

**Exhaustion and  
the *Plant Breeder's Rights Act 1994* (Cth)**

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## Executive summary

A plant breeder's right (PBR) under the *Plant Breeder's Rights Act 1994* (Cth) is an exclusive right to certain dealings with a plant variety based on it being a distinct, uniform and stable new plant variety for a limited term. The ending of PBR's exclusivity is essential to balancing the rights of breeders to an adequate incentive to breed new varieties and the interests of the broader community to have unfettered access to the new variety. This ending happens in four distinct circumstances: (1) when the PBR is voluntarily surrendered (termination); (2) when the PBR is revoked (revocation); (3) on expiry at the end of the maximum term of the PBR being at least 25 years for trees and vines and at least 20 years for other variety forms (expiry); and (4) where the PBR exhausts after an authorized dealing (exhaustion). This report addresses these different endings to a PBR.

This report was prepared as part of a contract with IP Australia for 'Research in respect of Plant Breeder's Rights policy issues and presentation of an analytical report: C2022/10042'. This report delivers on that part of the contract about 'The exhaustion of plant breeder's rights'.

The report includes a comprehensive review of the relevant negotiations, laws, practices, statutory schemes, judgements, policy reviews, academic and scholarly literature and IP Australia's empirical materials about breeder's rights. After that the report addresses the identified policy issues that might need further consideration and includes an analysis and recommendations.

### The termination arrangements (§5.1)

Under the *Plant Breeder's Rights Act 1994* (Cth) the 'holder of PBR in a plant variety may, at any time, by written notice to the Registrar, offer to surrender that right'. Once surrendered then the PBR will be terminated, and this will be entered on the Register. This is an important provision because there is no broader public benefit having PBRs in place where the holder does not want to exploit their PBR. To promote this there are fixed fees payable annually by the PBR owner to maintain their PBR. This contrasts with a similar escalating annual fee imposed on patents under the *Patents Act 1990* (Cth) that increase with the longevity of a patent. There does not appear to be a problem with the current fixed fee model for PBRs, although escalating annual fees might have some benefits by reducing the numbers of long duration PBRs.

#### Recommendation 1

The Australian Government should continue to review the quantum of fees for the annual maintenance of a PBR and consider whether the escalating annual fee imposed on patents under the *Patents Act 1990* (Cth) might have some benefits for PBRs under the *Plant Breeder's Rights Act 1994* (Cth).

### The revocation arrangements (§5.2)

The *International Convention for the Protection of New Varieties of Plants* done at Geneva on 19 March 1991 (UPOV 1991) provides that revocation can only be applied where the variety is no longer uniform and stable, information, documents or material was not provided that would have enabled the grant, required fees are not paid, or there is not a suitable denomination. In the *Plant Breeder's Rights Act 1994* (Cth) this is implemented as a general ground to revoke a PBR. The current *Plant Breeder's Rights Act 1994* (Cth) provisions dealing with the surrender (termination) arrangements are mixed together with the revocation

arrangements. The distinction between them is important because there is a pejorative associated with revocation that should be distinguished from a welcomed surrender. This might be achieved by dealing separately with the surrender (termination) and revocation arrangements in the *Plant Breeder's Rights Act 1994* (Cth).

### **Recommendation 2**

The Australian Government should consider using consistent terminology for revocation and surrender (termination) of PBRs under the *Plant Breeder's Rights Act 1994* (Cth) and distinguish between choosing not to renew a PBR (surrender) and refusing to pay a fee and other failings (revocation).

### **The expiry of PBR (§5.3)**

UPOV 1991 provides that the PBR term should be for at least 25 years for trees and vines and 20 years for other plant forms from the date of PBR grant (and not from the date of application). An unresolved concern is that the actual term being granted might potentially be a lot longer than from the time from grant because of the provisional protection afforded under UPOV 1991 *de facto* extends the term from the date of application in addition to the 20/25 years after grant. This is reflected in the *Plant Breeder's Rights Act 1994* (Cth) with the term of the PBR being calculated from grant to 25 years for trees and vines and 20 years for any other variety. Provision is also made for the *Plant Breeder's Right Regulations 1994* (Cth) to set out longer period for some taxons, but this has not been done. Are the current arrangements appropriate? Current evidence shows that 97 per cent of granted PBRs had exhausted before the maximum possible term since grant, and the durations were generally well short of the possible maximum term from grant. This suggests that current arrangements are not resulting in overly long terms.

### **Recommendation 3**

The Australian Government should retain the current PBR duration from the date of grant of 25 years for trees and vines and 20 years for any other variety.

### **The implied license ideal and exhaustion (§5.4)**

In the recent High Court decision in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* the majority decided in favour of the exhaustion doctrine and the minority favoured the implied licence doctrine. This was in contrast to the implied licence that has been accepted by the Full Federal Court under the *Plant Breeder's Rights Act 1994* (Cth) in *Cultivaust Pty Limited v Grain Pool Pty Limited*. The effect of the exhaustion doctrine, subject to any existing limitations in the *Plant Breeder's Rights Act 1994* (Cth), is that the only avenue for PBR holders to reach into future dealings with the PBR'ed material after they have been sold is through contracts agreed at the time of sale and enforced through contract and equity, subject to any limitations such as competition and consumer laws. This also means that new embodiments of the PBR'ed variety will have all the PBR rights and that those buying PBR'ed materials to produce and reproduce (so make) the variety will need the authorisation or consent of the PBR owner.

### **Recommendation 4**

The Australian Government should clarify that the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder's Rights Act 1994* (Cth). This is necessary to avoid the uncertainty that existed

with the application of the implied licence doctrine, such as the decisions in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.

#### **Recommendation 5**

If the Australian Government considers the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder's Rights Act 1994* (Cth) is correct, then explanatory materials should be prepared to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of this doctrine. This might be explanatory materials, case studies, information sheets, and so on.

#### **Exhaustion and 'harvested material' that is also 'propagating material' (§5.5)**

The *Plant Breeder's Rights Act 1994* (Cth) makes provision for an extension of PBR with cascading PBRs for 'harvested material' and the products of 'harvested material' that are deemed to be 'propagating material'. For both 'harvested material' and the products of 'harvested material' the threshold PBR requirements are that they are produced or reproduced 'without authorisation' and there has not been a 'reasonable opportunity' for the PBR owner to exercise their PBR. There is also a PBR exemption for varieties used in 'farming activities' such as farmer saved seeds and acts that 'involves further production and reproduction' of the 'propagating material'. If the High Court decision in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder's Rights Act 1994* (Cth), the question is how would the exhaustion doctrine apply to plant materials produced and reproduced in the context of these PBR extensions and exemptions? This is a complicated policy problem. An analysis of the various *Plant Breeder's Rights Act 1994* (Cth) provisions points to a clear separation of the treatment of 'propagating material' and 'harvested material' so that where materials are harvested from PBR'ed plant varieties that are also 'propagating material' they should be considered 'propagating material' for the purposes of the *Plant Breeder's Rights Act 1994* (Cth). This will address many of the uncertainties following the Full Federal Court decision in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.

