainty over reasonable opportunity could be avoided. Some stakeholders questioned why a threshold of ‘reasonable opportunity’ was necessary at all and did not understand the reasoning behind it.

Options

Clarification of ‘reasonable opportunity’

Several of those who made submissions argued that further clarification of the concept of reasonable opportunity was required. This could be achieved by:

- testing the meaning of s.14 and 15 in court;
- seeking the opinion of an expert panel, or
- amending the *PBR Act* in some way, such as by adding a definition of ‘reasonable opportunity’.

Some stakeholders suggested that any expert panel that is established should include representatives from the key industry sectors.

Jay Sanderson, Research Fellow at the Australian Centre for Intellectual Property in Agriculture (ACIPA), argued against providing clarification in the legislation:

[A]ttempting to define the meaning of ‘reasonable opportunity’ is problematic because this may be contingent on the particular circumstances of the case at hand. As was seen in *Cultivaust*, all the facts have to be taken into account such as knowing that such crops

were being grown and harvested, understanding that the crops themselves were subject to the [PBR Act] by reason of section 14 and, if relying on another body (to obtain end point royalties) knowledge that there had been no agreement.

Reverse the onus of proof

Several stakeholders, particularly breeders of agricultural species, supported reversing the onus of proof, so that the alleged infringer would have to demonstrate that the PBR owner did have a reasonable opportunity to exercise its rights over the propagating material. This would ease the burden of enforcement for PBR owners. This option was strongly resisted by grower groups. For example, the VFF said:

[Reversing the onus of proof] is not the approach in the justice system and should not be employed with the enforcement of PBR rights. Basic to our law is the presumption of innocence until guilt is proven, to change this basic concept is insupportable.

ACIP notes that the onus of proof is currently reversed to some extent in regards to determining essentially derived varieties – see Chapter 7.5.1.

Remove the criterion of ‘reasonable opportunity’

Several breeders in the grains, ornamental and horticultural sectors supported removing from s.14 and 15 the criterion of reasonable opportunity. This would provide rights over harvested material if propagating material was reproduced without the authorisation of the PBR owner. Reasonable opportunity is stipulated in the UPOV Convention, however CIOPORA argued that its removal from the *PBR Act* would be consistent with the Convention, as the Convention establishes a minimum set of rights for breeders, but not a maximum. Removal would provide broader rights to PBR owners.

However, a majority of stakeholders, particular grower groups, argued against the removal of the criterion of reasonable opportunity. For example, the VFF said:

PBR owners need to be encouraged to utilise the many opportunities already available to enter fair contracts with the producers who are going to use PBR varieties. Both the seed growers...and the grain producers...need to have clear communication regarding their obligations and rights. A PBR owner who waited until after the crop was in the ground before outlining royalty payments and/or licence rights would be acting against their own best interests.

PBRAC said:

[R]emoval of ‘reasonable opportunity’ may lead to situations where users and consumers are ambushed after they had started to use material believed to be free of obligation. The cost of due diligence checks may become prohibitive and slow the uptake of new improved varieties.

PBRAC and others also believed that removing reasonable opportunity would not be consistent with the UPOV Convention.

Clarify s.14 and 15 in relation to grains

Several stakeholders supported clarifying this issue and others had reservations. The NSW Farmers’ Association (NSWFA) was concerned that this may place in danger the successful practice of farmer’s saving their own seed. FICPI saw wider concerns:

...[A] problem underlying the issues sought to be addressed by [clarifying s.14 and 15 in relation to grains] stems from the fact that there are classes of varieties...that satisfy the definitions of both “propagating material” and “harvested material” at the same time. For these classes, even if the material is dealt with legitimately (eg by way of sale or export as harvested material intended for use in food production), the same material can also simultaneously be dealt with as “propagating material”, so infringing the applicable PBR. This has wider implications in the interpretation and application of the PBR ACT than just sections 11, 14 and 15.

7.2.3 ACIP’s views

It is clear to ACIP that there is considerable uncertainty in the industry over different aspects of the criterion of reasonable opportunity. The concept was included in the UPOV Convention to ensure PBR owners first sought to exercise their rights over the propagating material, rather than be able to choose a later stage in the production. ACIP generally agrees with this approach because PBR rights should be limited in nature. For those sectors where significant inefficiencies in exercising rights over the propagating material are causing sub-optimal investment in plant breeding, ACIP believes that a purchase right for specific varieties should be made available – see Recommendation 1. As outlined in Chapter 7.1, a purchase right would enable PBR owners to collect royalties more efficiently through a smaller number of entities, such as traders, accumulators and end users.

Removing the criterion of reasonable opportunity (ie. from s.14(1)(b) and s.15(b)) would remove uncertainty over the term yet maintain one of the principles of extended rights. That is, PBR owners would still only have access to extended rights where there has been unauthorised reproduction of the material.

Some have expressed concern that this would enable PBR owners to ‘ambush’ end users and consumers who mistakenly believe they are under no obligations⁴². The theory is that PBR owners could tactically wait until business decisions and investments have been made and then demand royalties be paid on substantial quantities of harvests or products. ACIP notes that, for end users in such circumstances, the following defences would be available:

- the defence of innocent infringement under s.57;
- in relation to legal remedies (eg. damages), the common law defence of estoppel. One of the forms of estoppel is ‘estoppel by conduct’, in situations where there is an agreement, convention, representation or mutual assumption about a situation. If a PBR owner deliberately waited before seeking to enforce its rights, the courts may find that this delay created an agreement or assumption, which it is not acceptable to go back on.
- in relation to equitable remedies (eg. injunctions), the common law defence of equitable bars. The availability of an equitable remedy is limited by the

⁴² This would not be an issue for growers, who are exercising the exclusive rights of s.11. Thus, the PBR owner would not need to resort to extended rights under s.14 and 15.

behaviour of the claimant. Again, if a PBR owner delayed before seeking to enforce its rights, the courts may find that such behaviour does not warrant a remedy (ie. the defence of laches)⁴³.

It is uncertain whether removing reasonable opportunity would be consistent with the UPOV Convention.

As most concerns on this issue are in relation to grains, on balance ACIP’s preference is to keep the criterion of reasonable opportunity, but to clarify that grains that are also propagating material are to be considered propagating material for the purposes of s.11 – see Recommendation 2. This is in keeping with the purpose and principles of the *PBR Act* and for these sectors avoids the uncertainties of s.14 and 15.

ACIP considers that it would be difficult to provide further clarification in the *PBR Act* on the meaning of reasonable opportunity and how much effort the PBR owner is expected to go to in order to exercise its rights over the propagating material, as this depends heavily on the individual circumstances. ACIP believes that the best way to provide guidance to industry is to seek the opinion of an expert panel - see Chapter 7.7. Such a panel would be able to analyse the legislation and case law and provide more detailed advice on how the concept operates.

On the issue of reversing the onus of proof, ACIP considers that there is insufficient justification to take such a step and that other measures should be attempted first.

Throughout this review it has been made clear to ACIP that, because s.17 enables growers to grow crops G2+ from farm saved seed G1 (ie. exercise the s.11(a) exclusive right) without seeking the authorisation of the PBR owner, many growers are under the mistaken belief that they are free to do what ever they wish with such crops. Sections 14 and 15 provide extended rights over such crops where propagating material has been reproduced without the authorisation of the PBR owner. The PBR owner’s authorisation to produce crops G2+ is not provided by s.17 or by any implied licence in the sale of the initial propagating material G0. This point was made clear in the first *Cultivaust* decision. If a grower does not have the PBR owner’s clear authorisation to grow and sell crops G2+, the grower may be liable to pay a royalty under s. 14 (and s.15). ACIP recommends that:

- a clarifying note on this issue be added to s.17 (see Chapter 7.3.3 and Recommendation 4),
- the Government emphasise this point as part of its information and education programs (see Chapter 15) and
- further elaboration and/or guidance be provided by an Expert Panel (see Chapter 7.7).

Recommendation 3.

No changes be made to extended rights under s.14 and 15.

⁴³ In the *Cultivaust* decision, Grains Pool Western Australia raised the defence of laches in relation to s.14. Justice Mansfield did not address this in full, but noted that s.14(1) does not impose a time limit upon the exercise of PBR. ACIP notes that these are comments only and do not form binding precedent. *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638. See para 200.

7.3 Farmer's privilege and balance of rights - all taxa

This Chapter relates to the operation of 'farmer's privilege' for all taxa, regardless of whether they are propagated sexually or asexually.

7.3.1 Current situation

Legislation

Section 17 provides that, under certain circumstances, users of a protected variety may reproduce propagating material from the legally acquired propagating material for the person's own use:

- (1) If:
 - (a) a person engaged in farming activities legitimately obtains propagating material of a plant variety covered by PBR either by purchase or by previous operation of this section, for use in such activities; and
 - (b) the plant variety is not included within a taxon declared under subsection (2) to be a taxon to which this subsection does not apply; and
 - (c) the person subsequently harvests further propagating material from plants grown from that first-mentioned propagating material;the PBR is not infringed by:
 - (d) the conditioning of so much of that further propagating material as is required for the person's use for reproductive purposes; or
 - (e) the reproduction of that further propagating material.
- (2) The regulations may declare a particular taxon to be a taxon to which subsection (1) does not apply.

This is known as 'farmer's privilege' or the 'farm saved seed' exemption. The operation of this provision appears to be that growers who purchase PBR protected propagating material G0 (eg seed), and use it to grow a first crop G1, may use the propagating material harvested from that first crop G1 to grow a second generation crop G2 for their own use without infringing PBR. The phrase "by previous operation of this section" in s.17(1)(a) above implies that this cycle can be repeated for subsequent crop generations without infringing PBR. All other s.11 acts in relation to the harvested propagating material and the supply of the harvested material to other growers constitutes an exercise of the PBR owner's right.

Section 17(2) above enables requests to be made to have the PBR Regulations declare that this exemption does not apply to particular taxa. At present no taxa are so declared.

UPOV Convention

One of the aims of the farmer's privilege exemption was to achieve a balance between encouraging the development of new crops and not alienating farming communities for whom saving seed is a traditional practice⁴⁴. However, UPOV members are not required to provide this exemption, as it is optional under Article 15(2). It was considered that the exemption may not be appropriate for economies where farming has become a commercial and quasi-industrial activity performed by a small minority of the population and where plant breeding has become an industrial activity - ie. developed economies like Australia's. The intention was to provide UPOV member states with the

⁴⁴ Llewelyn M. and Adcock M., *European Plant Intellectual Property*, Hart Publishing, Portland, Oregon, 2006, pp. 190.

opportunity to balance local interests and access to new crops and medicinal varieties against the interests of the breeder on a species by species basis⁴⁵.

International Treaty on Plant Genetic Resources

The International Treaty on Plant Genetic Resources for Food and Agriculture (ITPGRFA), which Australia has ratified, is potentially relevant to farmer's privilege. Article 9.2 states that each contracting party should protect and promote Farmers' Rights, including protection of traditional knowledge and the right to equitably participate in sharing benefits arising from the utilization of plant genetic resources. Article 9.3 states that nothing in this Article shall be interpreted to limit any rights that farmers have to save, use, exchange and sell farm-saved seed / propagating material, subject to national law and as appropriate.

Cultivaust decision

The first *Cultivaust* decision⁴⁶ confirmed that a farmer does not infringe PBR when saving seed from a first generation crop G1, or from subsequent generations of crop G2+, to produce another crop on the farmer's own property. However, that is the limit of the exemption. Selling, trading or bartering any crop, including crops grown from farm saved seed, requires the authorisation of the PBR owner. The exemption does not authorise the farmer to do any other acts, such as feeding to livestock, other than conditioning the propagating material for production or reproduction and for production or reproduction. The farmer is normally authorised to sell crop G1 because this is implied from the sale of the initial seed G0. However, crops G2+ grown from farm saved seed are not necessarily authorised by the initial sale.

7.3.2 Concerns

A considerable number of stakeholders were very supportive of farmer's privilege, believing it to be an important aspect of the PBR scheme and in the wider interests of growers and PBR owners. The arguments for this support include:

- The exemption reduces seed costs for growers and helps maintain their economic competitiveness;
- It is critical for the rapid adoption of varieties and the ability to generate a reasonable reward from EPRs rather than seed-based royalties;
- Removal of the exemption would require a large investment in seed production infrastructure to replace the seed currently produced by growers for growing subsequent crops, including large carryover stocks to allow for short falls in production due to events such as drought;
- The exemption encourages acceptance of the PBR system, especially amongst rural and regional sectors. Its removal would create widespread dissatisfaction and may encourage growers to opt for unprotected, lower producing varieties, resulting in lower returns for PBR owners;
- It provides biosecurity for farmers, as bulking up a new variety on their own farms reduces the risk of introducing weed seeds, and it enables farmers to save seed for traits that are best suited to their own farm.

⁴⁵ Llewelyn M. and Adcock M., *European Plant Intellectual Property*, Hart Publishing, Portland, Oregon, 2006, pp. 192; Greengrass, Barry, *The 1991 Act of the UPOV Convention*, E.I.P.R. 1991, 13(12), pg 466-472.

⁴⁶ *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638. See paragraphs 186-188.

For example, the Victorian Farmer's Federation said:

[F]armer saved seed is the most efficient way of quickly establishing a new variety and encouraging its use within the industry. For years the VFF has lobbied PBR owners to promote FSS and collect royalties through an EPR system. A good variety will be quickly adopted and once it is the vast majority of the grain will be delivered through the bulk handling system. Having a contract between the farmer and the PBR owner which allows for farmer to farmer sale of seed for propagating, providing notice is given to the PBR owner, would further facilitate maximisation of adoption of a new variety whilst allowing the PBR owner to keep track of who was growing their variety.

The NSW Farmer's Association made the following comments:

The Association is totally opposed to [removing the exemption]. ...Seed companies would have a difficult task indeed to forecast how much seed will be required for the next crop, as it is difficult to forecast demand. ...Finally, no farmer wants to seek permission to grow the variety of their choice for the next year's crop. It is culturally unacceptable that seed companies should have this power over farmers and the community who might otherwise benefit by an improved product. It is also unethical that farmers, who have frequently funded the development of new varieties through their R&D levy, might be refused the opportunity to grow those varieties.

However, some of those who made submissions acknowledged that the exemption could be improved. The following issues were said to make it difficult for breeders to generate an equitable return:

- farmers are able to avoid purchasing new seed;
- PBR owners don't know who is using their variety and in what quantities, making it difficult to calculate the quantity of EPR that is due and to monitor compliance;
- EPR systems are particularly unsuited for some species, such as forage and pasture, where the crop is not delivered into the bulk handling system and so is unable to be monitored;
- The exemption encourages illegitimate acts, such over-the-fence trading of seed and selling of subsequent crops without the PBR owner's permission, either knowingly or through misunderstanding of the law.

PBRAC made the following comments on compliance:

...FSS [Farm saved seed] does not include provisions facilitating breeders knowing exactly who is using their plant variety and in what quantity in any one year. Therefore, the FSS provisions may be used as a mask [for] infringement. For example, because the breeder does not know how much produce to expect on the market in any one year:

- they cannot calculate how much royalty to expect. This encourages some growers to 'under report' their delivery of particular varieties or the amount of royalty they owe.
- it is much harder to detect produce that is grown without permission.

Further, because breeders do not know exactly who is growing their variety in any one year, they are less able to focus compliance efforts.

Some stakeholders contended that illegitimate trading of seed was happening on a major scale. Crop & Food Research said that farm saved seed was a particular problem for forage cereals that only capture a seed-based royalty. They estimated that, in the third

season of one of their new varieties, illegal trading cost them \$40 000 in royalties. Heritage Seeds stated:

The practice [of over-the-fence-trading] is now so widespread that Heritage believes a) there is a major negative economic impact on our business and the industry, and b) the [plant breeding] industry is now filtering research and commercialization to avoid species that are most vulnerable to abuse of rights.

Others believed these problems to be royalty and commercialisation issues that will not be solved by removing the farm saved seed exemption. For example, PBRAC said:

For example, in the grains industry, seed of one variety is reasonably similar to that of another variety. Therefore some farmers are still likely to save and swap seed, and then mis-declare varieties at the silo. Removing the [farm saved seed] provision will not facilitate compliance in this situation and may merely add to the upfront costs of production, prejudice the relationship between breeders and producers, and encourage some growers to “thumb” the system and mis-declare the identity of varieties they sell.

Some respondents argued that, due to the difficulties and costs associated with tracking seed and unauthorised trading, the farm saved seed exemption made it too hard to realise sufficient return on investment in plant breeding.

Options

Licence farmer to farmer trading of seed

Biddulph Rural Consulting suggested that PBR owners should license farmer-to-farmer trading of farm saved seed. This would provide some control over the quality, collect more income for PBR owners and encourage compliance by being fairer.

Amend the exemption to be explicitly limited

The Australian Seed Federation and other stakeholders supported making the exemption only available where it is “within reasonable limits and subject to the safeguarding of the legitimate interests of the breeder” (from UPOV Convention Article 15(2)).

Amend the exemption to better identify its scope

FICPI Australia proposed the following:

[S]ection 17 need to be amended to explicitly identify the scope of protection afforded by the section. In particular, the section should clearly specify what use can be made by the grower of the “product” reproduced from the retained propagating material.

European system

Several submissions supported adopting some of the features of the system in Europe. Farmer’s privilege in the system of Community Plant Variety Rights has the following features⁴⁷:

- it is for the purposes of safe-guarding agricultural production.
- it is limited to those species identified in the regulations. The numbers of species identified are nine fodder, nine cereal, one potato and three oil and fibre varieties.
- small farmers are not required to pay any remuneration to the PBR owner for use of this provision⁴⁸.

⁴⁷ Council Regulation (EC) No. 2100/94 on Community plant variety rights, Article 14(2).

- other farmers are required to pay an equitable remuneration to the PBR owner, which “shall be sensibly lower than the amount charged for the licensed production of propagating material of the same variety in the same area”.
- monitoring compliance with this provision is the exclusive responsibility of PBR owners. Relevant information shall be provided to the PBR owners on their request by farmers, suppliers of processing services and official bodies involved in the monitoring of agricultural production.

Kathryn Adams of ACIPA proposed the following approach:

The exemption needs clarifying. This could be achieved by:

- Making it clear that the PBR owners can exercise their rights over second and further generation crops
- adding a provision requiring the user of the exemption to provide an annual return to the PBR owner outlining the amount of material propagated - this would be similar to part of the European system but would not add the administrative layers of determining price or exempting small growers – the proposed system would be up to the owner, grower and courts to administer
- providing the PBR owner with right of entry to audit the return.
- if section 11 is amended to cover ‘use’, the PBR owner could then inform the grower whether a royalty is payable on the propagating material or on the harvested material.

Remove the exemption

A minority of submissions argued that the complete removal of the farmer’s privilege exemption should be considered. Australian Agricultural Crop Technologies advocated that it be replaced with a statutory licence which required the grower to report to the PBR owner.

7.3.3 ACIP’s views

The farmer’s privilege is an optional exemption under the UPOV Convention and so it is up to Australia to determine whether – and, if so, how – it should be implemented here. There is a high level of support for it amongst Australian stakeholders, including a number of PBR owners. This is despite the exemption being intended to be restricted to specific varieties and to sectors where farming and breeding was not done on an industrial scale⁴⁹. However, the exemption appears to create significant difficulties in achieving compliance, particularly for forage varieties.

ACIP considers that there is insufficient evidence to support removing farmer’s privilege altogether. If EPR systems can be improved, farmer’s privilege can have clear benefits. The current provision in the PBR Act also appears to be under utilised to some degree. Under s.17(2) breeders can apply to have specific taxa declared as not being subject to the farmer’s privilege. Given the levels of concern for some varieties, such as

⁴⁸ Small farmers are defined as those who do not grow plants on an area bigger than the area which would be needed to produce 92 tonnes of cereals, as calculated according to Article 8(2) of Council Regulation (EEC) No. 1765/92 relating to a support system for farmers, and other farmers to which that regulation applies.

⁴⁹ Llewelyn M. and Adcock M., *European Plant Intellectual Property*, Hart Publishing, Portland, Oregon, 2006, pp. 192; Greengrass, Barry, *The 1991 Act of the UPOV Convention*, E.I.P.R. 1991, 13(12), pg 466-472.

forage cereals, it is not clear to ACIP why there has been no attempt to do this. ACIP recommends that this feature of the system be promoted and it encourages PBR owners to consider whether to make use of it. This would maintain the benefits of farmer's privilege and the goodwill of farmers, but restrict the exemption to taxa where the practice does not prevent the PBR owner from obtaining a reasonable return on its investment in breeding.

ACIP appreciates that it is often not cost effective for PBR owners to check the quantity and variety of each grower's crops to ensure growers are paying the EPRs due, and that it is easier to obtain royalties on the initial seed. However, it does not appear to ACIP that removing the farmer's privilege would address this problem because unauthorised propagation may not be eliminated and would be difficult to identify. One solution used in some sectors is having as a condition of sale the right to enter the buyer's property to audit use of the material. ACIP encourages PBR owners to make clear the conditions of sale of protected propagating material and growers' obligations on further crops. This can only improve growers' understanding of and compliance with the farmer's privilege exemption. See Chapter 15 on Education and Awareness.

Making the farmer's privilege exemption "explicitly limited" appears to have limited value and may even increase uncertainty about its operation. Increased use of s.17(2) is a preferable approach. There are potential advantages in amending the exemption so that growers are required to report to PBR owners on the types and amounts of propagating material saved for growing further crops. However, ACIP again believes there is insufficient justification to make such a change and place a new administrative burden on growers.

It is clear to ACIP that the farmer's privilege causes some users of the system to mistakenly believe that a grower is free to do what ever the grower wishes with harvested material. ACIP considers that s.17 should be amended to make it clear to non-expert users of the system and their advisors that this is not the case. The following are two examples of an explanatory note which could be added to s.17 to make this point.

Example 1:

(3) To avoid doubt, all PBR rights apply to the harvested propagating material referred to in subsection (1)(c) and the reproduced propagating material referred to in subsection (1)(e) except where they do not apply by operation of subsection 1(d) and subsection (1)(e).

Example 2:

(3) To avoid doubt, PBR rights apply to the harvested propagating material referred to in subsection (1)(c) and the reproduced propagating material referred to in subsection (1)(e) in relation to the acts listed in subsection 11(c) to 11(g).

Recommendation 4.

There be no change to the operation of farmer's privilege under s.17.

However, s.17 should be amended to state in easily understood terms that s.17 does not provide the farmer with the right to perform the acts listed in s.11(a) to (g). For example, the farmer will still require the PBR owner's authorisation to sell the reproduced propagating material, the harvested material or the product of the harvested material.

Recommendation 5.

As part of IP Australia's education and awareness programs, raise awareness of the opportunity under s.17(2) to have specific taxa excluded from the farmer's privilege exemption.

Recommendation 6.

Encourage PBR owners to make clear to growers the conditions of sale of propagating material and their obligations in relation to future generations of it. This includes making clear that growers require the authorisation of the PBR owner to sell crops grown from farm saved seed.

7.4 Farmer’s privilege and asexual propagation

This Chapter relates to the ‘farmer’s privilege’ exemption specifically in relation to plant material when asexually propagated.

7.4.1 Current situation

Legislation

Section 17 is entitled ‘Conditioning and use of farm saved seed does not infringe PBR’ and is widely known as the farm saved seed exemption. Similarly, the Explanatory Memorandum for the PBR Act describes this provision solely in terms of seed⁵⁰. However, it appears that ‘seed’ was used in the title for s.17 because this was how the practice was commonly known internationally. The provision itself refers more broadly to ‘propagating material’, in line with the rest of the PBR Act. Section 3 of the Act defines propagating material as:

any part or product from which, whether alone or in combination with other parts or products of that plant, another plant with the same essential characteristics can be produced.