#### **Recommendation 6**

The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) to clarify that 'harvested material' that is also 'propagating material' is considered as 'propagating material' rather than just deemed 'propagating material'.

#### **Recommendation 7**

The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) s 14(2) that presently deals with 'harvested material' as 'propagating material' by removing that subsection.

#### **Recommendation 8**

IP Australia should prepare explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of these amendments. This might be explanatory materials, case studies, information sheets, and so on.

#### **Sold and sell – sales, licences and authorisations (§5.6)**

The *Plant Breeder's Rights Act 1994* (Cth) provides for PBR exhaustion 'after the propagating material has been sold' subject to some limitations for 'further production and reproduction'

and export to countries without PBRs. The meaning of 'sold' is unclear. The Full Federal Court in *Sun World International Inc v Registrar of Plant Breeder's Rights*, while about the *Plant Variety Rights Act 1987* (Cth), held that transactions with the plant material that included restrictive covenants, such as licences on use, were sales. The scope of actions that are less than sale (and including 'otherwise marketed' in UPOV 1991) need to be clarified so that it is certain where PBR owners might not exhaust their PBRs if they deal with less than their full PBR's exclusive rights in a sale. An analysis of the decision in *Sun World International Inc v Registrar of Plant Breeder's Rights* and the *Plant Breeder's Rights Act 1994* (Cth) points to a requirement only for valuable consideration, and not the more limited circumstances where there is a transfer of the title of the property in goods from a seller to a buyer for a money consideration. This is also consistent with the ideals of the first sale exhaustion doctrine as articulated by the High Court majority in *Calidad Pty Ltd v Seiko Epson Corporation* where the intellectual property owner has the opportunity at the time of sale to arrange their property interests so that the intellectual property exhausts on sale with any arrangements following through only as a matter of contract, equity and consumer law.

### **Recommendation 9**

IP Australia should clarify the scope of 'sold' in the *Plant Breeder's Rights Act 1994* (Cth) s 23 exhaustion provisions as including any acts with the PBR'ed variety, and that any limitations are addressed through contract law with disputes resolved through contract and equity, subject to any limitations such as competition and consumer laws. Alternatively, if this is not accepted, then provide some clarity about the kinds of dealings that are less than a sale that exhausts the PBR through IP Australia prepared explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of the scope of 'sold'. This might be explanatory materials, case studies, information sheets, and so on.

### **'Authorisation' and 'consent' (§5.7)**

The *Plant Breeder's Rights Act 1994* (Cth) uses 'authorisation' and 'consent' in the various extension and exemption of PBR provisions. For example, in the context of extending PBRs, the *Plant Breeder's Rights Act 1994* (Cth) provides that PBRs extend to 'harvested material' and the products of 'harvested material' where, in part, there has not been an 'authorisation' by the PBR owner. Meanwhile, in the context of exhausting PBRs, the *Plant Breeder's Rights Act 1994* (Cth) provides that PBRs exhaust with the PBR owner's 'consent' to a sale of the 'propagating material' unless there is either further production or reproduction of the protected materials, or where the protected materials are exported to a country without PBRs (or plant variety rights) and the materials are not for final consumption. The distinction between 'authorisation' and 'consent' is unclear. The use of the terms 'authorisation' and 'consent', however, appear to be artefacts of the UPOV 1991 negotiations that have been carried through to the *Plant Breeder's Rights Act 1994* (Cth), and 'authorisation' appears to have been interpreted to refer to the acts of the 'exclusive rights' of PBR. The term 'consent' in exhaustion has a broader meaning (particularly the first sale where the exhaustion doctrine will apply) raising questions about the use of 'authorisation' for 'harvested material' and the products of 'harvested material' under the *Plant Breeder's Rights Act 1994* (Cth). The broader view should be favoured for both 'authorisation' and 'consent'.

### **Recommendation 10**

IP Australia should clarify the likely meanings of the terms 'authorisation' and 'consent' as they are used in the *Plant Breeder's Rights Act 1994* (Cth) and review the treatment

of 'authorisation' for 'harvested material' and the products of 'harvested material' under the *Plant Breeder's Rights Act 1994* (Cth).

### **Sales with the grantee's 'consent' – a step removed (§5.8)**

The *Plant Breeder's Rights Act 1994* (Cth) provides the exhaustion happens 'after the propagating material has been sold by the grantee or with the grantee's consent'. Often, the specific transaction involving the PBR owner passing on the PBR'ed variety (G0) is a step removed from the propagated or reproduced PBR'ed variety entering the market (G2+) (being sold), and the PBR owner's 'consent' (or 'authorisation') will be very difficult to address. This is particularly problematic for licensing and End Point Royalty arrangements where the PBR owner wants to trade only some of their PBR 'exclusive rights' and arrange for the royalty payments steps removed from the initial purchase of the PBR'ed variety. If the recent High Court decision in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* where the majority decided in favour of the exhaustion doctrine applies to the *Plant Breeder's Rights Act 1994* (Cth), then the first sale would exhaust the PBR with any following conditions imposed and enforced only through contract, equity and consumer law. The question is whether the 'exclusive rights' that apply to the new embodiments of the PBR'ed variety are appropriate? In the Advisory Council on Intellectual Property (ACIP) review of PBR enforcement the concern about the scope of 'exclusive rights' was that they did not apply to certain transactions that were important. ACIP considered various options rejecting a proposed new 'use right' and favouring a new 'purchase right'. This would address the specific concern of the grains industry about transactions that are currently problematic including direct users of harvested grains such as on-farm storage by growers, feeding livestock on farm, processing plants, feed lots, millers, maltsters and ethanol producers, and the specific concerns of the ornamental and horticulture sectors about transactions that are currently problematic including the sale of pot plants, cut flowers and fruit.

### **Recommendation 11**

The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) s 11 to include a 'purchase right' among the 'exclusive rights' of a PBR and this should only apply to taxa declared by the *Plant Breeder's Rights Regulation 1994* (Cth).