As the headings of sections of Australian Acts of parliament have no legal weight⁵¹, it would appear that the proper legal interpretation of s.17 is that it includes not only seed but any type of propagating material, including buds, cuttings and grafts, and so applies to varieties of all taxa.

UPOV Convention

Section 17 is based on UPOV Article 15(2), which states:

(2) [*Optional exception*] Notwithstanding Article 14, each Contracting Party may, within reasonable limits and subject to the safeguarding of the legitimate interests of the breeder, restrict the breeder’s right in relation to any variety in order to permit farmers to use for propagating purposes, on their own holdings, the product of the harvest which they have obtained by planting, on their own holdings, the protected variety or a variety covered by Article 14(5)(a)(i) or (ii).

The use of the term “product of the harvest” instead of “seed” suggests that the provision includes asexually propagated varieties. At the 1991 revision of the UPOV Convention⁵² it was made clear that the exemption encompasses all varieties, not just sexually propagated varieties. Although it was not common, the saving of asexual propagating material was a tradition in sectors in some Contracting Parties and could be so in others who wished to become Contracting Parties. To make this clear, the original title of the provision (farm-saved seed) was changed to “optional exception”. UPOV also issued the following recommendation making it clear that the exemption was only intended for those sectors where it was already standard practice exemption. This clearly refers to “horticultural production”:

⁵⁰ It states “7. There is a further specific exemption to the breeder’s right in the Bill, namely the farmer’s privilege or farm-saved-seed exemption, which permits the farmer to save seed from a crop to plant a future crop on his own land.”

⁵¹ *Acts Interpretation Act 1901*, Article 13(3) states “No marginal note, footnote or endnote to an Act, and no heading to a section of an Act, shall be taken to be part of the Act.”

⁵² *Records of the Diplomatic Conference for the Revision of the International Convention for the Protection of New Varieties of Plants*, UPOV, Geneva, 1991, pg 352-359, 366-373.

The Diplomatic Conference recommends that the provisions laid down in Article 15(2)...should not be read so as to be intended to open the possibility of extending the practice commonly called “farmer’s privilege” to sectors of the agricultural or horticultural production in which such a privilege is not a common practice on the territory of the Contracting Party concerned.⁵³

Industry practices

In regards to sexual propagation, it is standard practice in the cereal sector for growers to use harvested material to grow another crop for their own use.

For asexual propagation, Buchanan’s Nursery and others informed ACIP that it has not been traditional in the horticulture sector for growers to save propagating material to produce more plants. Prior to the introduction of plant variety rights in Australia in 1987, almost all propagation of new trees for commercial orchards was undertaken by commercial nurseries due to the skills and infrastructure involved. Quantitative and anecdotal evidence provided to ACIP asserted that a wide range of fruit varieties are propagated from a part of the tree without the permission of the PBR owner:

- In some cases this has been undertaken in the belief that s.17 does not apply to asexual propagation.
- In perhaps the majority of cases there is documented flagrant abuse of non-propagation agreements and the s.11 rights of the PBR owner through ‘rogue’ nurseries undertaking the propagation for growers. ACIP notes that, while s.17 may enable farmers to reproduce propagating material for their own purposes without infringing PBR, it does not enable nurseries to do so because they are not ‘farming’.

Buchanan’s Nursery, who owns PBR for over 50 varieties of stone fruit, said that infringement in its sector was widespread:

Through NLA-AU [National Licensing Association – Australia] we began random orchard inspections. NLA-AU has inspected over twenty random farms and only ONE of those farms was found to have no infringing trees. Fully 95% of farms inspected had infringing trees, ranging from a small percentage of the orchard to 100% in some orchards. Even “leaders” in the industry were found to have large quantities of infringing trees, some produced by leading nurseries, most produced by rogue nurseries. Almost no trees had been produced by the fruit growers themselves.

...After active enforcement through farm inspections, one court action and word of mouth we now believe that about 50% of all trees are infringing.

ACIP notes that back in 2006 the National Licensing Association – Australia stated that “the NLA-AU does not believe that there is a significant problem with unauthorised plant varieties in Australia”⁵⁴. The above information provided by Buchanan’s Nursery may involve evidence accumulated since 2006.

⁵³ *Records of the Diplomatic Conference for the Revision of the International Convention for the Protection of New Varieties of Plants*, UPOV, Geneva, 1991, Recommendation Relating to Article 15(2), pg 63. See also UPOV Press Release No. 30.

⁵⁴ *NLA-AU resolves two cases of PBR infringement in Australia*, NLA – Australia Pty Ltd., News Release, 7 December 2006.

Apparently the practice of propagating new plants from a part of the tree without the authorisation of the PBR owner occurs for ornamental species, such as roses, but the practice is not widespread⁵⁵. In other sectors of the ornamental industries the unauthorised propagation of varieties is considered a significant practice⁵⁶.

7.4.2 Concerns

The main concerns raised with ACIP in relation to asexually propagated varieties and farmer's privilege were:

- There is considerable confusion about whether farmer's privilege is restricted to sexual propagation;
- The horticultural and ornamental sectors have been operating under the assumption that farmer's privilege does not apply to them;
- Farmer's privilege is not appropriate for perennial species. If nurseries and growers in the horticultural and ornamental sectors were allowed to propagate new plants without the authorisation of the PBR owner, breeder's may be unable to obtain a sufficient return on their investment.

Several of those who made submissions were very concerned about growers being allowed to reproduce horticultural and ornamental varieties without infringing PBR. Australian Forest Growers argued that asexually propagated species were a different case:

Unlike the historical provision for Farmer Saved Seed, there is no practical reason for a similar provision to apply to asexually propagated species. This provides room for confusion, in addition to a negative incentive for tree breeding.

Buchanan's Nursery made the following comments:

The breeding end of the stonefruit (and other permanent crops) industry would completely cease if growers were allowed to reproduce more trees from legitimately purchased trees. Breeders would not release new varieties to the public because they would have no hope of any return on their investment... Australian consumers would suffer with inferior varieties... Fruit growers would not be able to compete with further advanced varieties on the export markets. Nurseries and others who share in the breeders' royalties would no longer receive an income.

Similarly, CIOPORA said:

The strict application of the farmers' exemption leads to a situation where a grower could buy a few plants of a cut rose or apple variety and could use them and propagate as many new true-to-type plants as he wanted on his own holdings with a view to selling cut flowers or fruit. This obviously does not safeguard the legitimate interests of the breeders of vegetatively reproduced ornamental and fruit varieties [and so does not comply with the UPOV Convention and TRIPS]. ...In most of the UPOV members to the 1991 Act the farmers' exception therefore is limited to (selected) agricultural crops.

⁵⁵ Chris Prescott, Grandiflora Nurseries.

⁵⁶ Bywong Nursery.

However, other stakeholders submitted that the current system provides an opportunity for the provision to not apply to specific taxa and that this had not been utilised. Kathryn Adams argued for improved reporting and use of EPRs:

There does not seem to be any major advantage to changing this provision. The real issue is to ensure there is a mechanism for owners of PBR to exercise their rights (once only) anywhere down the chain and for there to be an obligation for a person using the section 17 exemption to...report to the owner.

Options

Amend the title of s.17 to include asexually propagated material

Some stakeholders supported amending the title of the provision to better reflect its meaning. This may improve the industry’s understanding of the exemption and therefore reduce the costs of litigation and monitoring of compliance. It may also encourage breeders of asexually propagated varieties to apply to have specific taxa excluded from the exemption. Exclusions would only be made for those taxa that warrant it.

Amend s.17 to clarify that it encompasses asexually propagated material

As the titles of legislative sections have no legal weight, another option is to amend the actual section itself to clarify its meaning. This would provide certainty by ensuring that the courts interpret the provision to encompass all types of propagation.

Amend s.17 to restrict it to sexually propagated material

A large number of stakeholders, particularly those in the horticultural and ornamental sectors, supported amending the exemption to exclude all asexual propagation from the exemption. It was argued that this would provide certainty, maintain the current practice in those sectors and maintain investment in breeding by helping PBR owners to obtain sufficient returns. Other stakeholders argued that there was insufficient evidence to support such a sweeping exclusion and that each taxa should be considered on its own merits. For example, Jay Sanderson of ACIPA said:

There is inadequate evidence to suggest a change of the farm saved seed exemption is warranted. Furthermore, it must be recognised...that there are a number of strategies used to manage plant varieties including plant breeder’s rights and farm saved seed, end point royalties, patents, technological protection and restrictive licences. This is important because agricultural, horticultural and garden industries are heterogenous and a ‘one size fits all’ approach to managing plant varieties will not succeed.

ACIP notes that a number of UPOV member countries restrict farmer’s privilege to ‘seeds’ or varieties that are normally reproduced sexually. For example:

- The USA⁵⁷ provides plant patents for asexually reproduced varieties, with no farmer’s privilege available, and provides Plant Variety Protection for sexually reproduced or tuber propagated varieties, with farmer’s privilege expressed in terms of seed;
- Costa Rica⁵⁸ and the Dominican Republic⁵⁹ exclude “fruit, ornamental and forest species” from farmer’s privilege “where planted for commercial ends”;

⁵⁷ 35 U.S.C. 161 Patents for plants and 163 Grant; PVP Act Chapter 4 Protectability of Plant Varieties, See s.41, 42, 111, 113.

⁵⁸ Law No. 8631 on the Protection of New Varieties of Plants, Article 23.

⁵⁹ Law on Protection of Breeder’s Rights for Varieties of Plants, Article 18.

- Mexico⁶⁰ limits the exception to “grain for consumption or seed for sowing”, where seed clearly does not refer to all reproductive parts of the plant.

7.4.3 ACIP's views

ACIP recognises that there is uncertainty within industry as to whether s.17 encompasses sexual and asexual propagation. This uncertainty has the potential to create significant inefficiencies in the horticultural and ornamental sectors. It is interesting that no stakeholders have attempted to make use of s.17(2) to have specific taxa declared to be excluded from the exemption. This may be largely due to industry assumptions or ignorance about the system.

The UPOV Convention enables the farmer's privilege exemption to apply to all taxa. However, the intent was that the exemption would only operate in sectors where the saving of propagating material to grow another crop was a traditional farming practice. According to anecdotal evidence provided to ACIP, in the Australian horticultural and ornamental sectors it is not traditional for growers to save propagating material to grow another crop.

ACIP considers that there may be significant consequences to expressly stating that s.17 includes asexual propagation. Because asexual propagation can involve significant resources and specialised skills, the majority of unauthorised asexual propagation is conducted by nurseries rather than by growers. Asexual propagation by nurseries is an exercise of the s.11(a) exclusive right; it is not exempted from infringement by s.17 because such propagation is not undertaken by “a person engaged in farming activities”. Expressly providing that s.17 includes asexual propagation would enable growers of horticultural and ornamental varieties to reproduce protected varieties in bulk and avoid purchasing more propagating material from the PBR owner. For many agricultural varieties the harvested material is also propagating material, and so under s.11 the PBR owner is able to obtain a royalty on the sale of the harvested material. This is most often not the case for horticultural and ornamental varieties, and so the PBR owner may have great difficulty in obtaining a return on its investment.

As noted above, a number of other countries have restricted farmer's privilege to seeds or varieties that are normally reproduced sexually. However, ACIP considers that limiting farmer's privilege to acts of sexual propagation is not straightforward. Some varieties, such as tomatoes, may be reproduced either sexually or asexually. Excluding an entire taxon such as tomatoes from farmer's privilege would make some legitimate practices an infringement of PBR and would most likely be viewed as unreasonable by affected growers. A possible solution would be to limit farmer's privilege to *acts* of sexual propagation, rather than to specified taxa, although this may not sit well with the system of declaring taxa under s.17(2). ACIP notes that stakeholders may also seek a declaration of non-infringement under s.55⁶¹, however this is through an application to the Federal Court and so may incur significant costs.

⁶⁰ *Federal Law on Plant Varieties*, Articles 2, 4, 5; *Regulations of the Federal Plant Variety Law*, Articles 2nd VI and 8th.

⁶¹ Section 55 provides that a person who proposes to perform an act described in section 11 may, by an action in the Court against the PBR owner, apply for a declaration that the performance of that act would not constitute an infringement of that right.

Another example of the difficulties in limiting farmer’s privilege to sexual propagation relates to apomictic varieties. Apomictic varieties such as some pasture crops reproduce asexually through seeds, where the seeds produce plants identical to the parent. ACIP understands that it is a traditional practice in some sectors to save propagating material of apomictic varieties to produce another generation of plants. Excluding such varieties from farmer’s privilege would remove access to this practice and again most likely be seen as unreasonable by affected growers. A possible solution may be to expressly state in the legislation that, despite the limitation to sexual propagation, farmer’s privilege is available in relation to apomictic varieties.

There may be other complicating factors of which ACIP is not yet aware.

On balance, ACIP considers that there is an insufficient case at this time to expressly limit farmer’s privilege either to sexual propagation or to taxa propagated sexually. The complications and unintended consequences that are likely to arise from such a change outweigh the potential benefits to the horticultural and ornamental sectors. The majority of unauthorised propagation is conducted by nurseries, and this will continue to constitute an infringement under s.11. However, should further evidence come to light of farmer’s privilege having a significant detrimental impact on the horticultural and ornamental sectors, ACIP considers that the issue should be re-visited.

ACIP concedes that not amending s.17 will maintain uncertainty in the industry over the scope of the provision. Clarifying that s.17 includes asexual propagation would remove such uncertainty but this has not been supported by any stakeholders and it may provide a ‘green light’ for growers to save propagating material in sectors where it has not been a traditional practice. ACIP considers that, at this time, s.17 should not be amended and, as outlined in Recommendation 5, PBR owners should be encouraged to consider applying to have taxa declared under s.17 as not being subject to farmer’s privilege.

Recommendation 7.

No changes be made to s.17 in relation to asexual propagation at this time.

7.5 Essentially derived varieties

7.5.1 Current situation

Legislation

Section 12 provides that, if a variety is declared to be an essentially derived variety (EDV), the rights granted to the original variety extend to it as well:

Subject to section 23⁶², if:

- (a) PBR is granted to a person in a plant variety (the initial variety); and
- (b) PBR is granted to another person in another plant variety; and
- (c) the Secretary makes a declaration, on application by the first-mentioned person, that the other plant variety is an essentially derived variety from the initial variety;

the right granted in the initial variety extends, with effect from the date of declaration, to that other plant variety.

Section 4 defines a variety to be an essentially derived variety of another plant variety if:

- (a) it is predominantly derived from the first plant variety; and
- (b) it retains the essential characteristics that result from the genotype or combination of genotypes of that other variety; and
- (c) it does not exhibit any important (as distinct from cosmetic) features that differentiate it from the first variety.

Section 3 defines essential characteristics to mean:

heritable traits that are determined by the expression of one or more genes, or other heritable determinants, that contribute to the principal features, performance or value of the variety.

'Important' features are not defined in the PBR Act. However, in 1999, the then Standing Committee on Agriculture and Resource Management (SCARM) within the Department of Agriculture, Fisheries and Forestry conducted a review of plant breeder's rights. The Committee found that 'important' probably denotes 'significant changes that affect performance, value or place in the market'⁶³.

The purpose of this section of the PBR Act is to prevent the breeder of a derived variety that has no stand-alone merit of its own from obtaining PBR for it and thereby preventing the PBR owner of the original variety from obtaining a fair return on investment. Section 4(c) ensures that those derived varieties that do have an important difference from the original variety do not have PBR on the original variety extended to them, thus encouraging improvements to existing varieties.

⁶² Section 23 relates to the exhaustion of PBR rights – see Chapter 7.6.

⁶³ As reported in Llewelyn M. and Adcock M., *European Plant Intellectual Property*, Hart Publishing, Portland, Oregon, 2006, pg 184, footnote 120.

UPOV Convention

Protection for EDVs is required under the UPOV Convention. Article 14(5)(b) provides a definition of an EDV:

(b) For the purposes of subparagraph (a)(i), a variety shall be deemed to be essentially derived from another variety (“the initial variety”) when

- (i) it is predominantly derived from the initial variety, or from a variety that is itself predominantly derived from the initial variety, while retaining the expression of the essential characteristics that result from the genotype or combination of genotypes of the initial variety,
- (ii) it is clearly distinguishable from the initial variety and
- (iii) except for the differences which result from the act of derivation, it conforms to the initial variety in the expression of the essential characteristics that result from the genotype or combination of genotypes of the initial variety.

(c) Essentially derived varieties may be obtained for example by the selection of a natural or induced mutant, or of a somaclonal variant, the selection of a variant individual from plants of the initial variety, backcrossing, or transformation by genetic engineering.

Subsection 4(a) and (b) of the PBR Act mirror Article 14(5)(b)(i) of the UPOV Convention. However, the PBR Act goes further than Article 14(5) by⁶⁴:

- defining ‘essential characteristics’;
- requiring that an EDV does not have any ‘important’ differences that differentiate it from the initial variety. One commentator has said that Australia appears to be unique in this regard⁶⁵, and
- stipulating that the Secretary⁶⁶ (ie. the PBRO) should make decisions in relation to declarations of essential derivation,

Expert Panel on Breeding

In 2002, an Expert Panel on Breeding was established in response to the SCARM review to provide clarification on breeding issues. The Panel examined the option of removing the ‘no important features’ requirement from the definition of essentially derived⁶⁷. The Panel recommended no change to this provision, as it believed the aim of plant innovation was furthered if a breeder could meet the initial distinctiveness, uniformity and stability criteria and then demonstrate that the incrementally bred variety had ‘more than cosmetic’ differences. The Panel reiterated the Standing Committee’s view that ‘important (as distinct from cosmetic) features’ would probably mean significant changes that affect performance, value or place in the market.

Under the EDV provision, rights cannot extend to derived varieties for which an application for PBR has not been submitted. The Panel recommended that this be changed to enable an application for a declaration of essential derivation to be made in

⁶⁴ *Clarification of Plant Breeding Issues under the Plant Breeder’s Rights Act 1994*, Report of the Expert Panel on Breeding, December 2002, pg 22.

⁶⁵ Llewelyn M. and Adcock M., *European Plant Intellectual Property*, Hart Publishing, Portland, Oregon, 2006, pg 184, footnote 120.

⁶⁶ Secretary of the Department of Innovation, Industry, Science and Research.

⁶⁷ *Clarification of Plant Breeding Issues under the Plant Breeder’s Rights Act 1994*, Report of the Expert Panel on Breeding, December 2002.

respect of all varieties, including those that are not subject of an application for PBR or grant. The Government accepted this recommendation but it is yet to be implemented.

Under s.40, the Registrar of PBR (under delegation from the Secretary) determines whether a derived variety is an EDV. This involves a relatively simplified process which omits the full range of adversarial features inherent in the court system. Once an application has been made by the PBR owner of the original variety, the Secretary must first establish whether there is a *prima facie* case that the derived variety is an essentially derived variety. If the Secretary is satisfied that a *prima facie* case exists, the PBR owner of the derived variety must establish within 30 days that the derived variety is not an EDV. If the Secretary is not satisfied that the PBR owner of the derived variety has rebutted the *prima facie* case, the derived variety is declared to be an EDV. To date, the Registrar has issued only two decisions on essential derivation.

The Expert Panel recommended that the responsibility to determine essential derivation be moved from the PBRO to the courts for the following main reasons:

- the PBR Office does not have the expertise to assess the performance, value or merit of differences between varieties, nor does it have the expertise to undertake the DNA testing which may be required to establish the degree of similarity between varieties,
- there is no reason for all PBR owners to bear the cost of EDV actions by individuals seeking to protect their own interests,
- EDV allegations are the responsibility of the judicial system in other jurisdictions,
- Court actions necessitate a serious cost/benefit analysis by both parties, resulting in less frivolous actions.

Again, the Government accepted the Expert Panel’s recommendation but it is yet to be implemented.

In 2006, PBRAC also noted that the PBRO does not have expertise in determining the test for “importance” as it is a competition market test⁶⁸.

7.5.2 Concerns and options

Non-PBR varieties

A large number of stakeholders were concerned that the EDV provision is too limited because the declaration process cannot commence unless the derived variety is subject to a PBR application or grant. The breeder of the derived variety can circumvent the rights of the PBR owner by electing not to seek PBR. Pacific Seeds considered this to be “an obvious loophole that needs to be closed”.

There was a lot of support from stakeholders for enabling EDV declarations to be in respect of any variety because it would better enable the owner of PBR on the original variety to generate a fair return on its investment.

⁶⁸ 38th Meeting of the Plant Breeder’s Rights Advisory Committee (PBRAC), 15 March 2006.

Test for ‘important (as distinct from cosmetic)’ features

Several stakeholders were concerned about the test for ‘important’ features on two grounds. One of these was that the use of the term ‘cosmetic’ in the phrase “important (as distinct from cosmetic)” does not suit the ornamental and horticulture sectors where cosmetic features may be of critical importance. It was noted that other jurisdictions do not use this term. The other issue was that the use of the term ‘important’ allows the breeder of a variety where one important change has been made to receive a disproportionate share of the return on investment in the breeding of the variety. It was suggested that a small investment may be sufficient to change a variety in a manner that would be considered to be ‘important’ and so avoid an EDV declaration.

Several stakeholders supported completely removing the test for ‘importance’ and/or adopt UPOV Convention Article 14(5)(b). It was argued that this would provide greater protection for PBR owners, and so encourage investment in breeding, and enable more use of international guidelines. Removing the important features test would also better enable the PBRO to determine essential derivation matters, as it would remove considerations of market performance and value.

Other submissions supported removing the words “as distinct from cosmetic features” from s.4(c) in order to avoid any confusion for ornamental varieties. Some advocated replacing the phrase with:

- “as distinct from features of no commercial value”, so that some guidance on “important” remains, or
- providing a definition of “important features” in s.3, enabling a fuller explanation of the term.

PBRAC had reservations about simply removing the importance test without replacing it with some workable and robust threshold that would limit an endless cascade of PBR over all derived varieties.

Process for EDV declaration

It was argued in some submissions to ACIP that the Secretary of the Department (i.e. the PBR Office) may not be the most appropriate person to make a determination on the ‘importance’ of an attribute of a second variety. It was assumed that commercial value would be considered when determining importance, and it did not seem reasonable for the Secretary to make such a determination. CIOPORA stated that in all UPOV member states except Australia it is the task of the courts to determine whether a variety is an EDV.

The Registrar of the PBRO emphasised that the role of the granting office is concerned with issuing rights, not policing them. Acts of infringement are a matter between the breeders concerned and should, as the last resort, be settled by the courts. The PBRO is well placed to make determinations on distinctiveness but is less able to determine the essential characteristics of one variety against another. ACIP notes that essential derivation is not the only concept in the PBR Act which is defined in terms of the principal features, performance or value of the variety. “Propagating material” is defined using the term “essential characteristics”, which as outlined above is defined in terms of this concept.

Several stakeholders supported transferring the power to decide on essential derivation to the courts because they would be better placed to assess the criterion of importance. The ASF advocated introducing an EDV alternative dispute resolution (ADR) system to be used before resorting to legal action.

There was limited support for keeping the determination of essential derivation with the PBRO, but improving its ability to determine importance and conduct DNA testing. This may involve further training for PBRO staff, enabling access to expert witnesses and adjusting the financial arrangements so that the full or a majority of costs are borne by the parties involved. Such an option may provide a faster, less expensive process than could be provided through the courts. However, this may not be a cost-effective solution given the very low number of applications for EDV declarations.

Burden of proof

Some stakeholders were concerned that the burden of proof in the EDV declaration process falls on the PBR owner of the original variety. This was seen as an impediment to enforcing these extended rights, as it is costly and time consuming for the PBR owner of the original variety to prove that a derived variety is an EDV.

The ASF, DAFWA and other breeder organisations advocated that the burden of proof be reversed, or that both parties should be obliged to present reasonable evidence of parentage. Other stakeholders argued for maintaining the legal standard of presumption of innocence. ACIP notes that, at present, the PBR owner of the original variety need only make a *prima facie* case that the derived variety is an EDV. The PBR owner of the derived variety must adequately rebut this, so it could be argued that the greater burden already falls on the PBR owner of the derived variety.

Predominantly derived

Some of those who made submissions to ACIP believed that the test for “predominantly derived” under s.4 (a) was not sufficiently rigorous for the determination of essential derivation. Breeding organisations argued that genetic descriptions of relatedness, possibly based on molecular markers, would be a more appropriate method of quantifying the extent to which the derived variety was “predominantly derived” from the original variety. It was suggested that the concept of quantifying genetic relatedness developed by the International Seed Federation should be applied in Australia⁶⁹. Benny Browne suggested that if DNA profiling was required as part of the PBR application, this would assist the EDV process.

However, Jay Sanderson of ACIPA has argued that genetic parameters of relatedness have limitations in their utility for determining essential derivation, such as:

- there is much less inherent genetic variability in some species (eg. cotton) than in others (eg. barley),
- absolute measures of genetic relatedness are not feasible as they rely on a sampling strategy and,
- scientific technologies evolve over time⁷⁰.

⁶⁹ See ISF guidelines for handling disputes on EDV, http://www.worldseed.org/en-us/international_seed/edv.html

⁷⁰ Sanderson, Jay, *Essential derivation, law and the limits of science*, (2006) 24(1) Law in Context, pp.34-53.

ACIP notes that the PBRO currently examines nearly 400 different species for PBR. Molecular characterisation is available for major crop species, but is not available for those species which comprise the bulk of PBR grants in Australia, in particular ornamentals, and would be costly to develop.

Benefit sharing

Several stakeholders were concerned that the current EDV system is a ‘winner take all’ approach and that the benefits of an EDV could be better shared between the breeders of the original and the derived varieties. For example, DAFWA said:

DAFWA recognises the importance of rewarding the breeder of a discovered sport. However, DAFWA does not believe that it is appropriate if that sport demonstrates an important difference that entitles the breeder of the derived variety to ignore the importance of the initial variety and of the work involved in producing that variety. Without the initial variety there would be no derived variety.

Some stakeholders believed that problems with the EDV system would become more significant because the number of EDVs is likely to increase as genetically modified varieties become more prevalent in Australia.

Several stakeholders supported the introduction of a process that allows the breeders of the original and the derived varieties to find common ground on sharing the benefits of the derived varieties. The PBR Act could provide a framework for agreement to be reached between the contesting breeders, starting with negotiation, then ADR and ending with the courts. The ADR process offered by the Australian Seed Federation to its members may provide an appropriate forum or model⁷¹.

7.5.3 ACIP’s views

Non-PBR varieties

ACIP considers that EDV declarations should be able to be made in respect of any variety in order to provide PBR owners with a fair return on their investment. The Government has already agreed to do this, as recommended by the Expert Panel on Breeding in 2002. This change would involve making sure that derived varieties that are not the subject of an application for PBR can be clearly defined, in order that the PBR rights to the original variety can extend to them.

Recommendation 8.

Enable EDV declarations to be made in respect of any variety.

⁷¹ In 2003 the Australian Seed Federation appointed the Institute of Arbitrators and Mediators Australia to manage a dispute resolution scheme for domestic disputes in the Australian seed industry by conciliation and/or arbitration. See www.asf.asn.au

Test for important features and process

ACIP considers that concerns about the test for important features can not be addressed simply by removing s.4(c). If s.4(a) and (b) were the only criteria for a variety to be considered an EDV, potentially a wide and cascading range of derived varieties would be considered EDVs. This would discourage investment in plant breeding. The third criterion (c) ensures that breeders who develop a derived variety that exhibits an important differentiating feature may retain any PBR attached to it.

There appear to be no concerns over the PBRO’s ability to assess the first two EDV criteria. However, ACIP appreciates the industry and PBRO concerns over the PBRO’s ability to assess important features, which is effectively about the market performance and value of a variety. This could be solved by transferring the responsibility for EDV declarations to the courts. The Government has already agreed to do this, as recommended by the Expert Panel on Breeding in 2002. However, this change would significantly increase the cost and duration of the declaration process. Many stakeholders have emphasised that court actions are beyond the financial resources of many breeders due to the relatively small profit margins from many plant breeding investments. Moving EDV determinations to the courts may make the practicalities of enforcement of PBR more difficult, not less.

Moving the responsibility for EDV determinations to a specialist Tribunal may provide a balance between the rigour, high costs and resolution times of the court system and the high accessibility and low costs of the PBRO. ACIP is currently considering the establishment of a Patent Tribunal as part of its review of post-grant patent enforcement strategies⁷². Such a Tribunal may have the following main features:

- an ability to provide determinations on issues brought before it;
- a panel comprising up to three people, integrating legal and technical expertise;
- more streamlined procedures than a court;
- a pro-active and inquisitorial role;
- providing patent attorneys with a right to appear; and
- mechanisms be introduced to encourage parties to comply with the Tribunal’s determinations and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so.

If a Patent Tribunal were to be established and is successful, then consideration should be given to expanding its remit to include declarations of EDV.

ACIP considers that best solution is to retain responsibility for EDV determinations with the PBRO and change the wording of s.4(c) to “it does not exhibit any *essential characteristics* that differentiate it from the other variety. This change would:

- avoid the costs and delays of the court system;
- be closer to, and compliant with, the wording of the UPOV Convention;
- retain encouragement for research on PBR protected varieties by ensuring PBR does not extend to derived varieties that have differentiating essential characteristics;
- better enable the PBRO to assess essential derivation, particularly if its capabilities in this area are further improved.

⁷² *Post-Grant Patent Enforcement Strategies Interim Report*, ACIP, August 2009. A final report is expected to be released around the end of 2009. See http://www.acip.gov.au/reviews.html#post_grant

ACIP does not consider that keeping the determination of essential derivation with the PBRO would encourage frivolous applications due to the lower cost and faster turn-around times. The PBRO has had this role since 1994 and only two applications have been received to date.

Recommendation 9.

Amend s.4(c) by replacing the test for important features with a test for essential characteristics. For example:

4 Definition of essentially derived varieties

A plant variety is taken to be an essentially derived variety of another plant variety if:

- (a) it is predominantly derived from that other plant variety; and
- (b) it retains the essential characteristics that result from the genotype or combination of genotypes of that other variety; and
- (c) it does not exhibit any **essential characteristics** that differentiate it from that other variety.

Recommendation 10.

Retain responsibility for EDV declarations with the PBRO and ensure the PBRO has the ability to assess such applications. This may involve the PBRO seeking advice from an external body or expert.

If, in the future, a Patent Tribunal is established and proves successful, consideration should be given to expanding its remit to include declarations of EDV.

Burden of proof

ACIP believes that the current process satisfies most of the concerns raised because the burden is already reversed to a significant degree.

Predominantly derived

There are large differences in genetic variability between species. This would make it difficult to set a standard of relatedness for declaring a variety to be predominantly derived. This matter is best decided by the authority determining EDV declarations, which at present is the PBRO.

Benefit sharing

The situation of most concern to stakeholders is where an initial variety has PBR and a second, derived variety is declared to not be an EDV. PBR does not extend to the derived variety and the breeder of the initial variety does not receive any benefit. ACIP appreciates that some stakeholders consider this to be an unfair result, however it considers that a system in which the owner of the derived variety is in some way required to share its benefits with the owner of PBR on the initial variety would make the scope of protection provided by PBR too broad and out of proportion with the level of innovation achieved. Such a system would also be difficult to implement.

7.6 Exhaustion of PBR

7.6.1 Current situation

Legislation

Section 23 provides that, once propagating material has been sold by the PBR owner, or with the PBR owner’s consent, the PBR owner has no further rights in the material except in certain circumstances:

- (1) PBR granted in a plant variety does not extend to any act referred to in section 11:
 - (a) in relation to propagating material of the variety; or
 - (b) in relation to propagating material of any essentially derived variety or dependent plant variety;
 - that takes place after the propagating material has been sold by the grantee or with the grantee’s consent unless that act:
 - (c) involves further production or reproduction of the material; or
 - (d) involves the export of the material:
 - (i) to a country that does not provide PBR in relation to the variety;
 - and
 - (ii) for a purpose other than final consumption.

Sections 23(2) relates to the exhaustion of rights in essentially derived varieties. Section 23(3) relates to exhaustion of rights over ‘later’ acts where equitable remuneration has been paid for a ‘first’ act.

Section 23(4) provides further clarification. In particular, it aims to ensure that s.18⁷³ does not allow unauthorised further propagation:

To avoid doubt, nothing in subsection (1) or (3) prevents the exercise of the rights of the grantee of PBR in a plant variety in relation to any propagating material of that variety that is obtained by reproduction of the propagating material to which that subsection applies.

The *Plant Breeder’s Rights Bill 1994 Explanatory Memorandum* also provides some guidance. It states that s.23 “[s]pecifies that should propagating material of a plant variety be sold, rights to that propagating material cease to apply unless there is multiplication of the material after the sale”⁷⁴. In light of this, on first reading section 23 appears to mean that, once propagating material has been sold by the PBR owner, the buyer owns it and is free to use and sell that material. However, the buyer requires the authorisation of the PBR owner to grow another crop of propagating material (G1) or export it under certain circumstances.

The closest comparison with other IP rights is patent law, where the right of sale over a patented product is exhausted once the product has been sold, meaning that the new owner is free to onsell the product to another party. However, the patentee’s exclusive right to make the invention is not exhausted by the sale. The new owner owns the purchased product but does not own the invention that is the subject of the product, and so requires the authorisation of the rights holder to make the invention.

⁷³ See Chapter 6.6.

⁷⁴ *Plant Breeder’s Rights Bill 1994 Explanatory Memorandum*, page 7, paragraph 36.

UPOV Convention

Section 23 essentially mirrors Article 16 of the UPOV Convention, except that Article 16 relates to “material” rather than “propagating material”, and defines material to mean:

- (i) propagating material of any kind,
- (ii) harvested material, including entire plants and parts of plants, and
- (iii) any product made directly from the harvested material.

Based on the proceedings of UPOV Diplomatic Conferences and information provided to ACIP by the UPOV President, it appears that the intent of Article 16 is that rights are exhausted in relation to a first crop G1, but are not exhausted in relation to “further” crops G2+. This aims to provide growers with the certainty that they are able to grow and sell crop G1 without obtaining the authorisation of the PBR owner, but that they require such authorisation to grow and sell crops G2+. The law and practice of other UPOV members follows this approach.

Cultivaust decision

The 2004 Federal Court decision *Cultivaust Pty Ltd v Grain Pool Pty Ltd*⁷⁵ considered the issue of exhaustion. The plant materials under consideration were:

- seed G0 sold by the PBR owner to the grower,
- crop G1 grown from that seed by the grower, and
- subsequent crops G2+ grown from G1 seed saved by the grower.

Mansfield J found that:

- PBR is exhausted for crop G1, so the grower does not require the authorisation of the PBR owner to sell crop G1.
- PBR is not exhausted for crops G2+, so the grower requires the authorisation of the PBR owner to sell crops grown from farm saved seed.

The reason for treating G1 differently to subsequent generations was the use of the word “further” in s.23(1)(c). Mansfield J interpreted “further reproduction” to mean those reproductions after an assumed first reproduction G1. Even if this was not the case, the court found that the implied license in the sale of seed G0 provided the necessary authorisation for the grower to grow and sell crop G1⁷⁶. As noted in Chapter 7.1.1, the *Cultivaust* decision was based on a situation where the PBR owner required and/or expected that all or most of crop G1 would be sold for malting or feed purposes, rather than saved to grow another crop.

This interpretation is consistent with the apparent intent of the UPOV Convention and the practices of other UPOV members. On appeal, the Full Court⁷⁷ did not find it necessary to express any opinion on the operation of s.23(1). The Court merely drew attention to the word “further” and found that the primary judge dealt with s.23 “in a manner that appears to be unexceptional”.

As discussed in Chapter 7.3, while the farm saved seed exemption enables a grower to save seed from crop G1 and grow subsequent crops G2+ without the authorisation of the

⁷⁵ *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638. See in particular 209-211.

⁷⁶ *Cultivaust Pty Ltd v Grain Pool Pty Ltd* [2004] FCA 638. See 210..

⁷⁷ *Cultivaust Pty Limited v Grain Pool Pty Limited* [2005] FCAFC 223. See 12 and 55.

PBR owner, PBR is not exhausted and growers still require the authorisation of the PBR owner to *sell* crops G2+. The PBR owner’s authorisation to sell crops G2+ is not implied in the sale of the initial seed G0.

7.6.2 Concerns

A large number of stakeholders, particularly the breeders of agricultural varieties, were uncertain about the interpretation of s.23 and how it relates to other parts of the PBR Act. Some, such as Australian Forest Growers, believed the wording of s.23 itself to be confusing. DAFWA sought clarification on ‘consent’ and implied licences:

DAFWA seeks to understand how the term ‘consent’ would apply in relation to the Grantee selling the initial seed to either a licensee or a grower and the harvested material and subsequent generations of crops being sold by the grower to a grain trader. Is this sale undertaken by the grower made with the Grantee’s consent or was it merely contemplated?

ACIP is unaware of any jurisprudence on the interpretation of ‘consent’ in the PBR context.

Others stakeholders, such as the Victorian Farmers’ Federation, believed that the *Cultivaust* interpretation of s.23 had reduced clarity. Canola Breeders Western Australia (CBWA) believed the decision had cast doubts on the legality of existing EPR arrangements for G1 crops:

...[I]f the interpretation is valid, we understand that it can impact on the validity of legal contracts (Licence and EPR Agreements) entered between breeders and growers in circumstances where seed has been wholesaled to a retailer for sale to a grower. In our view, it is fundamentally important for the future of EPR collection that the Act enables the breeder to enter a valid (and simple) legal contract with a grower who purchases seed of a PBR-registered variety from a retailer, and, secondly, that there is clarity in the Act on this issue.

However, FICPI Australia suggested that this was not an issue:

...[A]nother view that has been presented to FICPI Australia is that *Cultivaust* does not express a view on the collection of royalties down the chain, and that the imposition of end point royalties, whilst administratively difficult and cumbersome to implement, is simple a matter of contract. Thus, section 23 has been read as ‘subject to any contrary agreement’ between the parties.

ACIP notes that a 2002 report by the Copyright Law Review Committee on the use of contracts to exclude or modify the exceptions and limitations to copyright found that it is not clear whether such contracts can be enforced⁷⁸.

⁷⁸ *Copyright and contract*, Copyright Law Review Committee, Commonwealth of Australia, 2002. This report examined the use of contracts to exclude or modify the exceptions and limitations to copyright, however it also provides guidance on other IP rights. It found that (i) licences for access to copyright material generally take the form of contracts, (ii) contracts are being used to exclude or modify the copyright exceptions, (iii) it is not yet settled whether such contracts can be enforced and (iv) that such contracts constitute an important “displacement of the copyright balance”. The CLRC recommended that the Copyright Act be amended to provide that an agreement that excludes or modifies the operation of key sections of the Act has no effect.

CIOPORA submitted that the principle of exhaustion has been drafted in a way that is too general:

To provide the breeders of vegetatively propagated ornamental and fruit varieties parity with owners of patents as required under [TRIPS Article 27(3)] it is necessary that the exhaustion exists only for the specific field of use for which the breeder has licensed his variety and only for the specific territory where the licensed title is valid.

A few submissions to ACIP argued there was no problem with s.23. The Law Council of Australia Intellectual Property Committee (IPC) made the following comments:

In the IPC's view, prior to the *Cultivaust* decision, the only part of s 23 that could perhaps be argued to be unclear was the word "further" in s 23(1)(c). However, in view of Mansfield J's decision and interpretation of that word, the IPC sees no need for there to be any further clarification of s 23.

Options

A large number of stakeholders supported clarifying the meaning of s.23. Most of these advocated seeking the advice of an Expert Panel but some preferred to seek the advice of the Australian Government Solicitor. Some stakeholders supported amending the wording of s.23. For example, DAFWA said:

Given the current opportunity to introduce amendments to the Act we support amending this section to ensure that rights are clear and in line with industry understandings. (For instance, amending section 23 to provide that PBR will only be exhausted after the obligations [to] the PBR owner have been satisfied.)

CIOPORA proposed that exhaustion in the PBR Act be based on the idea that 'a PBR right shall not extend to acts that have been performed with the express authorization of the holder of the right and within such conditions and limitations as said holder may have made his authorisation subject to'. Kathryn Adams of ACIPA said:

The principle that the section should achieve is that the PBR right is exhausted once the grantee has exercised the right...except as provided for in the current s23(1)(c and d).

7.6.3 ACIP's views

The amount of confusion in the industry over exhaustion of PBR is significant enough to create inefficiencies in the industry. Consideration should therefore be given to whether this can be addressed. The confusion is partly due to the interpretation of s.23 by the courts.

The general principle of exhaustion is that, where a first party has exclusive rights in relation to a product, the right to sell the product is exhausted once that product has been sold by the first party. The buyer of the product does not require the authorisation of the rights owner to exercise those rights that have been exhausted, such as sale of the

product, but still requires authorisation to exercise those rights that have *not* been exhausted, such as use of the product⁷⁹.

The general principle of implied licences is that, where a product is sold by a first party to a second party, the conditions of sale may provide an express or implied licence to the buyer to exercise certain of the exclusive rights. Those rights are not exhausted, they have merely been licensed. In the above general example, the buyer of the product may require the authorisation of the rights owner to use the product, however this authorisation is implied in the sale because that is the assumed reason for buying the product. There is no need for an explicit licence to use the product.

In the case of PBR, once propagating material G0 has been sold by the PBR owner, the right of sale has been exhausted and the buyer does not require the authorisation of the PBR owner to on-sell the same propagating material G0. This means that a grower who purchases seed from the PBR owner is free to sell that seed to a third party. However, under s.23(1)(a), PBR is not exhausted for any act involving “further production or reproduction” of the material.

The first *Cultivaust* decision found that PBR is exhausted for crop G1, but not for subsequent crops G2+. This is because the word “further” in s.23(1)(c) was interpreted to mean those generations after an initial generation. This means that a grower does not require authorisation from the PBR owner to grow crop G1 from seed G0 and sell it, but does require authorisation to grow and sell subsequent crops G2+. ACIP notes that this interpretation is at odds with the current interpretation of the word “further” in a similar context in s.17(1)(c)⁸⁰ and does not appear to be consistent with s.23(4) – see Chapter 7.6.1.

As outlined in the *Cultivaust* decision, farmers privilege (s.17) permits the saving and growing of PBR protected material, but it does not permit the sale of the harvested material. Section 17 enables growers to use farm saved seed to grow another crop without exercising the reproduction right of the PBR owner. However, s.17 does not provide the grower with the PBR owner’s authorisation to reproduce and sell the propagating material. When selling a crop grown from farm saved seed, the grower is still exercising the PBR owner’s rights and so requires the authorisation of the PBR owner to do so.

The current law can be summarised as follows:

- Farmers who buy seed G0 from the PBR owner are free to consume it, feed it to livestock or sell it to another party because PBR is exhausted on G0.
- Farmers may use G0 to grow crop G1 because PBR is exhausted on G1 under the *Cultivaust* interpretation of s.23.

⁷⁹ In the case of patents, Australian common law recognises that the special nature of a patent grant means that a patent owner might properly wish to impose conditions on the use of the invention. However, these are limited to conditions that are not in restraint of trade. See Lahore, *Patents, Trade Marks & Related Rights*, Volume 1 – Commentary, pg 24041-24090. 2008.

⁸⁰ Section 17(1)(c) refers to the farmer harvesting “further propagating material from plants grown from that first-mentioned propagating material”, meaning crops G1+ grown from propagating materials G0+. ‘Further’ in this context clearly includes crop G1. See Chapter 7.3.1.

- Farmers are authorised to save G1 to grow crops G2+ under farmer's privilege (s.17).
- Farmers are allowed to consume crops G1, feed them to livestock or sell them, because PBR is exhausted on G1 under the *Cultivaust* interpretation of s.23.
- Farmers require authorisation from the PBR owner to sell crops G2+ comprising propagating material because s.17 does not exempt this and PBR on these generations is not exhausted.
- Royalties may be obtained on any crops G2+ comprising propagating material under s.11 because PBR is not exhausted for any of these crops.
- Royalties may be obtained on crops G2+ that do not comprise propagating material under s.14 and 15 in certain circumstances and under private contract.
- It is not clear whether private contracts that exclude or modify exemptions and limitations under the PBR Act are enforceable.

The current approach to exhaustion is different to that for other IP rights. Having rights exhausted over some generations of crop but not others can be difficult to administer and has led to confusion amongst some stakeholders. This leads to growers and others in the industry not understanding the law and inadvertently infringing PBR rights, such as by selling crops G2+ without the authorisation of the PBR owner. PBR owners in the grains sector who wish to use an EPR system need private contracts in place for some crops but not for others. That is, the PBR owner needs to over-ride exhaustion on crop G1 through legally uncertain private contracts (see footnote 78 above), but is able to rely on s.11 to obtain EPRs on crops G2+.

ACIP believes there may be significant benefits in amending s.23 to provide that PBR is not exhausted where there is *any* production or reproduction of the material. This would include the act of growing crop G1. Such an approach would make it clear that growers would need the authorisation of the PBR owner to grow and sell any crop (except for those acts permitted under farmer's privilege). Growers would normally have an implied licence to grow and sell crop G1 through the conditions of sale, but would require explicit authorisation to grow and sell crops G2+. PBR owners would be able to require EPRs on any crop G1+ without having to rely on legally doubtful contracts.

However, the benefits of the current interpretation of the law on exhaustion are significant. Current law complies with the UPOV Convention and is in harmony with the law and practices of other UPOV members. It also provides growers with the certainty that they are able to grow and sell crop G1 without having to rely on an explicit or implied licence from the PBR owner. On balance, ACIP considers that there should be no change to the law on exhaustion in relation to the current acts referred to in s.11. The significant amount of confusion in the industry on the issue suggests that s.23 could be amended to clarify that "further" production or reproduction means crops G2+. However, ACIP considers that in the future the courts may see fit to re-interpret s.23 and the legislation should not prevent this from occurring.

Purchase right

ACIP considers that the current law on exhaustion would reduce the effectiveness of a new purchase right as proposed in Recommendation 1.

Under current law, the purchase right would be exhausted on initial propagating material G0 sold by the PBR owner or with the PBR owner’s consent. This is appropriate because PBR owners have no legitimate interest in seeking royalties on the on-selling of the initial material. However, a purchase right would also be exhausted for crop G1 although not for crops G2+. This would mean that a purchaser would require the authorisation of the PBR owner to purchase some crops from a grower but not others. This would reduce the ability of the PBR owner to seek royalties at narrower points in the supply chain and having to determine between crop generations would make it unnecessarily complicated to administer. ACIP considers that s.23 should be amended to provide that PBR is not exhausted in relation to an act of purchase of the material that involves *any* production or reproduction of the material. This would include the growing of crop G1. This provision would only apply to taxa in respect of which a purchase right has been declared to apply. Such an approach would increase the effectiveness of a new purchase right without impacting on other s.11 rights or Australia’s compliance with the UPOV Convention

As discussed in Chapter 7.1.3, an issue of concern is whether there may be an implied licence in the sale of G0 for any party to purchase crop G1. If there is, this would prevent the PBR owner from exercising control over the purchase of G0 and reduce the effectiveness of the purchase right. However, ACIP understands that, if there is no contract between the PBR owner and the purchaser, there can be no implied contract licence. This point could be emphasised by adding an explanatory note to s.23, although ACIP concedes this may be over-ridden by the exact circumstances in any particular case. To avoid any possibility of there being a more general licence to purchase crops G1+, such as a bare licence⁸¹, the PBR owner should make it publicly clear that there is no licence to purchase crops G1+ without paying the due royalties.