### **Recommendation 12**

IP Australia should implement as information and education awareness programs to clarify the place of consent to the production and reproduction of PBR'ed plant varieties used in farming activities (like farmer saved seeds) or where exhaustion has been limited and the produced and reproduced plants are then sold into a market.



# Listing of recommendations

## Recommendations

1. The Australian Government should continue to review the quantum of fees for the annual maintenance of a PBR and consider whether the escalating annual fee imposed on patents under the *Patents Act 1990* (Cth) might have some benefits for PBRs under the *Plant Breeder's Rights Act 1994* (Cth).
2. The Australian Government should consider using consistent terminology for revocation and surrender (termination) of PBRs under the *Plant Breeder's Rights Act 1994* (Cth) and distinguish between choosing not to renew a PBR (surrender) and refusing to pay a fee and other failings (revocation).
3. The Australian Government should retain the current PBR duration from the date of grant of 25 years for trees and vines and 20 years for any other variety.
4. The Australian Government should clarify that the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder's Rights Act 1994* (Cth). This is necessary to avoid the uncertainty that existed with the application of the implied licence doctrine, such as the decisions in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.
5. If the Australian Government considers the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder's Rights Act 1994* (Cth) is correct, then explanatory materials should be prepared to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of this doctrine. This might be explanatory materials, case studies, information sheets, and so on.
6. The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) to clarify that 'harvested material' that is also 'propagating material' is considered as 'propagating material' rather than just deemed 'propagating material'.
7. The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) s 14(2) that presently deals with 'harvested material' as 'propagating material' by removing that subsection.
8. IP Australia should prepare explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of these amendments. This might be explanatory materials, case studies, information sheets, and so on.
9. IP Australia should clarify the scope of 'sold' in the *Plant Breeder's Rights Act 1994* (Cth) s 23 exhaustion provisions as including any acts with the PBR'ed variety, and that any limitations are addressed through contract law with disputes resolved through contract and equity, subject to any limitations such as competition and consumer laws. Alternatively, if this is not accepted, then provide some clarity about the kinds of dealings that are less than a sale that exhausts the PBR through IP Australia prepared explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of the scope of 'sold'. This might be explanatory materials, case studies, information sheets, and so on.
10. IP Australia should clarify the likely meanings of the terms 'authorisation' and 'consent' as they are used in the *Plant Breeder's Rights Act 1994* (Cth) and review the treatment of 'authorisation' for 'harvested material' and the products of 'harvested material' under the *Plant Breeder's Rights Act 1994* (Cth).
11. The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) s 11 to include a 'purchase right' among the 'exclusive rights' of a PBR and this should only apply to taxa declared by the *Plant Breeder's Rights Regulation 1994* (Cth).
12. IP Australia should implement as information and education awareness programs to clarify the place of consent to the production and reproduction of PBR'ed plant varieties used in farming activities (like farmer saved seeds) or where exhaustion has been limited and the produced and reproduced plants are then sold into a market.

## Part 1: Introduction

Australia has vibrant domestic and export industries relying on plants. A key part of sustaining this industry is developing new varieties of plants, and a key part of that is an efficient plant breeder's rights scheme that incentivises and rewards producing (making) new and improved plant varieties. The *Plant Breeder's Rights Act 1994* (Cth) does just this, granting plant breeder's rights (PBRs)<sup>1</sup> with 'exclusive rights' to deal with a new plant variety<sup>2</sup> where that variety satisfies the thresholds of being distinct, uniform, stable and not, or only recently exploited.<sup>3</sup> As with most forms of intellectual property, the PBR is time limited to 25 years for trees and vines and 20 years for all other plants<sup>4</sup> or a shorter period if there is some action that ends those rights. This report is about ending those rights and what actions end a PBR before the statutory term expires. This is loosely called exhaustion, although in a technical legal sense, exhaustion is only one aspect of ending a PBR.<sup>5</sup> The others are termination (surrender),<sup>6</sup> revocation<sup>7</sup> and expiry.<sup>8</sup>

The origins of the modern concept of exhaustion trace back to two different places. The first is the European ideal that seeks to balance the interests of the intellectual property holder with the different interests of the intellectual property purchaser recognizing that, since Roman times, a purchaser has an entitlement to own and alienate their property.<sup>9</sup> In modern European times this was a debate in the context of the tension between free movement of goods in the European Union and the various national intellectual property laws limiting uses of the goods within a territory.<sup>10</sup> This distinguished between the existence of intellectual property and the exercise of intellectual property rights, the latter being generally exhausted when the goods enter the market (the first sale) with the consent of the intellectual property owner.<sup>11</sup> And the second is the United States ideal where the Supreme Court in *Bobbs-Merrill Co. v Straus* decided that a copyright ceased to apply to the sale of a copyrighted book after the first sale.<sup>12</sup> In both instances, the intellectual property owner's rights are limited by some action that balances the claims of others over the same property. It is, of course, a lot more complicated than this simple account suggests, with intra-national and inter-national dimensions. At the heart of the problem is the nature of the authorized, unauthorized or conditional dealing that leads to the exhaustion of intellectual property. Modern exhaustion might usefully be described as:

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<sup>1</sup> *Plant Breeder's Rights Act 1994* (Cth) s 44(1).

<sup>2</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>3</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(1).

<sup>4</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(2). Noting that 'plant' includes 'all fungi and algae but does not include bacteria, bacteroids, mycoplasmas, viruses, viroids and bacteriophages': s 3(1).

<sup>5</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23.

<sup>6</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

<sup>7</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50.

<sup>8</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22.

<sup>9</sup> See Herman Jehoram, 'Prohibiting Parallel Imports through Intellectual Property Rights' in David Vivas (ed.), *Intellectual Property Rights: Critical Concepts in Law*, Volume 5 (Routledge, 2006) p. 103. See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [24] (Kiefel CJ, Bell and Keane JJ).

<sup>10</sup> See Karen Banks and Giuliano Marenco, 'Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed' (1990) 15 *European Law Review* 224.

<sup>11</sup> For example, *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 16 provides: 'The Community plant variety right shall not extend to acts concerning any material of the protected variety ... which has been disposed of to others by the holder or with his consent, in any part of the Community, or any material derived from the said material, unless ...'.

<sup>12</sup> 210 U.S. 339, 350 (1908).

Exhaustion means the consumption of rights in intellectual property subject matter as a consequence of the legitimate transfer of the title in the tangible article that incorporates or bears the intellectual property asset in question. Exhaustion, therefore, is a natural consequence of the intangible nature of the assets covered by intellectual property, such as expressions, knowledge, reputation, quality, origin. Because of their intangible nature, they do not follow the tangible article with which they are associated.<sup>13</sup>

For PBRs under the *Plant Breeder's Rights Act 1994* (Cth) the question of when the PBRs exhausts, like exhaustion of intellectual property generally, is complicated. To address these complications and provide some insights into how the existing laws might be made better, this report is structured as follows:

- Part 2 – Outlines the international and national negotiations, laws and practices including the exhaustion scheme under the *Plant Breeder's Rights Act 1994* (Cth). This includes details about the legislation, legislative amendments, court decisions and practice information as a background to the policy assessment of exhaustion.
- Part 3 – Reviews the relevant prior academic and trade literature about exhaustion. This shows there has been little engagement with the exhaustion scheme under the *Plant Breeder's Rights Act 1994* (Cth).
- Part 4 – Reviews the empirical materials in the IP Australia Policy Register showing there have been no responses addressing exhaustion concerns, although the Plant Breeder's Rights Consultative Committee has received submissions addressing the issue of what constitutes selling for the purposes of exhaustion in the *Plant Breeder's Rights Act 1994* (Cth) scheme.
- Part 5 – Addresses the policy issues that arise about exhaustion under the *Plant Breeder's Rights Act 1994* (Cth). These include the termination (surrender) arrangements for PBRs, the revocation arrangements, the expiry of PBRs, implied license ideal and exhaustion, the exhaustion doctrine and 'harvested material' that is also 'propagating material', the meaning and consequences of selling PBR'ed materials, 'authorisation' for extension and exemption and 'consent' for exhaustion and Sales with the grantee's 'consent' – a step removed.
- Part 6 – This sets out the final words concluding that the *Plant Breeder's Rights Act 1994* (Cth) providing for interactions between basic PBR 'exclusive right' that are extended for 'harvested material' and products of 'harvested material', exempted for 'farming activities' and then exhausted on sale are complex. the recent High Court decision in *Calidad Pty Ltd v Seiko Epson Corporation* marked a significant change from the complicated and confusing implied licence doctrine to the more simple and robust exhaustion doctrine. The adoption of the exhaustion doctrine should clarify many of the presently uncertain interactions between these basic rights, extensions and exemptions. The result should be clear and more certain dealings with PBR'ed varieties.

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<sup>13</sup> World Intellectual Property Organisation, *Interface between Exhaustion of Intellectual Property Rights and Competition Law* (2011) CDIP/4/4 REV./STUDY/INF/2, [1].

## Part 2: Relevant negotiations, laws, practices, and so on

This part traces the legal context for the *Plant Breeder's Rights Act 1994* (Cth) relevant for understanding the exhaustion policy issues addressed in the subsequent parts.

### 2.1 WTO TRIPS Agreement and the UPOV scheme

The intention of the *Plant Breeder's Rights Act 1994* (Cth) was to give legislative effect<sup>14</sup> to Australia's commitments to the *International Convention for the Protection of New Varieties of Plants* done at Geneva on 19 March 1991 (UPOV 1991).<sup>15</sup> This was essentially a breeder's right<sup>16</sup> for a plant variety that is new, distinct, uniform and stable,<sup>17</sup> with the exclusive rights to produce, reproduce, condition, offer for sale, sell and market, export, import and stock for any of those purposes.<sup>18</sup> These breeder's rights are for a fixed duration from the grant of the rights.<sup>19</sup> This also addresses Australia's commitments to the World Trade Organisation's (WTO) *Agreement on Trade-Related Aspects of Intellectual Property Rights* (TRIPS Agreement)<sup>20</sup> that included a requirement to protect new plant varieties.<sup>21</sup> TRIPS does not, however, impose any limits on exhaustion except that any laws cannot discriminate between nationals of WTO members.<sup>22</sup> UPOV 1991, meanwhile, expressly provides for ending of the breeder's right in four circumstances: (1) at the end of the maximum term of the breeder's right being at least 25 years for trees and vines and at least 20 years for other variety forms (expiry);<sup>23</sup> (2) where the variety right is voluntarily surrendered (termination);<sup>24</sup> (3) where the variety right is revoked (revocation);<sup>25</sup> and (4) where the materials of the breeder's right protected variety 'has been sold or otherwise marketed by the breeder or with his consent' subject to some limitations (exhaustion).<sup>26</sup> The specific measures set out in UPOV 1991 are:

1. As a termination when the variety right is voluntarily surrendered or revoked:
  - (1) [*Reasons for cancellation*] (a) Each Contracting Party may cancel a breeder's right granted by it if it is established that the conditions laid down in Articles 8 [uniformity] or 9 [stability] are no longer fulfilled.
  - (b) Furthermore, each Contracting Party may cancel a breeder's right granted by it if, after being requested to do so and within a prescribed period:
    - (i) the breeder does not provide the authority with the information, documents or material deemed necessary for verifying the maintenance of the variety;
    - (ii) the breeder fails to pay such fees as may be payable to keep his right in force; or

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<sup>14</sup> See Senate, *Hansard*, 24 March 1994, p. 2306 (Senator John Faulkner); House of Representatives, *Hansard*, 24 August 1994, p. 157 (Minister for Administrative Services).

<sup>15</sup> [2000] ATS 6 (UPOV 1991).

<sup>16</sup> UPOV 1991, Article 2.

<sup>17</sup> UPOV 1991, Article 5.1.

<sup>18</sup> UPOV 1991, Article 14.1.

<sup>19</sup> UPOV 1991, Article 19.

<sup>20</sup> *Marrakesh Agreement Establishing the World Trade Organization* [1995] ATS 8, Annex 1C (*Agreement on Trade-Related Aspects of Intellectual Property Rights*) (TRIPS Agreement).

<sup>21</sup> TRIPS Agreement, Art 27.3(b).

<sup>22</sup> TRIPS Agreement, Art 6. This was confirmed in Ministerial Conference, *Declaration on the TRIPS Agreement and Public Health* (2001) WT/MIN(01)/DEC/2, [5(d)]. See also Justin Malbon, Charles Lawson and Mark Davison, *The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights: A Commentary* (Edward Elgar, 2014) pp. 171-185.

<sup>23</sup> UPOV 1991, Article 19.

<sup>24</sup> UPOV 1991, Article 22.1(b)(ii).

<sup>25</sup> UPOV 1991, Article 22.

<sup>26</sup> UPOV 1991, Article 16.1.