Recommendation 11

In relation to s.23 and exhaustion:

- A. No changes be made in relation to the current acts referred to in s.11.
- B. Section 23 be amended to provide that PBR does not extend to an act of purchase of the material referred to in s.11 that takes place after the propagating material has been sold by the PBR owner unless that act involves *any* production or reproduction of the propagating material. This includes growing the first generation crop comprising propagating material that is grown from purchased propagating material.
- C. Clarify in the PBR Act that the mere sale of propagating material G0 for purposes of growing and selling G1 does not necessarily imply a licence to purchase crop G1.

⁸¹ A bare licence prevents the licensee from being a trespasser. It is a licence to occupy property coupled with no other right or proprietary interest. It gives no right of exclusive possession and is revocable at any time at the will of the grantor.

7.7 Clarity of the legislation

7.7.1 Current situation

Legislation

The PBR Act includes several key terms, such as:

- reasonable opportunity;
- conditioning for the purpose of propagation;
- essential characteristics, and
- propagating material.

The meaning of some terms is provided by definitions in s.3. Some examples are conditioning, dependent plant variety, essential characteristics, propagating material, propagation, and reproduction.

Clarification of some terms and the intent of some provisions is provided in the provision itself. Some examples are:

- extension of PBR to harvested material does not include that covered by farmer's privilege (s.14(2));
- the operation of s.18 in relation to farmer's privilege (s.18(2));
- definition of equitable remuneration (s.18(3));
- exhaustion subsections 23(1) and (2) do not prevent the exercise of the rights of the PBR owner in relation to any propagating material that is obtained by reproduction of the propagating material;
- definition of plant material (s.43(10)), and
- infringement of PBR and the use of synonyms (s.53(1A)).

Case law

Due to the small number of PBR cases before the Australian and foreign courts, there is little jurisprudence available on the meaning of such terms or of entire sections of the PBR Act. The first *Cultivaust* decision provided guidance on some aspects of PBR law, such as reasonable opportunity (see Chapter 7.2.1), propagating material (Chapter 7.1.1) and farmer's privilege (Chapter 7.3.1), and on related law such as implied licences (Chapter 7.2.1).

Other sources

Other potential sources of guidance are as follows:

- the UPOV Convention provides some definitions of terms used in the Convention which are used but not defined in the PBR Act;
- The Report of the Expert Panel on Breeding⁸², and
- information provided by the Australian Centre for Intellectual Property in Agriculture (ACIPA)⁸³.

Some stakeholder groups provide views on how the law should be interpreted and the standards that should be adopted. The International Community of Breeders of

⁸² *Clarification of Plant Breeding Issues under the Plant Breeder's Rights Act 1994*, Report of the Expert Panel on Breeding, December 2002.

⁸³ In collaboration with IP Australia and the Australian Research Council. See <http://www.acipa.edu.au/PBR/>

Asexually Reproduced Ornamental and Fruit Plants (CIOPORA) has produced a position paper on EDV which aims to provide practical guidance on when an asexually reproduced ornamental or fruit variety should be considered to be an EDV⁸⁴. CIOPORA encourages all parties to accept the determinations and thresholds given in the paper and to find amicable solutions in order to avoid costly and unpredictable court actions. The International Seed Federation (ISF) provides papers on a range of topics, including the following⁸⁵:

- the application of the UPOV Convention to hybrid plants;
- the meaning of the term 'reasonable opportunity' in relation to extended rights;
- the use of DNA markers for essential derivation and for identification and testing of distinctness, uniformity and stability. This includes guidelines for disputes over specific varieties, and
- essential derivation from a non-PBR protected variety.

7.7.2 Concerns

As discussed in earlier chapters, a large number of stakeholders were concerned about a lack of explanation for key parts of the PBR Act⁸⁶. The little jurisprudence that exists was thought to provide insufficient clarification. The parts of the PBR Act which were of concern included s.12 (essential derivation), s.14 and 15 (harvested material and products), s.23 (exhaustion), s.57 (innocent infringement) and s.70 (genetic resource centres), as well as those terms listed above. Such concerns can be categorised as relating to:

- clarity, where the meaning is not clear (eg. 'important (as distinct from cosmetic) features'),
- certainty, where the meaning is clear but application to particular circumstances is uncertain (eg. 'reasonable opportunity'), and
- scope, where the range of subjects covered is not understood (eg. s.17 and 'propagating material').

Some of those making submissions considered that a lack of clarity was making enforcement of PBR difficult. For example, DAFWA asserted that uncertainty over terms in the Act, rather than the cost of legal action, was one of the deciding factors in determining whether to proceed with legal redress.

However, other submissions argued that providing further explanation for legislative terms and definitions is inherently difficult, and ultimately subject to the interpretation of a court. PBRAC said:

...some users of the PBR Act believe that certain terms are unclear. However, some disputed terms have clear legal meanings; are well known to the law; or have their plain English meaning. ...there may be a significant role for education in addition to possible clarifications. ...PBRAC believes that codifying all such terms may not necessarily bring the certainty to all situations and may further complicate matters for some situations.

⁸⁴ *Essentially Derived Varieties (EDV), Position of CIOPORA*, January 2008.

⁸⁵ See http://www.worldseed.org/en-us/international_seed/who_we_are.html

⁸⁶ For example, Benny Browne, DAFWA, Australian Seed Federation.

Options

Many stakeholders supported further clarification of the PBR Act. The possible methods of achieving this include:

- defining in Section 3 of the Act particular terms, or amending current definitions;
- defining some terms in line with their UPOV Convention equivalents, so that any foreign guidance on these could be used;
- using guidance from organisations such as CIOPORA and ISF;
- seeking the opinion of the Australian Government Solicitor, and
- seeking the opinion of an Expert Panel.

There are a number of potential functions and models for an Expert Panel. The following are some examples:

1. A body that provides an independent, scholarly assessment of the law. An example of this is the American Law Institute (ALI) which is composed of 3000 distinguished judges, lawyers and academics from the US and abroad. The ALI issues Restatements of Law, which inform lawyers and judges on how the law works, develops the Uniform Commercial Code which addresses most aspects of US commercial law, and analyses legal areas thought to need reform and proposes changes. ALI Restatements of Law are highly influential, rigorously produced documents⁸⁷.

2. A temporary panel of appropriately qualified people that is established by the Government to examine a particular issue. An example of this is the Expert Panel on Breeding which was a temporary body established to provide guidance and recommendations on a particular area of PBR law. It comprised four experts and/or advisors⁸⁸.

3. An on-going panel of independent, appropriately qualified people which, at the request of stakeholders, is called upon as needed to provide non-binding opinions. Examples of this type of function include:

- *Australian Taxation Office public rulings.* The ATO⁸⁹ provides public rulings which set out the Tax Office's documented interpretation as to how a tax law applies to a person or class of persons. Rulings may be instigated due to a request from taxpayers or tax professionals. Once an issue has been identified and assessed as meeting the necessary criteria, a draft ruling may be issued for comment before the final ruling is completed. Significant rulings are reviewed to evaluate their effectiveness and amended as necessary in light of court decisions. A taxpayer relying on a public ruling issued by the ATO that is subsequently found to be incorrect has certain protections from paying additional tax and/or penalties.

⁸⁷ <http://www.ali.org/>

⁸⁸ <http://www.anbg.gov.au/breeders/index.html>

⁸⁹ See

<http://www.ato.gov.au/taxprofessionals/content.asp?doc=/content/00104687.htm&mnu=43622&mf=001>

- *UK-Intellectual Property Office Opinion Service.* The UK-IPO provides impartial, non-binding and affordable opinions within three months on whether a patent is valid and/or infringed. Opinions are claimed to be authoritative because they are prepared by independent experts⁹⁰.
- *Finnish Copyright Council.* The FCC is composed of 16 members, the majority of whom are representatives of the major rights holders and users. The FCC provides over a dozen free opinions every year on the interpretation of the legislation, most commonly to private citizens and government authorities. Most cases are initiated by one party in a dispute but before court action has begun. Most opinions take 3-5 working days to produce and are published within 6 months in a way which respects applicant privacy. Although not legally binding, the FCC's opinions are often discussed in legal literature and followed by the courts⁹¹.

7.7.3 ACIP's views

ACIP considers that the high level of uncertainty in industry about the interpretation of various parts of the PBR Act is due to the inherently complex nature of the PBR legislation and a lack of guidance from court decisions. This uncertainty may be significantly reducing the efficiency of the industry and it should be addressed where possible. Where ACIP considers that a key part of the PBR Act needs clarification, and that this is best done through amending the legislation, recommendations to this effect have been made in the relevant Chapter of this report. This Chapter addresses those cases where further clarification is best achieved through other, external means.

ACIP considers that non-legislative clarification is best addressed by establishing an on-going Expert Panel. The most appropriate composition of the Panel would be several experts and/or advisors in the field, including those with legal and industry expertise, rather than representatives of specific industry sectors. The Panel may include people from IP Australia. Upon request, the Panel should provide detailed guidance and opinions on general issues or specific cases concerning the PBR Act and related law. This may include the following terms and provisions raised by stakeholders as being of significant concern:

- reasonable opportunity;
- propagating material, and
- implied licences and authorisation, such as whether growers require authorisation to feed crops G2+ grown from farm saved seed to their livestock.

However, the Panel should not get involved in the examination process by providing advice on the registrability of applications for PBR. The Panel should charge a fee for its services that is sufficiently modest so as not to restrict access yet high enough to deter frivolous requests. The Panel should be free to decline requests. The resulting opinion should be made publicly available so as to benefit as many stakeholders as possible, yet in a manner which respects commercially sensitive material. The Panel

⁹⁰ <http://www.ipo.gov.uk/types/patent/p-dispute/p-opinion.htm> and <http://www.ipo.gov.uk/types/patent/p-other/p-infringe/p-validity.htm>

⁹¹ Information provided by the FCC Secretariat, January 2009, and <http://www.minedu.fi/OPM/Tekijaenoikeus/tekijaenoikeusneuvosto/?lang=en>

may draw the Government or ACIP’s attention to matters as it sees fit. As IP Australia is a cost-recovery agency, an increase in PBR fees may be necessary to cover the costs of such a panel.

ACIP notes that organisations such as attorney firms and the National Agricultural Commodities Marketing Association⁹² are able to provide opinions on PBR issues. IP Australia is also considering introducing a validity / infringement opinion service⁹³. Nonetheless, ACIP considers that, in the absence of guidance from the courts, a properly constituted, authoritative Expert Panel would provide guidance which would be highly valued and followed by industry.

Recommendation 12.

An on-going Expert Panel be established to provide guidance and opinions on general issues or specific cases concerning the PBR Act and related law. The Panel should comprise appropriate people with expertise in relevant areas who provide their services as required.

Upon request from any person and for a moderate fee, the Panel may provide detailed guidance and opinions on general issues or specific cases concerning the PBR Act and related law. The Panel should focus on the enforcement of granted rights and not provide advice on the registrability of individual applications for PBR. The Panel’s opinions should be made publicly available in a manner which respects commercially sensitive material. The Panel may refer matters to the Government or ACIP as it sees fit.

⁹² The National Agricultural Commodities Marketing Association (NACMA) provides, as part of its dispute resolution service, a quick, non-binding opinion whereby the parties to smaller disputes make short submissions to an agreed expert or the NACMA CEO. See

http://www.nacma.com.au/__data/page/130/Dispute_Resolution_Rules_prior_17_Aug_07.pdf

⁹³ *Submission to the Review of the National Innovation System*, IP Australia, 2008, pg 42. See [http://www.innovation.gov.au/innovationreview/Documents/537\(R\)-IP_Australia.pdf](http://www.innovation.gov.au/innovationreview/Documents/537(R)-IP_Australia.pdf)

7.8 Pre-grant enforcement

7.8.1 Current situation

Legislation

Section 39(1) ‘Provisional protection’ provides an applicant for PBR with the same exclusive rights in respect of their variety as if PBR were granted:

- (1) When an application for PBR in a plant variety is accepted, the applicant is taken to be the grantee of that right for the purposes of Part 5⁹⁴ from the day the application is accepted until:
 - (a) the application is disposed of; or
 - (b) if the Secretary gives the applicant a notice under subsection (2)⁹⁵ – the notice is disposed of;whichever occurs first.

However, under s.39(6), the breeder is not able to take infringement action until the PBR has been granted:

- (6) A person who is taken to be the grantee of PBR in a plant variety is not entitled to begin an action or proceeding for an infringement of that right occurring during the period when the person is so taken unless and until that right is finally granted to the person under section 44.

Any action taken can be in regard to activities occurring from the date the PBR application was accepted by the PBR Office. Section 39 is consistent with UPOV Article 13 and most other major jurisdictions except New Zealand, where infringement action may begin before PBR is granted – see 6.8.2 below.

The length of time of provisional protection for specific varieties depends on how long it takes for PBR to be granted. 87% of applications are granted within four years of lodgement and 99% within eight years. The only plant group that differs significantly from this pattern is fruit trees where 58% of applications are granted within four years and 94% within eight years⁹⁶.

7.8.2 Concerns

DAFWA identified the inability to begin an action for infringement prior to the grant of the right as a barrier to the effective enforcement of a new plant variety. The matter was raised in relation to horticultural varieties (tree crops), where it was claimed that varieties are especially vulnerable because of:

- the ease with which these plants can be propagated⁹⁷, and
- the long time frames between filing an application, its acceptance and the final grant of the right.

⁹⁴ Part 5 relates to the enforcement of PBR.

⁹⁵ Subsection 2 relates to instances such as where the Secretary is satisfied that a PBR will not be granted, the application has been withdrawn or the applicant has given an undertaking not to commence proceedings for infringement.

⁹⁶ Domestic Policy, IP Australia 2007.

⁹⁷ Propagation of a new variety can be initiated simply by taking a bud or snipping a piece of wood from a variety and top grafting trees for the purposes of propagation.

It was claimed that potential infringers are aware that infringement proceedings cannot begin until grant of the PBR and exploit the situation.

CSIRO, Buchanan's Nursery and CIOPORA also identified the inability to bring action for infringement prior to grant as a concern.

7.8.3 Options

It was suggested to ACIP during consultations that new horticultural tree crop varieties would be less vulnerable to propagation without the PBR owner's consent if the PBR Act provided the applicant with the same right to take infringement proceedings as is available from the day that a grant has been made in respect of the variety concerned. Without this right, the interested party argued that any threats of legal action sent to the alleged illegal propagator cannot be acted upon until the PBR is granted.

New Zealand model

Under the pre-grant enforcement provisions of the *New Zealand Plant Variety Act 1987*, PBR applicants are able to take proceedings under this Act before PBR is granted. Section 9 of the NZ Act reads:

1. Subject to subsection (2) of this section, on and after the day on which an application is made, the applicant shall have the same rights to take proceedings under this Act as if on that day a grant had been made to the applicant in respect of the variety concerned.
2. The rights conferred by subsection (1) of this section shall be deemed never to have been conferred if --
 - a) The application concerned is withdrawn or lapses; or
 - b) The Commissioner declines to make a grant in respect of that application.

The New Zealand PVR Office advises that, if rights are eventually refused, the provisional protection becomes *void ab inito*, i.e. was never of value and to be treated as invalid from the outset. Applicants who can readily identify the new variety and are reasonable certain that PVR will be granted, can be confident that effective legal action can be taken. If not, the wisest course of action may be to not commercialise the variety until its PVR status is finalised⁹⁸.

The New Zealand PVR Act does not provide for an indemnity bond to be paid by the PVR applicant when relying on provisional protection. However, Julie Ballance of Baldwins, commented to ACIP that the court could make an award for security for costs, which could be set at a rate to cover the alleged infringer's costs if the PVR is not granted⁹⁹. Karl Rogers of AJ Park, commented that courts may give decisions on meritorious cases without requiring any sort of bond, but in other cases may await the results of the PVR Office examination or require undertakings as to damages¹⁰⁰.

The New Zealand PVR Office believes it is widely understood that there is no meaningful difference between the rights provided by provisional protection and those

⁹⁸ *The Guide to Plant Variety Rights*, Plant Variety Rights Office, New Zealand, Part 15.

⁹⁹ Julie Ballance, Partner, Baldwins, Auckland, March 2008.

¹⁰⁰ Dr Karl Rogers, Senior Associate, AJ Park, Wellington, March 2008.

provided by grant. However, there have been no court actions relating to provisional protection. The New Zealand PVR Office considers that the lack of court action may indicate that this provision is an effective deterrent to using a variety while it is still under test, and that it is likely there have been out of court settlements¹⁰¹. Others speculate that PVR is simply not a litigious area¹⁰².

Robert Snoep of James & Wells Intellectual Property in New Zealand, commented to ACIP that while applicants appreciate having provisional rights, it is unknown whether the potential for proceedings to be instigated before a right is granted was a real deterrent to infringement¹⁰³:

For the potential infringing party I suspect that the real deterrent is not so much the risk of infringing a provisional right but the risk of making a bad name for themselves amongst the small plant breeding industry in NZ and the negative backlash that could result. I imagine that this negative backlash would be different in more aggressive/complex markets like USA, Europe and possibly Australia.

Mr Snoep had also heard anecdotal evidence of ‘bluff’ PVR applications being filed so as to force other breeders to discontinue their breeding program, or delay it for the duration of the examination process, due to the risk of infringing.

Mr Rogers also commented to ACIP that provisional rights are probably not useful to a large proportion of PVR applicants, but they were more significant for those with valuable varieties. He suspected that s.9 made little difference to an infringer at the time of infringement, as they do not consider the finer points of the law. However, once court proceedings are brought against them under s.9, this had a considerable deterrent effect on future infringement.

7.8.4 ACIP’s views

ACIP notes that the majority of submissions advocated that no changes be made to the pre-grant enforcement provisions. ACIP considers that amending s.39 to enable PBR applicants to undertake proceedings before PBR is granted would potentially have the advantage of discouraging the infringement of protected tree crops in the several years prior to grant, however the effectiveness of the New Zealand provision is not clear. Introducing pre-grant enforcement provisions would have the disadvantage of encouraging ‘bluff’ PBR applications to be filed and the potential to create uncertainty and delay research. It would also involve the normal costs involved in amending the law and industry learning and adjusting to the new system.

Recommendation 13.

No changes be made to the pre-grant enforcement provisions.

¹⁰¹ Assistant Commissioner, PVR Office, February 2008.

¹⁰² For example, Julie Balance, Partner, Baldwins, Auckland, March 2008.

¹⁰³ Robert Snoep, Partner, James & Wells Intellectual Property, Christchurch, March 2008.

PART C – PROCEDURE

Part C relates to those procedures that may assist the holders of Australian plant breeder’s rights to more effectively enforce their valid rights.

8 Federal Court

The terms of reference of this review make specific mention of whether any practices and procedures relating to the enforcement of PBR are appropriate to be referred to the Federal Magistrates Court (FMC). As a consequence ACIP’s Issues and Options Papers sought the views of interested parties on the prospect of the FMC hearing PBR matters. Since that time the Government has decided to merge the general law jurisdiction of the FMC into the Federal Court of Australia (FCA), as discussed below.

8.1 Current situation

At present, civil proceedings under the PBR Act may be commenced in the Federal Court of Australia (FCA) and are appealable to the High Court. As of July 2009, the Federal Court’s case management system had recorded only 13 proceedings (including two appeals) commenced under, or otherwise involving, the PBR and PVR Acts since 1987¹⁰⁴. Only four judgements have been issued. These low numbers are repeated in other jurisdictions¹⁰⁵, but may reflect the smaller number of rights granted compared with patents and trade marks. ACIP is only aware of one PBR case commenced under the Australian PVR or PBR Acts in which the validity of PBR itself was an issue¹⁰⁶.

The Federal Magistrates Court was established in 1999 to deal with a range of less complex federal disputes that would otherwise go to the FCA or Family Court of Australia. Its jurisdiction currently includes family law and child support, administrative law, bankruptcy, copyright, human rights, industrial law, privacy and trade practices. The FMC is directed to operate informally and to use streamlined procedures.

Both the FCA and FMC may issue Practice Notes or Directions to assist practitioners by setting out the standard practice to be followed in certain matters. Judges and magistrates still have discretion on these matters. Some relevant examples are:

- Search (Anton Piller) orders (FCA 2006). This sets out in detail the usual practice and provides an example order.

¹⁰⁴ Four of these proceedings were dealt with under the PVR Act and nine under the PBR Act. Two of the proceedings were consolidated as a single proceeding. Six matters were finalised within 6 months of filing, one matter within 12 months, four matters within 20 months, one matter within 4.5 years and one matter is pending at 20 months. Of the two matters that went to trial, one took 5 hearing days and the other 19 hearing days. Three of the matters that did not go to trial were resolved by consent following Court-annexed mediation.

¹⁰⁵ Llewelyn, M. and Adcock, M. (2006), *European plant intellectual property*, Hart Publishing, Oxford and Portland, Oregon. This states that it is difficult to pin firm conclusions about the operation of PBR in practice due to so few cases being heard.

¹⁰⁶ *Sun World Incorporated v Registrar, Plant Variety Rights* [1997] 924 FCA; (1997) 39 IPR 161. The issue was whether the Registrar was correct in refusing to grant a PBR. The court found that the Registrar was correct, as there was evidence of prior commercialisation of the variety.

- Discovery (FCA 1999). This emphasises that the phase of obtaining information before trial (discovery) is at the discretion of the court with a view to eliminating or reducing the burden of discovery.
- Assisted dispute resolution (FCA 1994). Parties may request mediation or the judge may suggest it at the directions hearing.

ACIP review of the jurisdiction of the FMC

ACIP recommended in its 2003 report, ‘*Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?*’ that the FMC jurisdiction should be extended to include patent, trade mark and design matters. ACIP considered that this would facilitate access to IP enforcement procedures as the FMC was reputed to produce a faster, cheaper alternative adjudication to the FCA system. FMC fees were significantly lower than corresponding FCA fees¹⁰⁷. In addition, it was considered that the FMC may provide a less complex and less intimidating environment for many IP right owners, thus providing an alternate avenue for those who would possibly not have pursued their dispute through the existing court processes. ACIP did not consider PBR in that report¹⁰⁸.

In April 2007, the Government responded to ACIP’s recommendations and agreed to extend the jurisdiction of the FMC to trade marks and design matters, but not to patent matters at this time. The Government’s reason for not including patent matters was that patent cases are generally longer and more complex than trade marks and designs cases. Therefore, accepting patent matters would run counter to the intention of the FMC as a high volume jurisdiction established to deal with simpler and shorter cases. However, the Government committed to re-considering the possibility of extending the jurisdiction of the FMC to patent matters, two years after the implementation of changes to the trade mark and designs legislation. These changes are yet to be implemented.

Government review of the FMC

In 2008, the Government reviewed the Federal Court system due to concerns about the administration of family law services by the Family Court and the Federal Magistrates Court¹⁰⁹. In May 2009 the Government announced that the Federal Courts will be restructured to be a more efficient and effective deliverer legal and justice services¹¹⁰. The changes to be made are:

- the FMC will be merged into new, lower divisions of the Family Court and the FCA;
- all family matters will be consolidated under the Family Court, and
- all general federal law matters will be consolidated under the FCA.