- (iii) the breeder does not propose, where the denomination of the variety is cancelled after the grant of the right, another suitable denomination.
  - (2) [*Exclusion of other reasons*] No breeder's right shall be cancelled for reasons other than those referred to in paragraph (1).<sup>27</sup>
2. On expiry at the end of the maximum term of the PBR:
- (1) [*Period of protection*] The breeder's right shall be granted for a fixed period.
  - (2) [*Minimum period*] The said period shall not be shorter than 20 years from the date of the grant of the breeder's right. For trees and vines, the said period shall not be shorter than 25 years from the said date.<sup>28</sup>
3. Where the variety right exhausts after an authorized/consented dealing:
- (1) [*Exhaustion of right*] The breeder's right shall not extend to acts concerning any material of the protected variety, or of a variety covered by the provisions of Article 14(5) [essentially derived and certain other varieties], which has been sold or otherwise marketed by the breeder or with his consent in the territory of the Contracting Party concerned, or any material derived from the said material, unless such acts:
    - (i) involve further propagation of the variety in question; or
    - (ii) involve an export of material of the variety, which enables the propagation of the variety, into a country which does not protect varieties of the plant genus or species to which the variety belongs, except where the exported material is for final consumption purposes.
  - (2) [*Meaning of 'material'*] For the purposes of paragraph (1), 'material' means, in relation to a variety:
    - (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.
  - (3) [*'Territory' in certain cases*] For the purposes of paragraph (1), all the Contracting Parties which are member States of one and the same intergovernmental organization may act jointly, where the regulations of that organization so require, to assimilate acts done on the territories of the States members of that organization to acts done on their own territories and, should they do so, shall notify the Secretary-General accordingly.<sup>29</sup>

The duration provision was accepted in the UPOV 1991 negotiations after some discussions about the suitable duration with proposals of between a minimum of 15 years and a maximum of 30 years.<sup>30</sup> At the time the Australian delegate was reported as stating:

... whilst it did not fully agree with the minimum period of 15 years, his Delegation was inclined to support the longer period of 30 years. He added that this would be useful in relation to excessive claims from some plant breeders who argued that, because of the length of the commercial life of their varieties and the time needed for the breeding and seed production processes, the period of 25 years was insufficient for the crops on which they worked.<sup>31</sup>

The final text was accepted setting a fixed minimum term from the grant with the potential for longer terms.<sup>32</sup>

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<sup>27</sup> UPOV 1991, Article 22.

<sup>28</sup> UPOV 1991, Article 19.

<sup>29</sup> UPOV 1991, Article 16.

<sup>30</sup> International Union for the Protection of New Varieties of Plants, Records of the Geneva Diplomatic Conference on the Revision of the International Convention for the Protection of New Varieties of Plants, UPOV Publication No. 346(E) (UPOV, 1992) [683]-[691] and [969]-[974] (pp. 279-280 and 324-325).

<sup>31</sup> UPOV Publication No. 346(E), above n. 30, [686] (p. 280).

<sup>32</sup> See UPOV 1991, Article 19.

The 'sold or otherwise marketed' exhaustion provision was accepted in the UPOV 1991 negotiations with minor word changes, in part, to clarify that exhaustion happened when the variety was 'sold or otherwise marketed' rather than the basic proposal of 'put on the market'.<sup>33</sup> These word changes were intended merely to 'align' the exhaustion provision with the 'exclusive rights' as they were set out in UPOV 1991 as 'a clarification and, without involving a change in substance'.<sup>34</sup> These measures have now been implemented in the *Plant Breeder's Rights Act 1994* (Cth).<sup>35</sup>

## **2.2 Plant Breeder's Rights Act 1994 (Cth)**

The *Plant Breeder's Rights Act 1994* (Cth) sets out a scheme for the grant of a PBR for a new variety that is distinct, uniform, stable and has not been, or only recently been exploited.<sup>36</sup> Once granted, the PBR is a series of 'exclusive rights':

to do, or to license another person to do, the following acts in relation to propagating material of the variety:

- (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).<sup>37</sup>

This extends to essentially derived varieties,<sup>38</sup> certain dependent plant varieties,<sup>39</sup> harvested material in certain circumstances,<sup>40</sup> products from harvested material in certain circumstances.<sup>41</sup> The exemption from these 'exclusive rights' are certain acts done for private, experimental or breeding purposes,<sup>42</sup> conditioning and use of farm saved seed<sup>43</sup> and acts authorised by or under a law of the Commonwealth, State or Territory.<sup>44</sup> The term of a PBR is 25 years for trees and vines and 20 years for any other variety<sup>45</sup> from the day of the PBR grant<sup>46</sup> unless it is an essentially derived variety or a dependent plant variety where the terms ends when PBR in the initial variety ends.<sup>47</sup>

Exhaustion, broadly conceived, is the ending of the statutory 'exclusive rights' conferred on a breeder<sup>48</sup> so that the PBR<sup>49</sup> is no longer enforceable against an infringer.<sup>50</sup> Key definitions are clustered around the ideal of 'propagating material':

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<sup>33</sup> UPOV Publication No. 346(E), above n. 30, pp. 32, 123, 420-421, 456 and 471-472.

<sup>34</sup> UPOV Publication No. 346(E), above n. 30, p. 420.

<sup>35</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 22(2) and 23.

<sup>36</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(1).

<sup>37</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>38</sup> *Plant Breeder's Rights Act 1994* (Cth) s 12.

<sup>39</sup> *Plant Breeder's Rights Act 1994* (Cth) s 13.

<sup>40</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14.

<sup>41</sup> *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>42</sup> *Plant Breeder's Rights Act 1994* (Cth) s 16.

<sup>43</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17.

<sup>44</sup> *Plant Breeder's Rights Act 1994* (Cth) s 18.

<sup>45</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(2).

<sup>46</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(1).

<sup>47</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 22(4) and (5).

<sup>48</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>49</sup> *Plant Breeder's Rights Act 1994* (Cth) s 44(1).

<sup>50</sup> *Plant Breeder's Rights Act 1994* (Cth) s 53(1).

**conditioning**, in relation to propagating material of a plant variety, means: (a) cleaning, coating, sorting, packaging or grading of the material; or (b) any other similar treatment; undertaken for the purpose of preparing the material for propagation or sale ...

**propagating material**, in relation to a plant of a particular plant variety, means 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.

**propagation**, in relation to a living organism or its components, means the growth, culture or multiplication of that organism or component, whether by sexual or asexual means ...