The restructured FCA will have two tiers which will operate as follows:

¹⁰⁷ For example, FMC fees for corporations for initial proceedings and setting down were \$546 and \$655, compared with \$1377 and \$2296 in the FCA. See Attachment C of the 2003 ACIP report.

¹⁰⁸ The Plant Breeder’s Rights Office was transferred to IP Australia from the Department of Agriculture, Fisheries & Forestry on 10 December 2004. ACIP’s review of the Federal Magistrates Service’s jurisdiction occurred before this transfer took place.

¹⁰⁹ *Improving access to justice – a better framework for federal courts*, Attorney-General’s Department, November 2008.

¹¹⁰ Robert McClelland, Attorney-General, *Rudd Government to reform federal courts*, Media Release 5 May 2009.

- appeals and other complex work will generally be heard in the first tier, with shorter, less complex matters redirected to the second tier;
- existing judges of the FCA will operate in the first tier;
- Federal Magistrates will operate in the second tier;
- Federal Magistrates appointed to the Federal Court will have expertise in general federal law matters and will continue to be named 'magistrates'.

The existing service culture, expeditious handling of matters and effective case management procedures of the FMC are to be maintained and enhanced in the second tier of the FCA. The Government review also noted that there needs to be a consistent approach to assessing whether cases should be sent back out to dispute resolution outside the Court to ensure court resources are not wasted on cases which have the potential to be resolved outside of the courts.

8.2 Concerns

Most submissions to ACIP argued that the prohibitively high cost of court actions was a major impediment to the effective enforcement of PBR. Many stakeholders supported extending the jurisdiction of the FMC to cover PBR matters if it could deliver on its potential for providing a quicker, cheaper and less intimidating forum than the FCA. CSIRO submitted that PBR litigation is typically somewhat less complex than patent litigation and therefore suited to a more accessible and lower cost forum.

The Plant Breeder's Rights Advisory Committee (PBRAC) believed that the FMC should have jurisdiction to hear PBR matters because any action that may facilitate legitimate litigation would be of benefit, as it would expand the body of case law and so help to bring certainty to all players involved in PBR. PBRAC also said that the expense and formality of the FCA may have discouraged people from litigating unless they believed they had a very strong case.

Some stakeholders suggested that it would be useful to have regulations in place in the FMC to simplify expert evidence procedures such as by proving infringement by the use of DNA profiling. For example, Benny Browne of Griffith Hack noted:

At present in the Federal Court before evidence of experiments can be tendered as evidence both sides have to agree on the methodology for conducting the experiment i.e. carrying out the DNA testing. Sometimes it is a costly and time consuming exercise to get an infringer to agree to the methodology proposed by the breeder for obvious reasons.

FICPI Australia made the point that, while the Magistrates of the FMC currently lack PBR expertise, they are highly skilled practitioners and FICPI was confident that they would quickly acquire the experience and skills to deal with PBR matters.

However, some of those who made submissions argued that simply transferring the jurisdiction of PBR to another court would not change practices or significantly reduce legal costs. Some highlighted that the highest cost in enforcement of PBR was incurred during the pre-trial phase of litigation (especially during discovery, where this occurred). Flemings Nurseries has stated that this phase can cost over \$500,000. This figure is based on the costs of DNA fingerprinting samples, serving a formal request for

inspection, getting a court order, conducting a property inspection, \$100,000 to start legal proceedings and \$45,000 in subsequent inspections and sampling¹¹¹. This suggests that, unless this phase can be curtailed, costs will be high regardless of which court is used.

Similarly, Benny Browne cautioned that litigators should not expect great costs savings or for actions to be resolved more quickly through the FMC than through the FCA. The cases will still be complex and the legal advisors will still have to do the same amount of work to an hour charge out rate time basis. Mr Browne also stated that if the jurisdiction of the FMC is extended to include PBR matters, the monetary jurisdiction level of the FMC may emerge as a relevant concern for potential litigators. For example, the monetary jurisdiction level of the FMC in Trade Practices cases is \$750,000 in damages. Given that PBR enforcement action can approach and exceed this amount, the FMC may not be the appropriate jurisdiction for some cases. Kathryn Adams of ACIPA suggested that the appropriate jurisdiction be determined by the level of damages sought.

Many submissions noted that they considered PBR to be a complex specialist area of the law requiring judges and mediators with specialist knowledge of PBR. CIOPORA said that the quality of a court's decisions was more important than its cost.

One submission suggested that extending the jurisdiction of the FMC to include PBR matters could simply add another layer of judicial decision-making. For example, if the judgement in the FMC is appealed the case may then proceed to the FCA in any case, leading to more costs and delay for litigants. However, this is not an issue because under s.25(1A) of the *Federal Court of Australia Act 1976*, appeals from the FMC to the FCA are to be heard by a Full Court, unless the Chief Justice considers that it is appropriate for the matter to be heard by a single Judge. This avoids the addition of another layer of appeal for most cases¹¹².

8.3 ACIP's views

Lower court fees, faster procedures and increased emphasis on alternate dispute resolution are proposed features of the second tier of the FCA. ACIP considers that these would assist PBR owners to enforce their rights, many of whom are small businesses with limited financial resources. Such a system would encourage more legal actions and so provide more court decisions and more guidance to users of the PBR system.

The FCA second tier is intended for less complex matters and some have argued that PBR matters, like patents, are too complicated for such a forum. However, ACIP considers that some PBR cases can be relatively simple and the PBR court cases to date show they may involve few challenges to the validity of the right, thereby reducing the length of proceedings¹¹³. ACIP is confident that the PBR expertise of magistrates would

¹¹¹ Graham Fleming, *Enforcing PBR – The Issues. A perspective from a Rights owner / licensee*, ACIPA Conference '20 years of plant breeder's rights in Australia', Canberra, 8 June 2007.

¹¹² Government response to ACIP's 2003 report on the FMC.

¹¹³ The reasons why the validity of PBR is rarely questioned may include the more extensive examination than that undertaken for a patent, purpose built legislation, clear criterion supported by specific rules for each technology i.e. genus and examiners who are in day-to-day contact with users.

be developed as required. ACIP concedes that, unless the pre-trial phase is curtailed, total costs will remain high for litigants. However, there is more chance of the pre-trial phase being reduced within the second tier of the FCA than the first tier. The second tier of the FCA may have a limit on the damages that can be sought, however ACIP believes that many cases would be of a lower level and those PBR owners who wish to seek higher damages can choose to commence action in the first tier. On balance ACIP considers that the proposed second tier of the FCA would provide an appropriate and effective forum for PBR matters.

ACIP also considers that there is scope for the court to issue practice directions or notes that simplify and standardise expert evidence procedures and methodologies for providing infringement, such as DNA testing. This system provides sufficient flexibility by enabling directions to be updated as required and leaving the final discretion to the individual judge or magistrate.

Recommendation 14.

The jurisdiction of the second tier of the Federal Court of Australia to include PBR matters.

Appropriately qualified magistrates must be made available and there should be appropriate measures taken to ensure the processes of the second tier are faster and cheaper than in the first tier. Examples include simplifying and standardising procedures for expert evidence and DNA testing through the issuing practice notes, use of alternate dispute resolution where appropriate, and curtailing of the discovery phase.

9 Alternate dispute resolution

9.1 Current situation

Alternative dispute resolution (ADR) is an umbrella term used to describe various ways of resolving disputes other than through litigation. The three broad categories of ADR are:

- facilitative (including negotiation, mediation, and conciliation);
- advisory (including mini-trials, early neutral evaluation and expert appraisal); and
- determinative (including arbitration, adjudication and expert determination).

Generally, mediation is a process in which a neutral third party, the mediator, assists two or more parties to help them to negotiate an agreement. Similarly, an expert appraisal is a non-binding decision by which both parties can agree to abide. Arbitration is a procedure in which a dispute is submitted, by agreement of the parties, to one or more arbitrators who make a binding decision on the dispute in the same way that a court makes a judgement.

In other areas of intellectual property, ADR schemes have been implemented or are being considered for the resolution of disputes. ADR systems may be part of the normal court process or operate outside them and may involve the above spectrum of approaches. Some of the advantages of mediation are:

- it can help find common ground and creative solutions;
- it allows those in dispute to have more control over the process;
- it can significantly reduce time and cost, and
- it can enable existing business relationships to be preserved.

Where arbitration has been agreed to, it has the additional advantages of a legally binding decision being made by an agreed expert in the field. However, there are times when mediation and arbitration may not be appropriate. For example, where:

- deliberate ‘bad-faith’ PBR infringement is involved;
- an urgent interim injunction is required;
- there are matters involving complicated issues that need detailed analysis;
- a party wishes to establish a legal precedent or achieve a public victory in court;
- it merely adds a further layer to the resolution of the dispute.

ACIP’s 2003 report, ‘*Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?*’ recommended that the FMC and the FCA encourage parties involved in IP disputes to take part in ADR processes in the early stages of the dispute process.

Some ADR processes already exist for PBR owners. For example:

- Under s53a of the Federal Court Act 1976, the Federal Court may refer the whole, or part of any proceeding to a mediator.
- The Institute of Arbitrators and Mediators Australia (IAMA) Dispute Resolution Service is available to Australia Seed Federation (ASF) members and customers

of ASF members in respect of Domestic Trade in Seed for Sowing Purposes and for the Management of Intellectual Property¹¹⁴.

- Various mediation and arbitration services are offered by other organisations, such as the Chartered Institute of Arbitrators Australia (CIArb)¹¹⁵ and the National Agricultural Commodities Marketing Association (NACMA)¹¹⁶.

9.2 Concerns

As discussed in Chapter 8.2, most submissions to ACIP argued that the prohibitively high cost of court actions was a major impediment to the effective enforcement of PBR. Overall there was qualified support for the application of ADR to plant variety rights disputes. Some believed that ADR is a sensible way to avoid unnecessary conflicts and that adequate opportunity already exists for ADR regarding PBR matters. PBRAC favoured mediation over arbitration, suggesting that arbitration can often be more expensive than litigation and not offer the flexibility that can come with mediation.

Many submissions highlighted the need for appropriate expertise in any mediation procedure or body. One submission suggested that the difficulty would be in finding such experts that have sufficient knowledge of the PBR Act and the relevant industry and who are not biased by any industry affiliations. The CIArb disputed that this would be a problem.

Some submissions noted that there were doubts about the effectiveness of ADR due to a lack of confidence in the enforcement of PBR under the Act. Pacific Seeds suggested that more court precedents were necessary to make mediation an effective tool by providing guidance and an incentive to mediate. Heritage Seeds' view was that ADR had little to offer:

[W]e have not seen this step [ADR] offer any benefit to industry, simply because the current Act remains unenforceable, whatever pathway toward a resolution. We do not know of any significant outcomes for breeders and promoters that have been achieved using arbitration.

Some submissions suggested that the application of ADR is unlikely to be effective due to the extent of wilful, flagrant and 'bad faith' infringement. It was believed that in such cases the mediation system may be used to further draw out resolution of the dispute.

¹¹⁴ The IAMA Dispute Resolution Service provides a two stage process, namely conciliation and arbitration. It was designed in conformity with State/Territory arbitration legislation and is claimed to be less expensive than the courts, has a timeframe for resolving disputes and is conducted by 'qualified' independent third party mediators. See <http://www.asf.asn.au>.

¹¹⁵ In August 2008, CIArb stated to ACIP that arbitration typically takes around 6 months but may be finalised in a matter of weeks, costs are low and quoted in advance, arbitrators with specialist knowledge are agreed on by the parties and very few cases proceed to the courts.

¹¹⁶ See http://www.nacma.com.au/__data/page/130/Dispute_Resolution_Rules_prior_17_Aug_07.pdf.

9.3 Options

DAFWA noted in regards to s43(a) of the *Federal Court Act 1975* that, due to the specialist nature of the PBR Act, it may be appropriate to have a specialist Registrar providing mediation services after parties have filed initial proceedings, but before commencement of the hearing. Benny Browne proposed the following sequence of events in enforcing PBR in the FMC:

What perhaps would happen is that immediately after an action has been instituted in the FMC and discovery has been completed, the FMC should send the matter to be mediated. The mediation should be referred to a panel consisting of two or three experts, one of which would have to be a lawyer. If mediation doesn’t settle the matter then the court proceedings can continue.

Similarly, ACIPA suggested that such a system of adjudication as provided through the Institute of Arbitrators and Mediators Australia (IAMA) could be ordered through the FMC, where the decision would be binding unless there was an error of law. The Victorian Farmers Federation (VFF) submission stated that growers are already familiar with the NACMA model and this may be an appropriate option.

The CIArb advocated that the PBR Act be amended to make arbitration compulsory before any court action could be taken, as this would ensure ‘bad faith’ infringers participate in the process and incur significantly reduced delays and costs compared with the court system. Others such as CIOPORA and ASF supported voluntary ADR because PBR owners needed to be able choose the course of action appropriate for them.

A large number of stakeholders supported the establishment of a register of mediators with PBR and plant breeding expertise who can assist with ADR processes. It was considered that this would enable experts to be identified quickly and make ADR more effective. DAFWA and others believed that IP Australia was best placed to maintain such a register as it already maintains a list of Qualified Persons to assist in PBR applications.

IP dispute resolution centre

Another option is that the Government establish a centre for managing a number of enforcement-related services for a number of IP rights, including PBR. WIPO’s Arbitration and Mediation Centre could be used as a model¹¹⁷. The services provided could include a validity and infringement opinion service, similar to that provided by the UK-IPO (see Chapter 7.7.2) and an enforcement resource. The necessary expertise could be provided by a panel of experts with suitable qualifications who are drawn on as required. Establishing ADR responsibility, resources and expertise within one central body has the potential to reduce the temporal, financial and informational issues facing IP owners as follows:

- it would provide PBR owners with a single point of initial contact when they want to enforce their right, making it easier to choose the most appropriate approach.

¹¹⁷ The WIPO Centre was established in 1994 to provide services for the resolution of disputes between private parties over IP rights. It provides advice, access to mediation, arbitration and expedited arbitration, rules on expert determination and workshops.

- it would enable efficiencies of scale, such as being able to draw on the single panel of experts for the different services on offer.

It may be appropriate for such a centre to be established within IP Australia because it would be able to provide considerable PBR expertise, PBR owners are already familiar with the organisation and some already have a perception that IP Australia should be involved when they wish to enforce their right. Such a centre may need to operate on a cost recovery basis as this would be consistent with the existing IP services offered by IP Australia and would minimise trivial use of the centre. An increasing number of governments around the world are offering these sorts of services. ACIP is currently considering whether such a service be established to assist in the enforcement of patents¹¹⁸.

IP Tribunal

A non-judicial tribunal which sits as needed could provide a determinative resolution process which is a quicker and cheaper alternative to court enforcement. Such a tribunal would not be a court and would not issue enforceable decisions, due to Constitutional constraints¹¹⁹. Any failure to comply with the determination of the tribunal would not amount to contempt of court and any subsequent litigation of the same matter in court would be a *de novo* review (ie. start afresh).

However, a tribunal could provide advisory determinations on disputes between private parties and parties could be encouraged to seek and accept its determinations. For example, the courts could be required to take into account the tribunal’s determination when awarding damages and/or costs in relation to the same matter. The courts could also be encouraged to refuse to award costs in favour of a successful plaintiff where the court concludes that the matter should have been brought before the tribunal. As discussed in Chapter 7.5.3, ACIP is currently considering the establishment of a Patent Tribunal as part of its review of post-grant patent enforcement strategies.

9.4 ACIP’s views

An IP right is only as valuable as its owner’s ability to enforce it. Legal action will always be an expensive option for PBR owners, many of whom are small entities with lower profit margins. ACIP believes that providing the proposed second tier of the FCA with jurisdiction over PBR matters and simplifying and streamlining the process (see Chapter 8.3, Recommendation 14) would provide significant benefits. However, ACIP expects that many of the high costs of court action would remain. The plant breeding industry may become less profitable and fewer new plant varieties will be developed without quicker and more affordable mechanisms for enforcement being made available.

ADR processes are potentially an effective alternative for many PBR owners. Some ADR processes are already available to PBR owners, however ACIP considers that

¹¹⁸ *Post-Grant Patent Enforcement Strategies Interim Report*, ACIP, August 2009. A final report is expected to be released around the end of 2009. See http://www.acip.gov.au/reviews.html#post_grant

¹¹⁹ It is unconstitutional to vest judicial power in a body unless it is a ‘court’ within the meaning of s 71 of the Constitution. Any court created by the Commonwealth Parliament must be staffed by judges whose tenure and remuneration are protected under s 72 of the Constitution. It is unconstitutional to vest s 71 courts with the power to discharge non-judicial functions.

these could be substantially enhanced and better tailored to the needs of users. Governments have traditionally left the enforcement of IP rights to IP owners and private industry. However, ACIP is of the view that the continuing significant difficulties IP owners have in this area mean that it is no longer appropriate for Government to maintain a passive role and that a more innovative approach is warranted.

ACIP considers that the IP Australia should facilitate ADR for parties in disputes through:

- making basic information on the ADR options available to PBR owners freely available, and
- establishing and maintaining a register of ADR service providers with PBR and plant breeding expertise.

If IP Australia establishes an IP dispute resolution centre as outlined above, and this proves to be successful in relation to patents, ACIP considers that its services should extend to PBR matters.

ACIP also believes that, if a Patent Tribunal is established and successful, consideration should be given to adopting a similar model for PBR matters (see Chapter 7.5.3).

Recommendation 15.

IP Australia facilitates ADR for parties in dispute by establishing, maintaining and making publicly available basic information on the ADR options available to PBR owners and a register of ADR service providers with PBR and plant breeding experience.

As part of its review of post-grant patent enforcement strategies, ACIP is currently considering the establishment of an IP dispute resolution centre. The centre envisaged by ACIP would provide mediation, appraisal and validity and infringement opinion services, delivered by experts drawn from a panel on a case-by-case basis. If such an IP dispute resolution centre is established for patents and proves successful, consideration should be given to extending its services to PBR matters.

The IP dispute resolution centre envisaged by ACIP would also provide non-binding determinative service through a Patent Tribunal. If a Patent Tribunal is established and proves successful, consideration should be given to extending its jurisdiction to PBR matters.

10 Criminal sanctions

10.1 Current situation

Enforcement of a PBR through the courts may be conducted through:

- civil actions initiated by the PBR owner (Part 5 of the PBR Act), and
- criminal actions initiated by the Crown (sections 74 and 75).

A person who infringes PBR may face both civil and criminal proceedings for infringement¹²⁰. However, for reasons explained below, enforcement is primarily the responsibility of the PBR owner.

Civil proceedings

The PBR owner can commence a civil action for infringement in the Federal Court of Australia. The remedies that the court may grant for infringement of PBR include an injunction ordering the person to stop the infringement and either damages or an account of profits to financially compensate the PBR owner for loss caused by the infringement. The burden of proof in civil actions is the ‘balance of probabilities’. The defendant in such an action may apply for revocation of the PBR¹²¹. In any of these proceedings, an appeal may be made to the Federal Court or, by special leave, to the High Court.

Criminal proceedings

The Australian Federal Police (AFP) has the jurisdiction to investigate crimes under the PBR Act. Cases brought to the AFP’s attention are evaluated in accordance with its Case Categorisation and Prioritisation Model¹²². This ensures that the AFP’s resources are directed to the matters of highest priority. The major elements considered are:

- the incident type, the impact of the matter on Australian society;
- the importance of the matter to both the client and the AFP in terms of the roles assigned to it by the Government, and
- the resources required by the AFP to undertake the matter.

Since 2004 there have been two PBR related referrals to the AFP and both matters were rejected. One matter was rejected due to resourcing difficulties and the other due to the complainant not furnishing, as requested, an economic loss statement, in respect of the allegations¹²³. The AFP has in recent years increased its investigation of crimes in relation to other IP rights, such as copyright and trade marks, in part due to alleged links with organised crime and an increase in its budget for such investigations.

The Commonwealth Director of Public Prosecutions (CDPP) is responsible for prosecuting offences against Commonwealth law, including PBR matters, where these have been investigated by an agency such as the AFP. Under s.74 and 75 of the PBR Act, the CDPP may take criminal action for those acts of infringement outlined in Chapter 6.5 (sections 11 to 15 of the Act) and for the making of false statements and representations regarding a PBR. The burden of proof in criminal actions is the higher

¹²⁰ Section 74(2).

¹²¹ Section 54.

¹²² *Case Categorisation and Prioritisation Model (CCPM)*, AFP, 24 October 2006. See

http://afp.gov.au/services/operational_priorities.html

¹²³ AFP submission to ACIP’s *A review of Plant Breeder’s Rights - Options Paper*, June 2008.

threshold of ‘beyond reasonable doubt’. A criminal conviction for infringement can result in fines of up to \$55,000 for individuals and up to \$275,000 for companies. The criminal penalties for PBR infringements were introduced in the 1994 Act in response to concerns over the costs and difficulties of enforcing rights under the 1987 PVR Act. Such penalties could act as further discouragement for those contemplating infringing PBR.

Where legislation allows a choice between criminal and non-criminal enforcement, regulators usually seek criminal penalties as a last resort and only for the most serious offences. Criminal prosecutions are generally regarded as the ultimate deterrent due to the persuasive threat of imprisonment (where available), the stigma of a criminal conviction, and the publicity attracted by public trials. Decisions by the CDPP to initiate criminal proceedings are made in accordance with its Prosecution Policy¹²⁴. A two-stage test must be satisfied:

1. There must be sufficient evidence to prosecute the case. The CDPP must be satisfied that there is *prima facie*¹²⁵ evidence of the elements of the offence and a reasonable prospect of obtaining a conviction. Relevant matters include the availability and credibility of witnesses and the admissibility of the evidence.
2. It must be evident from the facts of the case, and all the surrounding circumstances, that the prosecution would be in the public interest. Relevant factors include the seriousness of the offence, any mitigating circumstances, the alleged offender’s history, the availability of alternatives to prosecution and the need for deterrence.

In two briefs referred to the CDPP the available evidence has been insufficient, leading to an assessment that charges are unavailable¹²⁶.

10.2 Concerns

Many submissions received by ACIP felt that a successful PBR criminal case is required to provide a strong deterrent to PBR infringement:

In the current climate of total lack of confidence in the Act by grantees in the agriculture sector, the prosecution and imposition of criminal sanctions in 1 or 2 high profile cases would be seen as a positive step to “get the message across” (Pacific Seeds).

However, DAFWA and others suggested that criminal sanctions would not provide the solution to the problem, given the higher burden of proof required to prove infringement and difficulties in obtaining such evidence:

...the Federal Police want official notification to launch an investigation...this is not going to happen with the current closed community situation. A criminal investigation would require the support of other community members, or their willingness to give evidence. Even without the closed community issue, it is unlikely many people will be willing to be involved in a police investigation... [I]nvolvement of the Federal Police would generate considerable bad will towards the relevant breeder, as seeking to lay

¹²⁴ *Prosecution Policy of the Commonwealth*, CDPP, November 2008. See <http://www.cdpp.gov.au/Publications/ProsecutionPolicy/>

¹²⁵ On the face of the matter.

¹²⁶ CDPP submission to ACIP’s *A review of Plant Breeder’s Rights - Options Paper*, July 2008.

criminal charges would be seen as an unfair overreaction to the actions of a small business.

Evidence was provided to ACIP of the AFP declining to investigate PBR matters. In response to a particular request¹²⁷ to investigate an alleged breach of the PBR Act, the AFP replied to the PBR owner that the number of reported offences against Commonwealth laws far exceeds the capacity of the AFP to investigate. The AFP stated that it must ensure that its limited resources are directed to matters of the highest priority. Due to competing operational priorities within the region, the AFP was unable to devote resources to the complaint. The AFP suggested that civil proceedings be considered. In response to having the matter drawn to his attention, the then Minister for Justice and Customs, Senator the Hon. Chris Ellison, said that while there appeared to be evidence of alleged breaches of the Act, he was advised that competing operational priorities was the reason for not investigating the matter further. Senator Ellison recommended that, should there be evidence that infringements continue after civil proceedings have been pursued, this should be referred to the AFP for evaluation.

The CDPP argued that the challenges of successfully prosecuting offences under the PBR Act are similar to those faced in prosecuting numerous other Commonwealth offences, but welcomed discussing prosecution under the PBR Act with the PBR Office.

Some claimed that there was no justification for spending public resources on what is essentially a private right. For instance:

...scarce public resources should not be spent on enforcing a private commercial right that already [has] civil provisions. (Organic Cotton Advantage)

Some submissions also inferred that, if the PBR Act could sufficiently support civil action, criminal sanctions may not be required.

10.3 Options

A large number of stakeholders supported lobbying the AFP and CDPP to give PBR cases a higher priority, at least equal to other IP matters. It could be argued that PBR is a special case because of the following issues:

- it may be more common in PBR cases that a rights owner alleges that infringement has been committed by one of its own customers, such as a grower who purchases PBR protected varieties, and this is more awkward to litigate than for a competitor;
- the marginal profitability in some sectors of the plant breeding industry makes civil actions out of reach for many and increases the financial impact of offences;
- an apparent lack of compliance and the need for deterrence, and
- the criminal actions provisions of the PBR Act are still untested.

FICPI Australia suggested that the PBR industry may need to lobby the Government persistently to have more PBR cases prosecuted, perhaps through a peak body. The Law Council of Australia suggested that, even if the AFP and CDPP were to pursue more

¹²⁷ The party involved wishes its identity to remain confidential.

PBR cases, the reluctance of PBR owners to harm business relationships with customers will still exist.

Benny Browne suggested that criminal proceedings may be more effective if the burden of proof was lowered to the balance of probabilities. Mr Browne also queried whether PBR infringements could be brought under the jurisdiction of the State Police, however most stakeholders did not support this approach as State authorities would have similar resource limitations. The ASF believed there may be some merit in enabling a quick and local response to an alleged breach, such as the “stock squads” which reportedly have been supported by farmers to investigate the theft of stock. Other suggestions included another body conducting the initial investigation and delivering the report to the AFP and an appropriate person having the power to issue on-the-spot fines.

Australian Agricultural Crop Technologies, McCullough Robertson Lawyers and a few other stakeholders believed that criminal sanctions can not be relied upon because the AFP and CDPP will not have the resources to pursue PBR cases. NSWFA and VFF argued that this was appropriate and that clarification of the law, good communication and better education were preferable options to litigation.

10.4 ACIP’s views

The high costs of undertaking legal action and the difficulties in obtaining evidence (see Chapter 11) are strong impediments to PBR owners being able to enforce their rights through civil actions. For many PBR owners, investigations by the AFP and criminal actions prosecuted by the CDPP offer the best chance of them enforcing their rights. ACIP appreciates that the AFP and CDPP treat PBR matters no differently to any other matter and that all cases are assessed against the respective guidelines. However, ACIP considers that there is value in IP Australia discussing with the AFP and CDPP the special nature of PBR matters which should be taken into account when assessing cases against the guidelines, and the need for prosecutions to occur where there is evidence of blatant and/or repeated infringement.

ACIP considers there is little benefit in extending the jurisdiction of the State authorities to include PBR matters. There may be potential advantages in having a more local authority involved, however ACIP believes that competing resources and priorities would result in few investigations and prosecutions taking place.

Recommendation 16.

IP Australia to liaise with the AFP and CDPP with a view to increasing the number of investigations and prosecutions of PBR cases due to the special circumstances (including the marginal profitability of some sectors and an apparent widespread lack of compliance) that exist in the plant breeding industry.

PART D – EVIDENCE / REMEDIES

Part D concerns remedies that may assist owners of Australian plant breeder’s rights to more effectively enforce valid rights.

11 Acquisition of evidence

11.1 Current situation

The following are the three options PBR owners currently have for obtaining evidence of infringement prior to instigating a proceeding in court.

Anton Piller orders

A PBR owner may seek an Anton Piller order from a court. This is a search order that permits a plaintiff and its solicitor to inspect the defendant’s premises and to seize or copy any information that is relevant to the alleged infringement. Applications for search orders are made to a judge. As the order aims to ensure that evidence is not destroyed, the application is made without giving notice to the other party.

Given the potentially draconian nature of such an order, it will only be made if the matter is urgent or otherwise desirable in the interests of justice. Before an order will be granted, the courts require plaintiffs to show that they have a strong *prima facie* case of infringement and that the potential damage to them is very serious. The plaintiff must also provide clear evidence that the defendant has incriminating material in its possession and that there is a real possibility that the evidence will be destroyed. The search order is subject to a number of procedural safeguards. Failure to comply with an order is a contempt of court, which may result in imprisonment or a fine.

Private contract

A PBR owner conducting business with another party may use a contract to stipulate the PBR owner’s right to inspect the property of the other party. Contracts can generally only facilitate inspection of the plants obtained under the contract, however according to PBRAC there is a growing use of contracts that allow the PBR owner to inspect all relevant plants, regardless of their origin¹²⁸.

Federal Court Order 15A

Federal Court Rules Order 15A sets out the rules that operate for preliminary discovery and discovery from a non-party to a proceeding.

Rule 6 provides that a first person (the applicant) who does not have enough information to know whether to commence a proceeding in the court against another person may apply for an Order for that person to provide any document that would assist the applicant to decide whether he or she has the right to obtain relief. The applicant must have made all reasonable inquiries to obtain sufficient information and there must be reasonable cause to believe that the person has or is likely to have possession of such a document. In the hearing of the application the potential defendant may contest the facts

¹²⁸ PBRAC submission to ACIP’s Options Paper, pg 15.

of the application through cross examination or by filing an affidavit in opposition. The costs of an order are usually at the discretion of the court.

The FCA Rules define a document to include any record of information that is a document within the definition contained in the *Evidence Act 1995*¹²⁹ and any other material data or information stored or recorded by mechanical or electronic means. This does not appear to include plant material.

Orders under Rule 6 were devised to avoid speculative proceedings and are available for persons who have not commenced any relevant proceedings in the court. Such orders are of a ‘fishing’ nature by design, but there is a limit on this. An order should only be made when it is reasonably necessary for the proper administration of justice because it involves a serious invasion of privacy and confidentiality before it is clear there is an issue to litigate between the parties. The applicant is not required to show a *prima facie* case or that there is a likelihood that relief can be obtained against the respondent. However, it is not sufficient for the applicant to merely express a belief that there is or may be a right to obtain relief. “Reasonable enquiries” by the applicant to obtain sufficient information would usually require enquiries of the respondent, but this is not mandatory¹³⁰.

Rule 12 provides that the court may make an order for the inspection, preservation, custody and detention of property that relates to the subject matter of proceedings, and the taking of samples from or carrying out experiments on such property. This would include plant material. However, Rule 12 can only be applied once proceedings have been instigated.

11.2 Concerns

Many submissions from breeders raised serious concerns about the difficulties of obtaining evidence to support a successful defence against alleged infringement. For example,

Evidence collection constraints are the single greatest impediment to effective legal redress (DAFWA).

Inability to collect evidence is a major problem and is probably the ‘bottleneck’ in not being able to pursue PBR breaches in Australia (ASF).

Knowing what constitutes sufficient and acceptable evidence and who/how to collect it is a major constraint. Developing guideline judgements in relation to PBR offences including advice about appropriate levels and types of evidence would provide some confidence to grantees, and indicate to potential infringers the likely consequences. (Pacific Seeds)

Key reasons identified as causing difficulties in obtaining sufficient evidence included:

¹²⁹ In the *Evidence Act 1995* ‘document’ is defined as any record of information and includes (a) anything on which there is writing; or (b) anything on which there are marks, figures, symbols or perforations having a meaning for persons qualified to interpret them; or (c) anything from which sounds, images or writings can be reproduced with or without the aid of anything else; or (d) a map, plan, drawing or photograph. ‘Document’ also means any part or copy of a document.

¹³⁰ Bailey, D.L. and Evans, E.K. *Discovery & Interrogatories*, LexisNexis, 1997 as updated, Discovery Prior to Commencement of Proceedings.

- constraints on entering the private property of growers with whom there is no contract.
- reluctance of third parties to give evidence or assistance.
- concerns about possible adverse business consequences, such as souring existing business relationships.

Anton Piller Orders

Many submissions confirmed that the Anton Piller order is too onerous to obtain, too costly¹³¹ and impractical to be of much use in the plant breeding industry. Reasons included:

- In many cases, PBR owners do not have a strong *prima facie* proof of infringement.
- Anton Piller orders cannot be obtained when the crop is not under threat of destruction and evidence of such a threat is rarely available¹³².
- Evidence of past infringement activity is not taken into account when applying for an Anton Piller order.
- In close rural communities third parties are reluctant to provide details of any perpetrators breaching PBR, as this would harm their business and/or social relationship with the perpetrators. This makes it difficult to build a strong *prima facie* case.
- Anton Piller orders incur significant costs and so are not suited to an industry which may have marginal and/or irregular profits. One estimate reported to ACIP was \$8,000 to \$10,000 to secure an order.

Inspection orders through contract

ACIP was informed by parties in the horticultural and nursery sectors that, under the current regime, if a PBR owner wants to inspect a farm then it must rely on the provisions of a licence/non-propagation agreement that allows for inspections. If an alleged infringer refuses to allow inspections, this forces the PBR owner to go to court to enforce its contractual rights and get an inspection order, making it difficult to obtain evidence quickly. In addition to the constraint of access to evidence, many alleged infringers have no commercial dealings with the breeder/licensee and are highly unlikely to do so in the future. In the absence of a contractual agreement, there is no realistic opportunity for breeders to inspect properties. Bywong Nurseries said that if the offender learns of the PBR owner’s interest in collecting evidence, there is unlikely to be any to collect when the PBR owner arrives.

Federal Court Order 15A

FCA Order 15A Rule 6 was not discussed in ACIP’s Options Paper and none of those who made submissions commented on its usefulness from the perspective of a PBR owner or alleged infringer. The Law Council of Australia highlighted that Rules 6 and 12 were alternatives which are available to PBR owners. ACIP is unaware of any PBR owners who have made use of these provisions. ACIP also notes that Rule 12 only applies where legal proceedings have commenced.

¹³¹ Some confidential submissions provided details of the practical steps, costs and risks in the Anton Piller process.

¹³² For example, BSES Limited said ‘It is unlikely that Anton Piller orders would be issued in the Australian sugarcane industry because sugarcane is a perennial crop and is only ploughed out once every 5-6 years. Therefore, sugarcane is unlikely to satisfy a requirement for granting an Anton Piller order that evidence be destroyed.’

11.3 Options

PBRAC drew attention to the role played by Plant Variety Protection Advisers at the Japanese National Centre for Seeds and Seedlings (NCSS), the government agency that inspects, registers and produces seeds. These advisers are experienced in PBR and the requirements for variety registration. Although these advisers have no investigative authority, PBRAC said they assist applicants to collect and secure information relating to potential infringements¹³³.

It was suggested to ACIP that a statutory requirement to permit inspection of properties and/or obtain information concerning plant parentage, subject to the protection of the legitimate interests of third parties, may facilitate more effective enforcement. Some submissions argued that, for enforcement to be possible, the onus of proof should be reversed and plant variety users should be required to disprove infringement had taken place. The Law Council of Australia noted that a precedent for this existed in s.121A of the *Patents Act 1990*. This provision effectively reverses the onus of proof in certain circumstances in order to overcome the difficulties of obtaining evidence of infringement of process patents¹³⁴. However, others argued strongly against reversing the onus of proof and believed it would lead to resentment on behalf of growers. For example, the Victorian Farmers Federation said:

Under no possible circumstance should there be a presumption of guilt. Presumption of guilt is unfair, unethical, and contrary to every fibre of the judicial system. Also, provisions to allow entry on to private property will be giving too many rights to the breeders [and] can easily lead to an abuse of power.

Two foreign systems of obtaining evidence for initiating infringement proceedings are the UK Information Notice and the French *Saisie Contrefaçon*. A brief description of the framework of these actions follows.

United Kingdom Information Notice

Under sections 14 and 15 of the UK *Plant Varieties Act 1998*, if a PBR owner suspects an infringement and has not commenced infringement proceedings, an information notice seeking confirmation of the source of the harvested material and products made from harvested material may be served by the PBR owner on a suspected infringer. If the suspected infringer does not provide the information within 21 days, infringement proceedings may begin and, unless the suspected infringer can prove to the contrary or demonstrate a reasonable excuse for not supplying the information, it is presumed by the courts that:

- the material was obtained through unauthorised use of propagating material and

¹³³ See *Plant Variety Protection Advisers*, [http://www.ncss.go.jp/main_e/functions/PVP_G-menHP\(En\).htm](http://www.ncss.go.jp/main_e/functions/PVP_G-menHP(En).htm)

¹³⁴ S.121A provides that, if during proceedings the defendant alleges that he or she has used a process different to the patented process to obtain an identical product, and the court is satisfied that it is very likely that the defendant’s product was made by the patented process, and the patentee has taken reasonable steps to ascertain the process actually used but has not been able to, then in the absence of proof to the contrary, the defendant’s product is to be taken to have been obtained from the patented process.

- the PBR owner did not have a reasonable opportunity to exercise its rights in relation to the material.

It is for the Courts to determine what constitutes a 'reasonable excuse' for not supplying the information. However, it is envisaged, for example, that a person who can show that he or she has lost all relevant records in a fire would have a reasonable excuse. It is not envisaged that a person could, for example, claim commercial confidentiality as an excuse for failing to comply with an information notice¹³⁵. There does not appear to be a specific penalty under the *Plant Varieties Act 1998* for the provision of incorrect information in response to an information notice.

The notice must be in the prescribed form and contain three parts¹³⁶:

1. the 'prescribed particulars', including details of the protected variety, the PBR owner and the date the notice was served,
2. the 'specified material' to which the notice relates, and
3. the 'prescribed information' that the recipient must supply, including the recipient's details, the source of the specified material, date the material was acquired and the size of the consignment the material formed part of.

Where a PBR owner obtains information pursuant to an information notice, the PBR owner owes an obligation of confidence to the person who supplies that information. However, information may be disclosed for the purposes of establishing whether PBR have been infringed or as part of any PBR infringement proceedings.

According to Penny Maplestone, CEO of the British Society of Plant Breeder's, the UK information notice system is little used by PBR owners', if at all¹³⁷:

[The information notice] is most relevant where a breeder has not had opportunity to exercise his rights and this situation is almost non-existent in our UK system. We use specific farm saved seed regulations to enforce the return of information relating to FSS use, not the information notice under PBR and the certified system is well controlled through licensing.

Under the UK *PVR Act 1997*, the farm saved seed exemption follows the European approach and is limited to prescribed species or groups. Farmers who use farm saved seed of a protected variety are liable to pay the holder of rights equitable remuneration, which is "sensibly lower" than the amount charged for the purchase of propagating material of the variety with the holder's authority in the same area. Small farmers are exempt from the requirement to pay for the use of farm saved seed. The Regulations prescribe the information plant breeders must give to farmers and seed processors and which farmers and seed processors must give to plant breeders for the purpose of this section¹³⁸. As discussed in Chapter 7.3, farmer's privilege in Australia is broader and less regulated.

¹³⁵ Department for Environment, Food and Rural Affairs, *Guide to the Plant Varieties Act 1997*, 2005, pg 40.

¹³⁶ *Plant Breeders' Rights (Information Notices) Regulations 1998*, regulation 3.

¹³⁷ Email to ACIP, October 2008.

¹³⁸ Department for Environment, Food and Rural Affairs, *Guide to the Plant Varieties Act 1997*, 2005, pg 27.

There was considerable support in submissions to ACIP for the UK Information Notice system to be introduced in Australia. Some stakeholders suggested that the initial notice be based on *prima facie* evidence so as to prevent abuse of the system. Grandiflora Nurseries advocated that the PBRO issue the notice so as to create a body between the PBR owner and its customer and to encourage ADR. Another suggestion was to provide PBR owners with a right of inspection and collection of samples if the suspected infringer did not respond to the notice within a required time.

Some stakeholders were opposed to the system because it was based on a presumption of guilt.

French *Saisie Contrefaçon*

In France, a *saisie* order may be used in relation to a range of IP rights, including PBR, patents and trade marks. Specific provisions exist for its application to PBR. A *saisie* order may be used by a PBR owner to secure evidence prior to proceedings or to provide proof for infringement proceedings that have been initiated. If an order is granted prior to proceedings, the applicant must file an action within 15 days from the date of the seizure, otherwise the *saisie* is void.

There are two types of *saisie* order - a *saisie descriptive* which is an order to allow inspection of the described material, and a *saisie-réelle* which is an order to allow seizure of the material.

A PBR owner or applicant may submit a request for a *saisie* order to the President of the Tribunal de Grand Instance (TGI) of the place of alleged infringement. An order will only be issued based on a PBR application if a copy of the application has been served on the alleged infringer and he/she continues with infringing activities. The request must include a precise description of the plant material and the name of the alleged infringer or, if this is unknown, a description of where the material may be found.

The President of the TGI cannot refuse a request for a *saisie* order if the applicant fulfils the formal requirements, but can limit its application to certain material or require a deposit equal in value to the material to be seized. The applicant also may need to provide a bond in case the order is annulled or declared abusive, or if the infringement action fails.

A *saisie* is carried out by a bailiff who may be accompanied by a representative of the police or one or more experts chosen by the plaintiff. If material is seized, the bailiff must deposit samples with a person who has been chosen by the court to keep the material alive. Documentation may also be seized if it contains information about the origin of the alleged infringing material and the extent of the alleged infringement.

Any person may file a *demand en rétractation* which limits or reverses the order. *Saisie* orders may be considered abusive if, for example, they are exerted under excessive conditions and, as a consequence, compensation may be awarded. However, such an eventuality would not affect the infringement proceedings.

At this stage ACIP is unaware of any French reviews or industry opinions on the effectiveness of the French system.

Several submissions to ACIP supported the introduction of a similar system in Australia, perhaps in combination with the UK system. For example, Australian Grain Technologies said:

AGT supports both [UK and French] options...that would allow PBR owners to act in a rapid manner, without the need for obtaining a court order, to enter the suspected infringer's property and seize sample evidence while under the guidance of a legal officer.

The Law Council argued that the French *saisie* order added little, if anything, to the procedures already available under the FCA Rules. There was also some strong opposition on the grounds that it was too draconian. For example, the VFF said:

The French *saisie* order appears draconian and could lead to abuses of power. There are also concerns regarding the implications of unrestricted rights to enter a farm property. Biosecurity and work place safety requirements are just two of the reasons of being careful about others entering a property.

11.4 ACIP's views

It is clear to ACIP that it is difficult for PBR owners to collect evidence of infringement and this is one of the major impediments to the enforcement of PBR. The stringent requirements of Anton Piller orders make them too difficult to obtain for most PBR owners. FCA Order 15A Rule 6 enables documents to be obtained, but not the plants or samples of plants, which are more important pieces of evidence. Order 15A Rule 12 enables the taking of property and samples and the conducting of experiments, but is only available once legal proceedings have commenced. As discussed in Chapter 8, the costs of legal action are prohibitive for many PBR owners.

The Notice system is apparently little used in the UK. However, this seems to be because the UK farmer's privilege system provides PBR owners with significantly more information and control over protected propagating material than does farmer's privilege in Australia. The Notice system does not enable PBR owners to take samples nor prevent growers from taking steps to hide infringing plants. However, it does place the burden of proof on a suspected infringer and provide a significant deterrent to infringing behaviour. A Notice system has the potential to place an unreasonable administrative burden on growers, who could be required to keep extensive records of the source of all the plant materials they obtain. However, this can be minimised by not requiring growers to supply the information if they can demonstrate a reasonable excuse. A Notice system also has the potential problem of the PBR owner not being able to ascertain the accuracy of the information provided in response to an information notice. If the knowing provision of incorrect information would not constitute a breach of trade practices legislation, then a specific penalty for such an act may be required under the PBR Act.

ACIP considers that an Information Notice system similar to that in the UK should be introduced into Australia. Such a system would provide PBR owners with a useful and practical alternative to collecting evidence and balance the legitimate interests of PBR owners and growers.

ACIP considers that the key features of the new Information Notice system would be as follows. If a PBR owner has reasonable cause to believe infringement has or is occurring and has not commenced infringement proceedings, under the PBR Act the PBR owner may serve on the suspected infringer a prescribed notice seeking confirmation of the source of the harvested material and products made from harvested material. If the suspected infringer does not provide the information within a certain period, infringement proceedings may begin and, unless the suspected infringer can demonstrate a reasonable excuse for not supplying the information, it is presumed that the material was obtained through unauthorised use of propagating material and that the PBR owner did not have a reasonable opportunity to exercise its rights in relation to the material.

The main advantage of the French *siasie contrafacon* system is that it provides PBR owners with the ability to obtain samples. However, ACIP considers that the system is too draconian and does not adequately balance the legitimate interests of growers.

Recommendation 17.

Introduce an Information Notice system into the PBR Act based on the UK Information Notice system.

This would enable PBR owners to obtain information from suspected infringers on the source of plant material. Where this is not supplied within a reasonable time, legal proceedings may be commenced in which the presumption is made that the plant material was obtained through unauthorised use of propagating material and that the PBR owner did not have a reasonable opportunity to exercise its rights in relation to the material.

12 Import and export

12.1 Current situation

Australian Customs and Border Protection Service

The Australian Customs and Border Protection Service (Customs) manages the security and integrity of Australia's borders. It works closely with other government agencies, including the Australian Federal Police and the Australian Quarantine and Inspection Service, to detect and deter unlawful movement of goods and people across the border.

Imports

Under various IP legislation¹³⁹, upon receiving a notice of objection from an IP owner or licensed user, Customs has the power to seize imported goods that allegedly infringe copyright, trade marks and protected Olympic expressions. Customs does not have similar powers in relation to patents or plant breeder's rights. However, PBR owners who have commenced an infringement action in the courts can seek an injunction from the court requiring Customs to suspend the release of an imported consignment containing suspected infringing goods.

For example, for Customs to seize imported goods that allegedly infringe trade marks, the trade mark owner must lodge with Customs:

- a notice of objection to importation setting out the nature of the IP owned and
- a written undertaking, or paid security, to repay Customs seizure expenses.

The Notice must be renewed every four years. The undertaking covers Customs' costs and any liability it might incur to an importer as a consequence of any seizure. Customs officers will seize and store any goods that have a trade mark or brand that is substantially the same as the notified trade mark. Customs will notify the importer and the trade mark owner of any seizures. Customs will release the goods to the importer if, within 10 days, the trade mark owner does not initiate legal proceedings against the importer and obtain an appropriate order from a court. The importer of any seized goods may, at any time before an objector initiates an action for infringement in respect of the goods, consent to the goods being forfeited to the Commonwealth.

Exports

Customs does not have specific powers under the various IP legislation to seize exported goods that allegedly infringe PBR or other IP rights. However, as for imported goods above, PBR owners who have commenced an infringement action can seek an injunction from the court requiring Customs to suspend the release of an exported consignment of goods.

¹³⁹ *Copyright Act 1968*, s.135; *Trade Marks Act 1995*, Part 13; *Olympic Insignia Protection Act 1987*, Part 3.4 Division 2; *Sydney 2000 Games (Indicia and Images) Protection Act 1996*, Division 2.