**reproduction**, in relation to propagating material of a plant of a particular variety, means any process, whereby the number of units of that propagating material that have the capacity to grow into independent plants is multiplied.<sup>51</sup>

With the grant of a PBR,<sup>52</sup> the PBR owner can enjoy the 'exclusive rights'<sup>53</sup> until they end on termination (surrender),<sup>54</sup> revocation,<sup>55</sup> and expiry<sup>56</sup> or exhaustion.<sup>57</sup> The idea of exhaustion, set out in the Explanatory Memorandum to the *Plant Breeder's Rights Bill 1994* (Cth) was 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'.<sup>58</sup> When reduced to the *Plant Breeder's Rights Act 1994* (Cth), exhaustion happens when there is a sale of the protected materials by the PBR owner or with their consent subject to some exceptional circumstances,<sup>59</sup> being a sale by the PBR owner or with their consent if there is further production or reproduction of the protected materials,<sup>60</sup> or where the protected materials are exported to a country without plant breeder's rights (or plant variety rights) and the materials are not for final consumption.<sup>61</sup> There are then specific exhaustion provisions for essentially derived varieties<sup>62</sup> and later acts where equitable remuneration has been paid.<sup>63</sup>

The exhaustion provisions in the *Plant Breeder's Rights Act 1994* (Cth) mirror the UPOV 1991 Article 16 (see Annex) with two significant differences. First, UPOV 1991 has a broader application to cover 'material' (meaning 'propagating material', 'harvested material' and the products of 'harvested material'),<sup>64</sup> while the *Plant Breeder's Rights Act 1994* (Cth) addresses only 'propagating material'.<sup>65</sup> Secondly, UPOV 1991 provides for 'sold or otherwise marketed' as the exhaustion event<sup>66</sup> while the *Plant Breeder's Rights Act 1994* (Cth) only provides for 'sold'.<sup>67</sup> The intention of this UPOV 1991 provision as enacted in the *Plant Breeder's Rights Act 1994* (Cth) was for the 'exclusive rights'<sup>68</sup> to exhaust on sale of the purchased plants (G0) so that the PBR 'exclusive rights' do not apply to the first growing and sale (G1) but do apply

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<sup>51</sup> *Plant Breeder's Rights Act 1994* (Cth) s 3(1).

<sup>52</sup> *Plant Breeder's Rights Act 1994* (Cth) s 44(1).

<sup>53</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11 and the cascading rights in ss 16, 17, 18 and 19.

<sup>54</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

<sup>55</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50.

<sup>56</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22.

<sup>57</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23.

<sup>58</sup> Explanatory Memorandum to the *Plant Breeder's Rights Bill 1994* (Cth) [36].

<sup>59</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>60</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>61</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(d).

<sup>62</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 23(1) and (2).

<sup>63</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(3).

<sup>64</sup> UPOV 1991, Article 16.2.

<sup>65</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>66</sup> UPOV 1991, Article 16.1.

<sup>67</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>68</sup> UPOV 1991, Article Article 14.1(a); *Plant Breeder's Rights Act 1994* (Cth) s 11.

for subsequent growings and with exhaustion at the time of those later sales (G2+).<sup>69</sup> For exhaustion of the PBR, the *Plant Breeder's Rights Act 1994* (Cth) section 23 provides:

- (1) PBR granted in a plant variety does not extend to any act referred to in section 11 [exclusive rights]:
  - (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.
- (2) If:
  - (a) a plant variety is declared to be an essentially derived variety of another plant variety (the initial variety); and
  - (b) PBR in the essentially derived variety is held both by the grantee of PBR in the essentially derived variety and by the grantee of PBR in the initial variety;the reference in subsection (1) to propagating material sold by the grantee or with the grantee's consent is a reference to propagating material sold by, or with the consent of, both of the grantees referred to in paragraph (b).

Note: For declarations of essential derivation to which this subsection applies, see section 40 [essential derivation].
- (3) If, under subsection 18(1) [authorised Commonwealth, State or Territory act], equitable remuneration is paid, or arranged to be paid, to the grantee of PBR, or an exclusive licensee of the grantee, in a plant variety in respect of an act (the first act) in relation to propagating material of that variety before the person does the act, PBR in that variety does not extend to any later act (the later act) referred to in section 11 [exclusive rights] in relation to that propagating material unless the later act:
  - (a) involves the further production or reproduction of that propagating material; or
  - (b) 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.
- (4) 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 term 'sold' is not defined in the *Plant Breeder's Rights Act 1994* (Cth), although the term 'sell' is defined to include 'letting on hire and exchanging by way of barter'.<sup>70</sup> Perhaps importantly, the term 'sold' is also used in the context of a grace period for registering PBRs where a note draws attention to the definition of 'sell'.<sup>71</sup> This note was added by the *Plant Breeder's Rights Amendment Act 2002* (Cth)<sup>72</sup> cross referencing 'sell', presumably because it was relevant to the use of the term 'sold'.<sup>73</sup>

The exhaustion scheme has been amended two times since the *Plant Breeder's Rights Act 1994* (Cth) was passed. First, the *Plant Breeder's Rights Amendment Act 2002* (Cth) repealing

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<sup>69</sup> Advisory Council on Intellectual Property, *A Review of Enforcement of Plant Breeder's Rights*, Final Report (IP Australia, 2010) p. 72. The Explanatory Memorandum to the *Plant Breeder's Rights Bill 1994* (Cth) [36] provides: 'Specifies 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'.

<sup>70</sup> *Plant Breeder's Rights Act 1994* (Cth) s 3(1) ('sell').

<sup>71</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(6).

<sup>72</sup> *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1 (item 24).