Australian Quarantine Inspection Service

The Australian Quarantines and Inspection Service (AQIS) is the government agency within the Department of Agriculture, Fisheries and Forestry that manages quarantine controls at Australian borders to minimise the risk of exotic pests and diseases entering the country and provides import and export inspection and certification so as to safeguard the health of Australia’s people, animals and plants.

Imports and Exports

The import and export of plants or plant products requires the completion of various forms and, in most cases, a phytosanitary certificate¹⁴⁰. Some information on plant varieties may be provided on such documents, however this is not always mandatory. If the plant variety is identified, appropriate evidence in support of this may be required.

Access to information

Any variety information provided on phytosanitary certificates or other AQIS documents can be obtained under freedom of information laws (FOI). The main reasons for not releasing information under FOI are that the release of the document would:

- breach privacy by identifying a natural person, or
- impact negatively on the business interests of the party¹⁴¹.

AQIS does receive FOI requests from PBR owners who are concerned that their protected variety is being imported or exported without a license. However, in general FOI is not a quick process and can be costly. ACIP notes that there is case law to support a person who has been wronged (for example, the owner of an infringed IP right) to have the identities of the wrongdoers provided to them by a person involved in the wrongdoing (for example, a government agency)¹⁴². This may provide PBR owners with another avenue to obtain information from AQIS on the identity of infringing importers or exporters.

¹⁴⁰ Phytosanitary certificates are used to certify that plants or plant products have been inspected and are considered to be free from quarantine pests and conform with the current phytosanitary regulations of the importing country. Phytosanitary certificates are required for all exports of plant material but not for all imports of plant materials.

¹⁴¹ Information provided by DAFF to ACIP, October 2008.

¹⁴² In the UK case *Norwich Pharmacal Co. v The Commissioners of Customs and Excise* [1974] RPC 101, Norwich Pharmacal was the exclusive licensee of a patent for a chemical compound. Unlicensed consignments of the compound were imported into the UK and constituted infringements of the patent. Customs and Excise had records of the identity of the importers. Norwich brought a claim against Customs for an order for disclosure of the names and addresses of the importers, the quantities and other relevant documentation. Customs objected to producing the documents because they contained confidential information and disclosing this would be injurious to the public interest. The judge granted the order for disclosure and Customs appealed to the House of Lords. The House of Lords found that a person ‘involved’ in a wrong doing (innocently or not) is obliged in equity to disclose the identities of the wrongdoers to the person wronged. However, equitable obligation does not extend to an innocent ‘bystander’.

12.2 Concerns

A small number of submissions identified the lack of Customs seizure provisions in the PBR Act as a weakness in the legislation. Grandiflora Nurseries' submission stressed the importance of catching infringement at the border and questioned why PBR, unlike other kinds of intellectual property protection, does not have Customs seizure provisions.

This area would be the largest area of loss that is sustained by the breeders that we act as agents for. ...The amount of damage to the breeders far exceed the concerns of the local market as they see the need to prevent the end sale markets such as Australia, Japan, Europe, USA etc of varieties grown on a mass scale in countries like India and China that have not paid the breeder their royalties. It makes no sense to me that customs can make a seizure of product for all areas of Intellectual property with the exception of PBR.

Grandiflora Nurseries also indicated that although the volume of flower production in Australia is relatively stagnant, consumption of flowers in Australia, in particular roses, is going up. This suggested that greater importation of cut flowers would result in an increased volume of infringing material being imported.

CIOPORA stated in their submission that s.11 of the PBR Act provides the title holder with an import/export right and that he/she should be able to enforce these rights. CIOPORA highlighted that, in the European Community, holders of Community Plant Variety Right titles have been able to apply for Customs action since 2004. CIOPORA also claimed that during the past three years, several successful Customs actions against the illegal importation of plant material (mainly cut flowers and fruit) have taken place and that the Customs provisions have proven to be an effective tool for the enforcement of PBR.

However, Customs identified the following difficulties in any seizure of plant material:

- Customs would need to risk assess approximately 60 000 lines of imports of plant material each year, requiring significant resources;
- Identification of plant material requires specialised knowledge which would be potentially onerous for Customs to acquire and maintain;
- The perishable nature of plant material would not enable goods to be detained for extended periods and raises the issue of compensation for spoiled goods;
- Disposal of plant material raises issues such as quarantine risk; and
- Responsibility for costs.

For these reasons Customs argued that it would be impractical for it to operate a notice system for PBR similar to that in place for trade marks. Customs proposed that, instead of PBR owners supplying it with the names of businesses or individuals importing infringing material, this information could instead be provided to a court when an owner was seeking an injunction directed at Customs.

12.3 Options

Imports

PBRAC and others supported a system for seizing suspected unauthorised imports of PBR protected material at the border based on the notification system used for trade marks and copyright. It was also suggested that such a system may require the involvement of PBR owners providing DNA samples and identifying markers as part of a notice of objection scheme.

Due to the difficulties in identifying, intercepting and storing suspected infringing material at the border, Customs suggested that an alternative approach may be to have authorised officers with the necessary qualifications undertake post-importation examinations and audits. During consultations it was suggested that an expert in roses could readily identify rose varieties on appearance characteristics. Roses constitute the vast majority of imported cut flowers. The ease of varietal identification for roses may not be true for other species of cut flowers imported into Australia.

Customs also suggested as an alternative a regime similar to the Infringement Notice Scheme introduced for copyright in 2007. This scheme is designed to deal with lower-level copyright offences such as first-time offenders, street stallholders or market operators. An offender issued with an infringement notice by a law enforcement officer has the option of paying a fine and, in some cases, forfeiting copyright material, or risking the possibility of prosecution in court.

European model

An alternative approach is the one used in the European Union¹⁴³. This system has some similarities to that used for trade marks in Australia. Where goods are suspected of infringing plant variety rights, the PBR owner may lodge a written application for action with the relevant customs authorities. This must include:

- an accurate and detailed technical description of the plant material in question,
- any information concerning the nature of the infringement,
- agreement to bear all costs of keeping the plant material under customs control;
- acceptance of liability towards the persons responsible for the infringing plant material in the event that the detaining of plant material is discontinued owing to an act or omission by the PBR owner, or in the event that the plant material is subsequently found to not infringe PBR, and
- proof that the applicant holds the rights for the plant material in question.

Where an application is accepted, customs will detain the plant material and provide the rights owner with relevant details of the plant material, an opportunity to inspect the plant material and an opportunity to take samples of the plant material strictly for the purpose of analysis. When granting an application for action, customs authorities must take action within a set period (up to one year). This may be extended at the request of the rights owner. It appears that customs require the assistance of plant experts to identify the plant material that should be detained.

If no application for action has been lodged by the rights owner but customs authorities have sufficient reason to suspect that plant material is infringing an IP right, they may

¹⁴³ Council Regulation (EC) 1383/2003. See <http://europa.eu/scadplus/leg/en/lvb/111018c.htm>

retain plant material for three working days, during which time the rights owner must submit an application.

The European system appears to enable the matter to be resolved quickly by allowing customs authorities to have the plant material destroyed without it first being determined that an IP right has been infringed¹⁴⁴. This is done at the expense of the rights owner and after samples have been taken. For this to occur the rights owner must inform customs within 10 working days (three in the case of perishable goods) that the plant material infringe an IP right and the owner/receiver of the plant material must agree in writing to have them destroyed.

If customs is not notified within 10 working days of detaining the plant material (three days in the case of perishables) that proceedings to determine whether an IP right has been infringed have been initiated, or that there is agreement to destroy the plant material, the plant material will be released¹⁴⁵. The owner of plant material suspected of infringing IP rights can obtain the release of the plant material on provision of a security sufficient to protect the interests of the rights owner and provided that a procedure to determine whether there has been infringement has been initiated¹⁴⁶.

CIOPORA provided the following comments in support of the European system:

During the last three years several successful customs actions against the illegal import of plant material (mainly cut flowers and fruit) have taken place and the customs provisions have proven to be an effective tool for the enforcement of Plant Breeder's Rights.

According to CIOPORA, in most cases the three day limit for perishable goods is sufficient for the PBR owner to clarify the status of the seized plant material.

In the week prior to Valentine's Day 2008, CIOPORA coordinated a joint action of 15 cut-rose breeding companies in the European Community (EC) to seize and inspect suspicious shipments in six major airports. The key points were¹⁴⁷:

- 15 breeding companies applied for customs action in six EC countries in relation to a total of around 160 cut-rose varieties. The PBR owners provided customs authorities with the details of their varieties and of suspicious importers, traders and growers from the target countries.
- Customs officers attended a seminar on the specialities of the ornamental business.
- From 4-11 February, Customs authorities in six major airports checked several thousand boxes against the lists provided by PBR owners. The release of dozens of shipments was suspended.
- Rose experts identified the varieties and the PBR owner checked their legality. Flowers from legal and illegal sources were often mixed in one shipment.
- Customs were asked to suspend the release of flowers in 20 cases and in all cases the importer agreed to have them destroyed.
- The action was supported by the EC and the Community Plant Variety Office.

¹⁴⁴ Article 11.

¹⁴⁵ Article 13.

¹⁴⁶ Article 14.

¹⁴⁷ CIOPORA submission to ACIP's Options Paper and CIOPORA media release 12 February 2008.

CIOPORA claims the joint action was a success. The International Association of Horticultural Producers (AIPH) noted that “some infringements were found and much delay to trade was the inevitable consequence”. AIPH decided that it needed to discuss this issue with CIOPORA¹⁴⁸.

Exports

DAFWA and others advocated that AQIS be issued with a list of protected cultivars and the names of permitted exporters. If a party is not listed against the cultivar then a phytosanitary certificate is not issued, export cannot proceed and the party is directed to the PBR owner to obtain permission to export. This could be an optional system for PBR owners and the costs could be borne by the PBR owner through an annual fee. DAFWA drew attention to a similar system in place within DAFWA where a phytosanitary certificate for export is not issued without it first being determined whether the seed is protected in the destination country and, if not, whether contracts can provide sufficient protection. However, DAFWA acknowledged that such a system may be overly complex to administer for bulk shipments. Buchanan's Nursery proposed that AQIS report to PBR owners on who is exporting their protected varieties.

12.4 ACIP's views

PBR owner's are currently able to have Customs seize suspected plant material that is being imported or exported by commencing an infringement action and seeking an injunction from the court requiring Customs to do so. However, the cost of such a legal action is prohibitive for many PBR owners and ACIP considers that another option is warranted. ACIP appreciates that Customs does not have the skills or resources to identify potentially infringing plant material in the way that it is able to identify marks on goods that potentially infringe visual trade marks, and that the handling of plant material presents practical challenges. However, the experience in Europe suggests that it is possible to devise a workable and effective system.

ACIP considers that a notice system for the seizure of imported material suspected of infringing PBR should be introduced. This system should minimise the resources and skills required of Customs, enable the PBR owner to identify the material and allow cases where there has been infringement to be resolved quickly and without legal action. The system should have the following key features.

The PBR owner lodges with Customs a notice of objection which identifies:

- the PBR protected material, and
- the period to be covered (such as a week) and/or the particular shipment being imported and the importer/exporter.

The PBR owner must also lodge:

- a written undertaking to repay Custom's expenses;
- an acceptance of liability towards the persons responsible for the material in the event that the detaining of the material is discontinued owing to an act or

¹⁴⁸ Sjaak Langeslah, Secretary General AIPH, Annual Congress October 25-31, 2008. See http://www.floracultureinternational.com/index.php?option=com_content&task=view&id=848&Itemid=205&ed=46

omission by the PBR owner, or in the event that the material is subsequently found to not infringe PBR, and

- proof that the applicant holds the PBR for the material in question.

Perishable goods must be stored appropriately and must be released after a suitable period (such as 3 days) if Customs has not been informed that legal proceedings have been initiated or the owner of the goods has agreed in writing for them to be forfeited to the Commonwealth or destroyed. The PBR owner covers the costs of destruction.

ACIP concedes that AQIS is well placed to help monitor the import and export of PBR protected material. However, setting up an entirely new system and role for AQIS does not appear to be warranted given the relatively low volume of material involved and the potential for infringers to by-pass the system by simply incorrectly declaring the material.

Recommendation 18.

Introduce into the PBR Act PBR seizure powers for Customs which incorporates features of the Australian notice system for trade marks and the European system. The system should minimise the resources and skills required of Customs, enable the PBR owner to identify the imported material and allow cases where there has been infringement to be resolved quickly and without legal action.

13 Exemplary damages

13.1 Current situation

At present, a PBR owner who has instigated civil proceedings may seek from the court an injunction ordering the person to stop the infringement and either an award of damages or an account of profits.

Exemplary damages are those awarded against an infringing party, to be paid to the plaintiff, for flagrant or wilful breaches of the law. The usual aims of exemplary damages are to compensate for more than just the damage or economic loss suffered by the plaintiff, to further punish the infringing party and to provide a greater deterrent to breaches of the law. Provisions for such damages exist for copyright, and more recently for patents and designs, but not for trade marks or PBR.

Under the *Patents Act 1990*, a court may include an additional amount in the assessment of damages for an infringement of a patent, depending on:

- the flagrancy of the infringement,
- the need to deter similar infringements of patents,
- the conduct of the infringing party, and
- any benefit to the infringing party as a result of the infringement¹⁴⁹.

13.2 Concerns

Many submissions supported the introduction of exemplary damages for PBR so as to provide more deterrence for potential infringers and fairer compensation for the infringed party. For example, Bywong Nursery asserted that exemplary damages would have a dramatic effect as a deterrent. PBRAC approved of bringing PBR into line with other IP rights. The Australian Seed Federation said:

The resources (staff & financial) required to investigate a PBR breach are often well beyond what most breeders can afford, especially when the benefits of the action are difficult to quantify and subject to uncertainty. The inclusion of exemplary damages in the PBR Act would almost certainly provide the necessary incentive for PBR owners to pursue a claim.

However, some submissions remained cautious about the extent to which exemplary damages could act as a suitable deterrent to PBR infringement and doubted whether full damages to PBR owners could be recovered.

If the probability of being caught infringing a PBR is small then deterrents or penalties alone, no matter how severe, may do little to discourage people from infringing. (PBRAC)

NSWFA would not support the introduction of an exemplary damages clause... [W]e are supportive of the use of [ADR] as we believe they offer a more effective remedial solution to PBR matters involving growers. We believe that the focus should instead be on improving the current EPR collection system rather than tightening the legislation. The proposed introduction of such clauses demonstrates that the current system is not working. (NSW Farmers' Association)

¹⁴⁹ Section 122.

13.3 Options

The exemplary damages provisions for patents outlined in Chapter 13.1 provide a potential model for PBR. Grandiflora Nurseries and others said that the New Zealand system of exemplary damages had merits¹⁵⁰. Similarly, another suggestion was to provide the following examples to the courts on those situations warranting the awarding of exemplary damages:

- where a person deliberately misdeclared a variety in circumstances where they knew or ought to have known its true status.
- where a person ignored notification that material was subject to PBR and the conditions attached by the PBR owner, in circumstances where the notification states reasonable grounds for the variety being subject to PBR.

13.4 ACIP’s views

The high cost of legal action and a culture of non-compliance in some sectors are significant barriers to PBR owners being able to effectively enforce their rights. ACIP considers that the potential for exemplary damages to be awarded may encourage more court actions to be instigated and, in those cases that are brought to court, the availability of exemplary damages would significantly assist PBR owners to recover the full losses incurred by infringement. It would also deter infringing behaviour that is flagrant and wilful and help to address the lack of compliance experienced in some areas. ACIP considers that the most appropriate model to follow would be s.122 of the *Patents Act 1990*. For example, s.56 of the PBR Act may be amended as follows:

56 Jurisdiction of Court

- (3A) A court may include an additional amount in an assessment of damages for an infringement of **PBR**, if the court considers it appropriate to do so having regard to:
- (a) the flagrancy of the infringement; and
 - (b) the need to deter similar infringements of **PBR**; and
 - (c) the conduct of the party that **infringed PBR** that occurred:
 - (i) after the act constituting the infringement; or
 - (ii) after that party was informed that it had allegedly infringed the **PBR**;
 and
 - (d) any benefit shown to have accrued to that party because of the infringement; and
 - (e) all other relevant matters.

Recommendation 19.

Introduce exemplary damages provisions for PBR based on s.122 of the Patent Act.

¹⁵⁰ Section 17(4) of the New Zealand PVR Act states that, in awarding damages (including any exemplary damages) or granting any other relief, a court shall take into consideration any loss suffered or likely to be suffered by that grantee as a result of that infringement; and any profits or other benefits derived by any other person from that infringement; and the flagrancy of that infringement.

PART E – Sector-Generated Support

Part E examines the capacity for the industry sector to assist Australian PBR owners to enforce their rights more effectively, with assistance from government where appropriate.

14 Peak bodies and collective enforcement

14.1 Current situation

At present, peak bodies and industry associations exist for some sectors of the PBR industry. Examples include CIOPORA, ASF, Stock Feed Manufacturers Council, Australia Forest Growers and NSWFA. The National Licensing Association of Australia (NLA-AU) is a body that represents the interests of, and takes action on behalf of, some PBR owners – see Chapter 14.4 below. In the grains sector an EPR Steering Committee has been formed to develop a whole-of-industry approach to EPR collection in the grains industry.

14.2 Concerns

Many stakeholders expressed concern about the fragmented nature of the breeding industry and supported a central coordinating organisation independent of Government, which could represent breeders' interests. Some submissions were supportive of a central body capable of providing independent investigation and specialist skills appropriate for the enforcement of PBR in close communities. Others, including those from the grower's perspective, also believed a central body had merit, particularly if it could contribute to improving the current fragmented royalty collection system and build goodwill between breeders and the farming community.

AACT, NSWFA, VFF and others believed that there was a role for the government in helping facilitate the establishment of a central body and perhaps to provide seed funding. However, others such as DAFWA and PBRAC argued that this was not appropriate and that whether a body should be created and what its functions should be was a commercial decision for industry.

Some submissions to ACIP doubted whether a single system could encompass all sectors of the plant breeding industry. DAFWA believed that a central body should recognise the differing structures and needs of various sectors, rather than provide a standard approach for all. CIOPORA said that separate organisations should support the separate specialties of ornamental and fruit businesses and agricultural businesses.

Some submissions had reservations over the capacity of the plant breeding industry to support a collective body, given that returns to PBR owners are quite modest. It was noted that the federal Department of Agriculture, Fisheries and Forestry (DAFF) has a very high compliance rate for collecting government levies and it was questioned whether DAFF, instead of a central body, should be given the power to collect EPRs. A small number of submissions believed that a central body would not be required if relevant changes were made to make the Act more enforceable.

Several different models were proposed which could have one or more of the following roles:

- Represent PBR owners and the industry to Government and provide specialist education and advice. Bywong Nurseries said it would be useful if a central body could provide advice on applying for PBR and on enforcement options. Others such as Pacific Seeds believed that further education would not improve enforcement, as those in the industry are aware that it is very unlikely they would be prosecuted for breaching the Act.
- Facilitate mediation. The ASF and NSWFF suggested that offering alternative dispute resolution services should be one of the main functions of a central body. Similarly, Biddulph Consulting Group said that the body should have a cooperative outlook and build goodwill amongst the farming community.
- Collect royalties on behalf of PBR owners. Dr Matthew Rimmer proposed a collecting society which could also bring infringement action on behalf of members and administer statutory licences, if introduced. However, Bywong Nurseries and others thought that responsibility for royalty collection should remain with breeders.
- Enforce PBR on behalf of owners, or provide assistance. DAFWA saw the primary purpose of a central body as being one with the power to investigate alleged offences, similar to the role of the ACCC in administering the Trade Practices Act.

Pacific Seeds submitted that overseas organisations such as the British Society of Plant Breeders (BSPB)¹⁵¹, Canadian Plant Technology Agency (CPTA)¹⁵² and CIOPORA all reportedly work very well in enforcement activities, and that use of third party investigators would help remove perceptions of big PBR owners being hard on small struggling farmers.

14.3 Domestic experience on collective enforcement

National Licensing Association – NLA-AU

The NLA-AU¹⁵³ is an example of an organisation that joins horticultural industry members together to enforce intellectual property rights. The NLA-AU has been credited by some breeders with providing PBR owners with an independent, ‘arms length’ approach to actions against infringing growers. The NLA-AU says that IP rights owners are reluctant to enforce rights against infringers, as the infringers are often customers who purchase some legal plants and so the IP rights owner would risk losing that business. To alleviate this, the NLA-AU relieves individual members of the decision-making authority when it comes to enforcement. Members transfer their enforcement rights to the NLA-AU.

The NLA-AU takes action as necessary to enforce members’ IP rights through investigation of plantings, contact with growers, settlement discussions and resolution, when necessary, through litigation. In bringing enforcement actions for intellectual property infringements, the NLA looks not only to the infringing grower but also to the

¹⁵¹ See Chapter 14.4.

¹⁵² See Chapter 14.4.

¹⁵³ The NLA-AU concept started in the United States in 2002 as the NLA-US. The NLA-AU was established as a separate company in Australia in 2005.

entities that are in business with the infringing grower, such as farm management companies, real estate companies, banks and others that directly or indirectly infringe, by aiding and abetting infringement through inducement of or contribution to infringing activities.

Each member receives a percentage of the proceeds from enforcement of their intellectual property rights (60% of net recovery). Additionally, all NLA-AU members share equally 10% of the net recovery obtained by the NLA-AU in the enforcement of all member intellectual property rights, regardless of whose rights are enforced.

14.4 Foreign experience on collective enforcement

The British Society of Plant Breeders (BSPB) and the Canadian Plant Technology Agency (CPTA) are examples of collective action in other jurisdictions.

British Society of Plant Breeders (BSPB)

BSPB¹⁵⁴ is the largest representative body for the UK plant breeding industry. It was formed in 1966 and currently represents more than 50 breeding entities who together comprise nearly all of the public and private breeding activity in the UK¹⁵⁵. BSPB is a non-profit organisation, funded by fees and managed by an elected board of senior executives from member companies. Its core functions are royalty collection and industry representation, but it has recently expanded into education programs.

Acting on members' behalf, BSPB licenses, collects and distributes certified seed royalties and farm-saved seed payments on selected agricultural and horticultural crops. These include cereals, field peas and beans, oilseeds, linseed, yellow lupin, potatoes, forage grasses, vining peas, soft fruit and some rootstocks. A PBR owner grants a Head Licence to BSPB, which then issues sub-licences for the production and sale of seed of that cultivar. Under terms of the sub-licence, royalties must be paid to BSPB by certain dates and are then passed on to BSPB Head Licensors, less a small percentage to cover operating costs. Central to the enforcement regime is a farmer database, designed to record and interrogate cropping details of individual farmers with the express purpose of ensuring compliance with royalty payments for farm saved seed.

Canadian Plant Technology Agency (CPTA)

CPTA was formed in 1997 and is a non-profit organisation that has included both small companies and large multinational agri-businesses, with membership numbers ranging from 21 companies to four. CPTA was set up to educate, advocate, monitor, and enforce Plant Variety Rights for its members and focus on representing breeders of non-hybrid field crops varieties, i.e. wheat, oats, barley and lucerne¹⁵⁶.

¹⁵⁴ <http://www.bspb.co.uk/about.html>

¹⁵⁵ In the UK, another breeders' organisation called the British Association of Rose Breeders (BARB) undertakes advocacy and royalty collection on behalf of roses and ornamentals plant varieties. Further information on this organisation is available at <http://www.rosesuk.com/barb/>

¹⁵⁶ Ornamental varieties in Canada are the focus of another organisation called the Canadian Ornamental Plant Foundation (COPF). Information on COPF is available at: <http://www.copf.org/index.htm>.