<sup>73</sup> Explanatory Memorandum to the *Plant Breeder's Rights Amendment Bill 2002* (Cth) p. 15. See also *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 326-328 (Carr J).



the exemption from PBRs of using propagating materials for food, food ingredient or fuel and any purposes that did not involve production or reproduction of the propagating material clarifying that the PBR exhausted and replacing this with a limitation on the PBR where there are laws authorizing acts with the PBR'ed propagating materials with the payment of equitable remuneration.<sup>74</sup> The exhaustion provision<sup>75</sup> was amended<sup>76</sup> as a consequential change clarifying 'that the rights of the breeder are exhausted following payment of equitable remuneration except in those instances where the variety is propagated through more than one generation'.<sup>77</sup> This addressed exhaustion of later acts where equitable remuneration had been paid for the first act covered by a PBR over propagating material<sup>78</sup> and then clarification that this limitation does not apply to any reproduced propagating material.<sup>79</sup> Secondly, the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018* (Cth) added a note to cross reference declarations of essential derivation that were already subject to the PBR not being exhausted.<sup>80</sup>

### **2.3 *Cultivaust Pty Ltd v Grain Pool Pty Ltd***

The place of exhaustion has remained contentious ever since the Federal Court decision in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.<sup>81</sup> In that case 'Franklin' barley that was developed by the State of Tasmania and subsequently protected with a PBR.<sup>82</sup> The State of Tasmania granted an exclusive licence of those rights to Cultivaust Pty Ltd (Cultivaust). The State of Tasmania and Cultivaust then supplied the PBR'ed barley to Grain Pool Pty Ltd (Grain Pool), a compulsory statutory marketing authority established under the *Grain Marketing Act 2002* (WA), that was then allocated and distributed to farmers for growing. The farmers then grew the barley and delivered up a portion of the harvest to Grain Pool for sale to maltsters and animal feeders (expressly not reproduction) and saved the remainder for planting and harvesting in the next season(s) and also deliverer up those harvests to Grain Pool. The State of Tasmania and Cultivaust were seeking to impose a harvest production levy or end point royalty (EPR) against Grain Pool rather than try to enforce their PBR and seek their royalties from each of the growers. The dispute was whether by storing, selling and exporting barley grown from the farm saved seed (the second and subsequent generation crops), Grain Pool had infringed the State of Tasmania's (and Cultivaust as its licensee) PBR?

At first instance in the Federal Court, Justice Mansfield in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*<sup>83</sup> found there was no infringement. He reasoned that any rights the State of Tasmania (and Cultivaust as its licensee) had under the *Plant Variety Rights Act 1987* (Cth) exhausted when they sold propagating material to a grower, and where the grower retained seed from the harvest and used it for a second-generation harvest, there were 'no statutory rights' over

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<sup>74</sup> *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1, item 4.

<sup>75</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23.

<sup>76</sup> Inserting *Plant Breeder's Rights Act 1994* (Cth) ss 23(3) and (4): *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1, item 5.

<sup>77</sup> Explanatory Memorandum to the *Plant Breeder's Rights Amendment Bill 2002* (Cth) p. 12.

<sup>78</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(3).

<sup>79</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(4). See ACIP Review of Enforcement, above n. 69, p. 71.

<sup>80</sup> *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018* (Cth) s 3 and sch 1, item 15. See also Explanatory Memorandum to the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018* (Cth) [37].

<sup>81</sup> (2004) 62 IPR 11.

<sup>82</sup> The new variety was originally protected as a plant variety right under the *Plant Variety Rights Act 1987* (Cth) and this became a PBR under the transition provisions of the *Plant Breeder's Rights Act 1994* (Cth) s 82(1): *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [156] (Mansfield J).

<sup>83</sup> (2004) 62 IPR 11 (Mansfield J).

the second-generation harvest.<sup>84</sup> Justice Mansfield then considered the *Plant Breeder's Rights Act 1994* (Cth) that had made significant changes and particularly in relation to second and subsequent generations harvested from farm saved seed.<sup>85</sup>

Justice Mansfield considered that the PBR extended to all the dealings with barley seeds (or grains) as propagating materials including selling, offering for sale, either directly or through Cultivaust, and to exporting.<sup>86</sup> He considered that these rights then cascaded to include material harvested from the propagating material<sup>87</sup> and products made from harvested material.<sup>88</sup> Various acts he considered were permitted as not infringing the PBR<sup>89</sup> were: some private, experimental or breeding purposes,<sup>90</sup> conditioning and use of farm saved seed,<sup>91</sup> foods, food ingredients or fuels,<sup>92</sup> reasonable public access to that plant variety,<sup>93</sup> and exhaustion.<sup>94</sup> Justice Mansfield then contrasted exhaustion with some private, experimental or breeding purposes,<sup>95</sup> conditioning and use of farm saved seed,<sup>96</sup> foods, food ingredients or fuels,<sup>97</sup> saying:

Any act which would otherwise be inconsistent with the PBR referred to in s 11 is not within the PBR if it takes place after the propagating material has been sold, unless the act of alleged infringement of the PBR either 'involves further production or reproduction' of the propagating material, or involves the export of propagating material to a country that does not provide PBR in relation to the particular variety and is for a purpose other than 'final consumption'.<sup>98</sup>

Justice Mansfield found that all the barley made available by Grain Pool and others was grown and harvested, including second and subsequent generations harvested from farm saved seed, and delivered to Grain Pool.<sup>99</sup> Having established this context Justice Mansfield interpreted the definition of 'propagating material' in the *Plant Breeder's Rights Act 1994* (Cth) and concluded that:

'Propagating material' is defined to refer to a particular plant with reproductive capacity. It is not defined generically, so as to refer to all plants with reproductive capacity as being some form of collective propagating material. Its emphasis is upon the reproductive unit from which another essentially similar unit can be produced. That is consistent with the definition of 'propagation' as referring to the process by which a plant grows or multiplies. It also is consistent with the definition of 'reproduction', as referring

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<sup>84</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [159] and [163]-[164] (Mansfield J).

<sup>85</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [165] (Mansfield J).

<sup>86</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [167] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>87</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14.

<sup>88</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [168]-[169] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>89</sup> *Plant Breeder's Rights Act 1994* (Cth) s 53(1).

<sup>90</sup> *Plant Breeder's Rights Act 1994* (Cth) s 16.

<sup>91</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17.

<sup>92</sup> See *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1, item 4. See also *Plant Breeder's Rights Act 1994* (Cth) s 18, although subsequently repealed.

<sup>93</sup> *Plant Breeder's Rights Act 1994* (Cth) s 19.

<sup>94</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [172] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 23.

<sup>95</sup> *Plant Breeder's Rights Act 1994* (Cth) s 16.

<sup>96</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17.

<sup>97</sup> *Plant Breeder's Rights Act 1994* (Cth) s 18, now repealed.

<sup>98</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [177] (Mansfield J).