CPTA's current primary focus is enforcement, education and monitoring, with CPTA having referred its advocacy role to the Canadian Seed Trade Association (CSTA)¹⁵⁷:

- Education - information about PBR is provided to CPTA members, producers and the general public, including presentations at industry meetings and member company staff functions, advertisements in farm newspapers and press releases.
- Monitoring - right holders must identify illegal seed sellers to enforce their PBR. Common (farm saved) seed should not be advertised by variety name in Canada, therefore the CPTA set up a service that reviews advertisements for seed, places mystery shopper calls to those ads and reports the results to the variety rights holder.
- Enforcement - right holders play a direct role in deciding whether a potential infringer should face enforcement action. CPTA provides a service to members consisting of managing and coordinating civil lawsuits. This involves hiring private investigators to investigate potential infringements, working with legal council to prepare documentation for the lawsuit and, in many cases, negotiating a settlement with infringers once the case has been filed with the court¹⁵⁸.

14.5 ACIP's views

There is considerable interest within the Australian industry in the establishment of one or more central bodies, although there is a divergence of opinion on the best model and roles that should be fulfilled. Each has its own advantages and disadvantages. ACIP considers that there are potentially significant benefits to be gained from one or more central bodies. The overseas experience with bodies such as CIOPORA and BSPB shows that cooperation and collective enforcement can be effective. However, this is a decision that only industry can make. It is not appropriate for the Government to become involved in the establishment of any such body until industry has come to agreement on its structure and function, and even then only in a facilitative capacity.

Recommendation 20.

The Government take no action in establishing an industry peak body or collecting agency at this time. The Government should reconsider this approach should sectors of the plant breeding industry come to an agreement on the structure and function of a central body and seek the Government's assistance.

¹⁵⁷ The Canadian Seed Trade Association (CSTA) represents the interests of over 130 corporate members engaged in all aspects of seed research, production and marketing, both domestically and internationally. It is a voluntary association composed of seed companies from across Canada. Further information on the CSTA is available at <http://cdnseed.org/>

¹⁵⁸ Information provided to ACIP by Lorne Hadley, Executive Director of CPTA, August 2007.

15 Education and awareness

15.1 Current situation

At present, members of the plant breeding industry can obtain information on PBR from a variety of sources. These include:

- Contracts of sale
- Government - IP Australia
- ACIPA
- Industry associations, and
- Organisations such as GRDC.

IP Australia's PBR education program has in recent times included an advertising campaign in the Australian Horticulture magazine, new application kits, sponsorship of industry conferences such as the National Garden Industry Conference and sponsorship of the 2007 Floriade flower festival in Canberra. In recent years IP Australia has helped to develop IP modules for universities based on its *IP Toolbox* and *Smart Start* publications and has developed similar content for the Vocational Education and Training (VET) sector. In January 2009 nine units of competency and six skill sets were approved for inclusion into the Business Services Training Package, including one unit of competency on the protection of use of new plant varieties.

ACIPA¹⁵⁹ regularly provides education and training programs for the agriculture industry, including seminars and workshops.

15.2 Concerns

Enhancing the education and awareness of PBR stakeholders was identified in many submissions as an important aspect of improving PBR enforcement:

There is a need to improve the literacy of plant breeders, technology developers, and business managers in respect of plant breeders' rights. Similarly, there is scope for further education programmes for farmers, growers, researchers, and scientists. Moreover, there is a need for a better knowledge of plant breeders' rights amongst rural advisors – including solicitors, accountants, and consultants. (Dr Matthew Rimmer, ACIPA)

There needs to be additional education of breeders, researchers, growers and industry. A number of R&D Corporations have contracted with ACIPA to provide such training, but it is not something which occurs quickly and it is not a "one-time" activity if it is to have the desired impact across the whole agribusiness sector. (Kathryn Adams, ACIPA)

The majority of submissions believed that the Government should play a significant role in education programs. However, PBRAC and others argued that the main responsibility lay with industry and that a peak body would be an appropriate coordinator of education programs. A common concern was that information was needed to target specific sectors and stakeholders groups, such as researchers, farmers, traders and research and development managers, in order to address the different systems and needs. The

¹⁵⁹ See <http://www.acipa.edu.au/>

following are some suggestions by stakeholders of useful programs in which the Government should play a role:

- All secondary and tertiary agricultural and horticultural courses to include basic information on PBR;
- PBRO (IP Australia) officers visiting rural areas to run workshops targeted at farmers and specific sectors and to answer queries;
- The PBRO working more closely with industry peak bodies such as the ASF on information campaigns;
- Improved information on IP Australia's website, including information on the options available for handling infringements. ACIP notes that, at present, it is not IP Australia's role to provide legal advice.

The following are some of the suggestions of industry-led programs:

- Increased use of ACIPA to provide tailored programs;
- Advertisements and articles in trade journals, magazines and newsletters;
- A single website run by industry providing information on the grains sector;
- Presentations at conferences and local grower group meetings.

DAFWA and others argued that it was more important to establish standard models for how PBR operates in each sector and to improve the clarity of parts of the PBR Act. Other submissions suggested that, given the extent of bad faith infringement in sectors of the industry, awareness campaigns are unlikely on their own to be an effective solution. Enforcement was considered to be the most effective way of raising awareness and compliance.

15.3 ACIP's views

The majority of submissions to ACIP called for sector- and stakeholder- specific information on PBR to be improved and a range of useful approaches have been proposed. ACIP believes that industry is best placed to provide the most appropriate educational material, however there is clearly a role for Government ACIP considers that workshops, conferences and seminars have value and that IP Australia should assess whether it can make an effective contribution in this area.

However, ACIP considers that IP law is complex and one-off events allow insufficient time for many stakeholders to properly understand the field. ACIP approves of IP Australia's recent achievements in the VET sector and recommends that IP Australia work with the tertiary sector to develop further educational material specifically in relation to PBR for that sector. ACIP recognises that an increase in PBR fees may be necessary to fund such a program but believes this approach to be the most cost effective for Government. ACIP also appreciates that the introduction of such material to tertiary courses may depend on funding being provided to the institutions.

Recommendation 21.

IP Australia focus its PBR educational and awareness efforts on the tertiary sector. This should involve increasing its involvement in facilitating PBR education curricula and other information fora. IP Australia should investigate facilitating the inclusion of PBR curricula in university science and science-related courses and at agricultural colleges.

16 Standard contracts

16.1 Current situation

At present, in the plant breeding industries there are a large number of different types of contracts which change over time. Until recently there appeared to be few, if any, 'standard' contracts. A study into the management of IP rights in plant varieties found that existing contracts were poorly drafted and that a standard contract would be desirable¹⁶⁰.

Members of the breeding community, including breeding organisations, the GRDC, the seed industry and variety users recently developed a standardised contract for the use of PBR protected varieties by the grains industry. The aim of standardising this contract was to avoid confusion and reduce the number of different contracts currently being used to licence proprietary varieties to growers. The standardised agreements are increasingly being used by breeding organisations and their commercial agents to licence new varieties. Documents available on the GRDC website include¹⁶¹:

- the four page industry standard PBR licence agreement, including a glossary of terms. Details such as EPRs, reporting obligations and governing law are to be entered on a case by case basis.
- a PBR agreement fact sheet.
- a tag for bags of seed that outlines the conditions of sale and use.
- a four page standard bag licence.

To date, feedback on these agreements from industry and researchers has been positive.

16.2 Concerns

Some submissions expressed concerns about the wide ranging, evolving and confusing nature of contracts in the plant breeding industry. In the grains industry the large number of different contracts for use with PBR protected varieties that impose different obligations on growers was cited as a major source of frustration with the end point royalty system. For example:

The peak body should be looking at creating singular systems for the industry per crop or industry type. There is a [myriad] of commercial arrangements that are being used that only frustrates the industry. Standardization and compliance with Industry input are essential (Australian Agricultural Crop Technologies).

The NSW Farmers Federation also saw a need to reduce the number of EPR collection methods and different contracts used. The GRDC noted that it was taking steps to reduce confusion about PBR and its implementation in the grains industry by developing the standardised contracts outlined above. Other submissions appeared to be in support of simpler contracts, such as "plain English" standard contracts¹⁶².

¹⁶⁰ Renolds, R., *Managing intellectual property rights in plant varieties*, RIRDC Project No. UTS-8A.

¹⁶¹ http://www.grdc.com.au/director/events/grdcpublications/pbr_epr.cfm

¹⁶² For example, Benny Browne.

16.3 ACIP's views

Standard contracts such as those developed by GRDC appear to be of considerable value to PBR owners and growers, although ACIP understands that it is difficult to develop standard contracts that accommodate most user's needs yet are relatively simple. ACIP would encourage other organisations to follow the GRDC's lead and consider developing similar contracts for other sectors. The development of standard contracts and licence agreements is a task best performed by those in industry and there does not appear to be a role for Government at this stage.

Recommendation 22.

The Government take no action in relation to the development of standard contracts and licence agreements at this time.

17 End point royalties

17.1 Current situation

At present, royalties on PBR protected plant varieties may be collected in a number of ways, including on:

- the sale of propagating material, such as seed (under s.11);
- the sale of harvested material. This may be done under private contract, under s.14 and, where harvested material is also propagating material, potentially under s.11 – see Chapter 7.1.3;
- the sale of products made from the harvested material (under private contract or s.15);
- a combination of these.

The second and third of these options are known as end point royalties (EPR). This is a royalty placed on each unit of harvested material that are sold by a grower or on products made from the harvested material that are sold by the producer of the product. EPR systems are increasingly being used in the grains and horticultural industries because they help to reduce up-front costs to growers, encourage uptake of varieties, overcome loss of sales through farmer’s privilege and share the risk of crop failures between PBR owners and growers.

Variety identification

The effectiveness of EPR systems depends on the correct identification of harvested material. At present, under the PBR Act it is an infringement to use a name of a PBR protected variety in relation to any other plant or variety of the same plant class (s.53(1)) and it is a criminal offence to incorrectly claim to be the PBR owner of a variety or that a plant is a PBR protected variety (s.75).

It is not an infringement under the PBR Act to knowingly declare a PBR protected variety to be a non-PBR protected variety. However, such behaviour may be illegal under other legislation. Under s.52 and 53 of the *Trade Practices Act 1974* and the various State and Territory fair trading acts¹⁶³, a corporation or person shall not:

- engage in conduct that is misleading or deceptive or is likely to mislead or deceive;
- falsely represent that goods are of a particular standard, quality, value, grade, composition, style or model;
- make a false or misleading representation concerning the existence, exclusion or effect of any condition, warranty, guarantee, right or remedy.

ACIP is not aware of any court decisions made in relation to the above provisions and the incorrect identification of a plant variety.

¹⁶³ For example, NSW *Fair Trading Act 1987*, s.42 and 44; Victorian *Fair Trading Act 1999*, s.9, 10 and 12.

17.2 Concerns

Submissions to ACIP identified a number of issues that compromised the PBR owner's ability to collect royalties due on the propagating material. Among these were:

- quantifying the grower's and/or user's obligations to PBR owners,
- high transaction costs in identifying these obligations,
- user's frustration in dealing with the large amount of paper work that is required to report the user's obligations to PBR owners, and
- identifying and quantifying unreported use of the protected variety.

Several submissions argued that an EPR system can be a more appropriate way of collecting royalties as it appears able, with some changes to the Act, to address the concerns listed above. As discussed previously in this report, an effective EPR system can involve the bulk of the harvested/manufactured produce passing through a limited number of easily identifiable entities. These entities report on the growers' obligations to PBR owners or deduct royalty payments from the amount due to the grower.

Southern Cross University stated that DNA testing on which an EPR system could be based is currently available at acceptable costs for a range of major crop species, and that costs will continue to fall for other species. Value Added Wheat CRC said that there has been a significant breakthrough in variety identification in recent years with the development of portable equipment which provides quick results.

Human consumption broad acre crops

The above problems have the potential to be addressed through the implementation of an industry-wide EPR system for grains such as wheat, barley and canola. This is due to a large proportion of these crops being accumulated by a relatively few entities. There are currently some concerns about the utility of such a system. These include:

- requiring the accumulators and purchasers to quantify and report on the user's obligations to the PBR owner. This issue has been addressed in Chapter 7.1 with the addition of a new purchase right to s.11.
- the uncertainty associated with the interpretation of 'reasonable opportunity' in s.14 and 15. This issue is addressed in Chapter 5.2.
- mendacious variety declaration, where a user deliberately declares a variety as one which is not protected by PBR or one which attracts a lower royalty rate. This issue is addressed below.

Crops used for animal consumption

It appears that an EPR system does not have any utility for those species that are used predominantly for animal feeding, such as:

- forage crops and pasture species used to produce grass and hay for feeding, as it is impossible to quantify the contribution of the forage produced from protected species to the production of meat and wool;
- feed grain varieties such as barley, oats and triticale that are used for meat and egg production on farms or in small feedlot enterprises.

Horticultural industries

The concerns discussed above are also germane to the horticultural tree crop industries. Many horticultural industries have structures that appear to allow for the implementation of a robust EPR system in which PBR owners would have the opportunity to maximise their returns from their investments in breeding and to reduce the current costs in compliance systems. As shown in Chapter 5.1.2, Figure 2, many horticultural varieties are accumulated or sold to a few easily identifiable entities.

There appears to be similar concerns over the implementation of an effective EPR system in the horticultural tree crop industries as in the broad acre human consumption industries. However, a new purchase right would be a less effective solution for the horticultural sector because the harvested material of horticultural rarely constitutes propagating material. A new purchase right would only apply to harvested material where there has been unauthorised reproduction of the propagating material and the PBR owner has not had a reasonable opportunity to exercise its rights over the propagating material (s.14 and s.15). Horticultural industries appear to have an additional concern, in that the harvest from illegally obtained trees cannot be distinguished from the great majority of harvest that is produced from legally obtained trees.

Nursery industries

The limited number of submissions from the nursery breeding industry suggested that there is widespread infringement of PBR, even to the extent of breeders deciding to curtail their investment in the breeding of ornamental species. The structure of the Australian nursery industry suggests to ACIP that the opportunities to establish an EPR system to address compliance issues may be similar to those in the horticultural tree crop industries and the broad acre crops for human consumption, as there are points in the value chain where an EPR could be effectively implemented (see Chapter 5.1.3, Figure 3). This would have the same implementation problems as for the other industries and, as for horticultural varieties, a new purchase right may provide only a limited solution because the harvested product or ornamental/amenity varieties may not constitute propagating material.

As in the horticultural industry, in the nursery industry a majority of the harvested product is produced from propagating material that has been acquired legally and for which royalties have been paid. This makes it difficult to identify the product for which royalties have not been paid. However, the nursery industry can distinguish product that has been produced with the PBR owner's consent by attaching a tag that identifies the product, its PBR status and the PBR owner.

Mendacious variety declaration

Information provided to ACIP on the level of mendacious variety declaration was inconclusive. Anecdotal evidence from Crop & Food Research and others suggested that it is quite high, but quantitative evidence from AWB, Value Added Wheat CRC, NLA-AU and others suggested the opposite¹⁶⁴. It appears to be a significant issue, as two large investors in plant breeding (GRDC and BSES) consider mendacious variety declaration to be a major threat to their business.

A significant number of stakeholders supported amending the PBR Act to make mendacious variety declarations an infringement of PBR as it would provide a significant deterrent to such behaviour. Some stakeholders did not support this and believed that court actions should be avoided where possible. Kathryn Adams of ACIPA said that successful prosecution of mendacious variety name declaration depends on rapid identification methods at the point of royalty detection, rather than on the legislation. The VFF stated that the signing of a declaration at the silo is already considered a legal document, so a farmer who wilfully provides incorrect information is already breaking the law.

17.3 ACIP's views

As mentioned above, EPR issues relating to the rights provided under s.11 and reasonable opportunity have been addressed in previous chapters of this report. ACIP would encourage all industries to consider increased use of EPR systems in order to overcome the difficulties in collecting royalties due on the sale of propagating material.

On the issue of mendacious variety name declaration, it is clear that an effective EPR system depends on the correct identification of the variety. It appears that the *Trade Practices Act 1974* and various State and Territory legislation may provide some protection for PBR owners and the community in general from a person or corporation who knowingly misrepresents the identify of a PBR protected variety in order to reduce the royalties that are due. However, ACIP is not aware of any definitive case law on this issue. ACIP considers that, if existing legislation does not make it illegal to knowingly misrepresent the identity of a PBR protected variety, then a specific provision should be introduced into the PBR Act. The following is an example of such an amendment to s.53:

¹⁶⁴ AWB Limited conducts molecular marker based audits to validate variety declaration in wheat. The level of mis-declaration is 3.4% but the loss of royalty to AWB is in the order of 1.7%, as it includes mis-declarations of varieties for which a royalty is payable when this is incorrect. Heritage Seeds noted that a 2% loss of royalty on a 21 million tonne wheat production with a royalty of \$2 per tonne amounts to a significant \$840,000. A study conducted by the Value Added Wheat CRC to evaluate the utility of varietal identification systems demonstrated a 98.8% level of correct variety declaration. This was a small survey of about 250 deliveries in southern New South Wales and northern Victoria. Grain Trust checked varietal declarations for the barley variety Corvette and two Corvette derivatives which could be easily confused with Corvette. Grain Trust estimated that the loss of royalty through mis-declaration was less than 5%, although the level of mis-declaration was much greater.

53 Infringement of PBR

- (1) Subject to sections 16, 17, 18, 19 and 23, PBR in a plant variety is infringed by:
- (a) a person doing, without, or otherwise than in accordance with, authorisation from the grantee of the right, an act referred to in a paragraph of section 11 in respect of the variety or of a dependent variety; or
 - (b) a person claiming, without, or otherwise than in accordance with, authorisation from the grantee of that right, the right to do an act referred to in a paragraph of section 11 in respect of that variety or of a dependent variety; or
 - (c) a person using a name of the variety that is entered in the Register in relation to:
 - (i) any other plant variety of the same plant class; or
 - (ii) a plant of any other variety of the same plant class.
 - (d) a person knowingly and falsely representing the variety, including not using the correct name of the variety.**

Recommendation 23.

It is not clear whether sections 52 and 53 of the *Trade Practices Act 1974* and various State and Territory fair trading acts provide sufficient protection against mendacious variety declaration. If existing legislation does not make it illegal for a corporation or person to knowingly and falsely represent a PBR protected variety, the PBR Act should be amended to make such an act an infringement of PBR.

Appendices

18 Participants in the review

ACIP would like to thank all those who participated in the review.

18.1 Non-confidential submissions to the Issues Paper

1. Adams, Kathryn; Australian Centre for Intellectual Property in Agriculture (ACIPA)
2. Australian Agricultural Crop Technologies (AACT)
3. Australian Centre for Plant Functional Genomics Pty Ltd (ACPFPG)
4. Australian Customs Service
5. Australian Federation of Intellectual Property Attorneys (FICPI Australia)
6. Australian Grain Technologies Pty Ltd (AGT)
7. Australian Nurseryman's Fruit Improvement Co. Ltd (ANFIC)
8. Australian Seed Federation (ASF)
9. Biddulph Rural Consulting
10. Browne, Benny
11. BSES Limited
12. Bywong Nursery
13. Canola Breeders Western Australia (CBWA)
14. Coggo Seeds Pty Ltd
15. Crocker, Malcolm
16. Crop & Food Research
17. Department of Agriculture and Food Western Australia (DAFWA)
18. Department of Primary Industries and Fisheries Queensland
19. Diversity Arrays Technology Pty Ltd
20. Food Science Australia
21. Gene Ethics
22. Grandiflora Nurseries Pty Ltd
23. Greenpeace
24. Henry Doubleday Research Association Australia Inc
25. Heritage Seeds Pty Ltd
26. International Community of Breeders of Asexually Reproduced Ornamental and Fruit Plants (CIOPORA)
27. Johnson, Clare; Value Added Wheat CRC Ltd
28. Lawson, Dr Charles (ACIPA)
29. NSW Farmers' Association (NSWFA)
30. Organic Cotton Advantage
31. Pacific Seeds Pty Ltd
32. Plant Breeder's Rights Advisory Committee (PBRAC)
33. Rimmer, Dr Matthew (ACIPA)
34. Roberts, Hugh
35. Sanderson, Jay (ACIPA)
36. Vaughan, Peter; Value Added Wheat CRC
37. Victorian Farmers Federation (VFF)

18.2 Non-confidential submissions to the Options Paper

1. Adams, Kathryn (ACIPA)
2. Australian Agricultural Crop Technologies (AACT)
3. Australian Customs and Border Protection Service
4. Australian Federal Police (AFP)
5. Australian Forest Growers (AFG)
6. Australian Grain Technologies (AGT)
7. Australian Seed Federation (ASF)
8. Browne, Benny and Muir, Belinda
9. Buchanan's Nursery
10. International Community of Breeders of Asexually Reproduced Ornamental and 11. Fruit Plants (CIOPORA)
12. Commonwealth Director of Public Prosecutions (CDPP)
13. Crop & Food Research Australia
14. Commonwealth Scientific and Industrial Research Organisation (CSIRO)
15. Department of Agriculture and Food Western Australia (DAFWA)
16. Australian Federation of Intellectual Property Attorneys (FICPI Australia)
17. Gene Ethics
18. Grandiflora Nurseries Pty Ltd
19. Law Council of Australia (LCA)
20. McCullough Robertson Lawyers
21. Network of Concerned Farmers (NCF)
22. NSW Farmers Association (NSWFA)
23. Plant Breeder's Rights Advisory Committee (PBRAC)
24. Sanderson, Jay (ACIPA)
25. Stock Feed Manufacturers' Council (SFMC)
26. Verner, JM & RH
27. Victorian Farmers Federation (VFF)
28. WA Grains Group (WAGG)

18.3 Consultations

Australian Capital Territory

ACIPA – Matthew Rimmer

Australian Customs Service – Kay Barron

Australian Seed Federation (ASF) – Will Golsby

Chartered Institute of Arbitrators (Australia) – David Moore

Grains Council Australia – David Ginns

GRDC – Leecia Angus, Geoff Budd, Bill Blowes

New South Wales

Australian Grain Technologies (AGT) – Kerrie Gleeson, Andrew Cecil

Australian Seed Federation (ASF) – Chris Melham

Cameron's Nursery – Andy Cameron

Food Science Australia – Peter Vaughan, Clare Johnson

NSW Farmers' Association (NSWFA) – Dougal Gordon, Nick Bryant, Hugh Roberts

NuFlora International Pty Ltd - Mal Morgan

Nursery and Garden Industry Association (NSW & ACT) - Mike Skegg, Michael Danelong

Oasis Horticulture - Matt de Ville

Primary Industries and Resources SA – Malcolm Johnson
Ramm Botanicals – Jeff Cooke
Value Added Wheat CRC – Ian Batey

Queensland

ACIPA – Kathryn Adams, Charles Lawson
BSES Limited – Ross Gilmore
Carter Tubes – Elva and James Carter
Department of Primary Industries and Fisheries Queensland – Kamal Puri, Sue Behan
McCullough Robertson Lawyers – Malcolm McBratney, Tim Rivett

Victoria

Apple and Pear Australia (APAL) - Tony Russell, Jon Durham
Fleming's Nurseries – Tony Wilcox, Graham Fleming
Gene Ethics – Bob Phelps
Grandiflora Nurseries – Chris Prescott
Victorian Farmer's Federation (VFF) – Darryl Harrison, Russell Amery, Penny
Hendy

Western Australia

Department of Agriculture and Food WA – Katherine Smart, Tress Walmsley
Canola Breeders WA – Wallace Cowling, Jane Gibbs, Janet Wroth
COGGO Seeds – Lizzie Aravidis
University of Western Australia, School of Agriculture and Resource Economics –
Bob Lindner

CONTACT DETAILS

Advisory Council on Intellectual Property
PO Box 200
WODEN ACT 2606
www.acip.gov.au