<sup>99</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [179]-[180] (Mansfield J).

to the process by which particular propagating material, that is, a plant capable of reproduction, is able to generate multiple individual plants capable of reproduction.<sup>100</sup>

Next, he accepted that the PBR's exclusive rights were in respect of the 'propagating material'<sup>101</sup> that was extended in certain circumstances to the production or reproduction of propagating material without the authorisation of the grantee (harvested materials)<sup>102</sup> and products obtained from harvested material in certain circumstances (products of harvested materials).<sup>103</sup> The products of harvested materials were not in issue in this case.<sup>104</sup> Justice Mansfield considered that the exclusive rights were 'in relation to propagating material'<sup>105</sup> and this meant that the extension of the exclusive right to the harvested materials<sup>106</sup> (and the products of harvested materials)<sup>107</sup> would provide some insight into restraints imposed by the exclusive rights.<sup>108</sup> For the first generation of seed (G1) they could be stored and sold because 'the supply of the seed necessarily authorised the use of that seed to grow a crop and the sale of the crop from that seed' (implied licence), but not the reproduction of the propagating materials.<sup>109</sup> Where seeds were saved (farm saved seeds) and grown for a second generation (G2), they can be used where there is no infringement.<sup>110</sup> This is where 'the use of farm saved seed for reproducing propagating material or by the reproduction of that further propagating material ... use[d] as farm saved seed'.<sup>111</sup> The sale of those saved seeds (G2 and G2+) is possible because the 'the second and subsequent generations of crop are also to be treated as if the harvested material were propagating material' attracting the PBR's 'exclusive rights' as 'propagating material',<sup>112</sup> except for the harvest retained as farm saved seed.<sup>113</sup> The specific application of these understandings is set out below (see §§5.4-5.8).

For Grain Pool, as the accumulator wanting to identify PBR protected materials delivered to it, the concern was that identifying seeds that were propagating material, whether or not they were the originally supplied seeds of second or subsequent generation, was difficult.<sup>114</sup> Justice Mansfield considered this concern was misplaced because 'both the second generation crop, and any crop harvested from it, are to be treated as propagating material' to which the PBR's 'exclusive rights' apply 'provided first that the production or reproduction

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<sup>100</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [183] (Mansfield J). See also *Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís*, Opinion of the Advocate General (2019) Case C-176/18, [31] (H. Saugmandsgaard Øe).

<sup>101</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [184] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>102</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14.

<sup>103</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [185] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>104</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [205] (Mansfield J).

<sup>105</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>106</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14.

<sup>107</sup> *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>108</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [185] (Mansfield J).

<sup>109</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186] (Mansfield J).

<sup>110</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 17(1)(d) and (e).

<sup>111</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>112</sup> As in *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>113</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [188] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 14(2).

<sup>114</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [189] (Mansfield J).

of the crop is without the authorisation of the grantee<sup>115</sup> and ‘provided second that the condition “the grantee does not have a reasonable opportunity to exercise its PBR in relation to the propagating material”’.<sup>116</sup> And applying these provisos was a question of fact.<sup>117</sup>

While it was convenient for the State of Tasmania’s and Cultivaust to deal with Grain Pool as the monopoly statutory marketing authority to impose a harvest production levy or EPR, this was immaterial for the *Plant Breeder’s Rights Act 1994* (Cth) because the State of Tasmania and Cultivaust could have pursued the growers.<sup>118</sup> And because the State of Tasmania and Cultivaust knew both that growers were saving seeds for future harvests for sale and export and that a PBR applied to those materials and could have been subjected to conditions at the point of original sale.<sup>119</sup> They therefore had a ‘reasonable opportunity’ to exercise their PBR but failed to take up that opportunity against the growers.<sup>120</sup> As there had been a ‘reasonable opportunity’ to exercise their PBR then the PRB’s ‘exclusive rights’ did not extend to the ‘harvested material’ of second and subsequent generations.<sup>121</sup>

In my view, s 14 contemplates the extension of PBR to the harvest from propagating material only if the grantee did not have a reasonable opportunity to exercise PBR in relation to the propagating material. By the exercise of PBR, the harvest would not become subject to PBR, but the grower would be liable for infringement of the PBR including accounting for the benefits of the infringement.<sup>122</sup>

Applying his reasoning to the circumstances of the allegation that Grain Pool had infringed the PBR by storing a PBR’ed variety for the purposes of offering for sale, selling, exporting and stocking material for those purposes,<sup>123</sup> Justice Mansfield considered:

1. *Initial variety GO* – The grain purchased by the growers (GO) was ‘propagating material’ to which all the ‘exclusive rights’ applied.<sup>124</sup> There was no infringement of the ‘exclusive rights’ as the State of Tasmania and Cultivaust were the PBR owners selling their ‘propagating material’ to the growers as purchasers consistent with all their ‘exclusive rights’.<sup>125</sup> Grain Pool was not involved or affected at this stage as their only role was to accept harvested grain (G1+) from growers.<sup>126</sup>
2. *First generation G1* – The grain harvested (G1) from the purchased grain (GO) was ‘harvested material’ treated as ‘propagating material’ to which all the ‘exclusive rights’ could have applied,<sup>127</sup> except:

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<sup>115</sup> See *Plant Breeder’s Rights Act 1994* (Cth) 14(1)(a).

<sup>116</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [190] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1)(b).

<sup>117</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [191] (Mansfield J).

<sup>118</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [195] (Mansfield J).

<sup>119</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [197] (Mansfield J).

<sup>120</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [199] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1)(b).

<sup>121</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [199]-[200] (Mansfield J).

<sup>122</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [200] (Mansfield J).

<sup>123</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [7] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 11(c) (offering for sale), (d) (selling), (f) (exporting) and (g) (stock material for those purposes).

<sup>124</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [167] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 11.

<sup>125</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [167] (Mansfield J).

<sup>126</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [5] (Mansfield J).

<sup>127</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [168] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14.

- (a) The growers did not infringe the ‘exclusive rights’ as there was an implied licence for the growers to grow and sell that harvested material (G1)<sup>128</sup> because the State of Tasmania and Cultivaust did not impose any conditions on the sale of the grain purchased by the growers (G0).<sup>129</sup> Further, there was also a right for growers to condition and use farm saved seeds (G1) for reproducing further propagating material (G2+) but not producing propagating material.<sup>130</sup>
- (b) For Grain Pool there was no infringement from the grower harvested material (G1) delivered to them as it was *not* ‘harvested material’ to be treated as ‘propagating material’ because it was grown (‘produced and reproduced’) with the authorization of the PBR owner being the State of Tasmania and Cultivaust.<sup>131</sup> This authorisation was because there was an implied licence for growers to grow and sell their crop (at the G0 stage).
3. *Second and later generations G2+* – For Grain Pool there was no infringement from the grain grown and harvested from farm saved seeds (G2+) because growers can save harvested material for conditioning and use to reproduce (but not produce) further harvested material.<sup>132</sup> The implied licence to grow and sell the first crop (G0) exhausted after that first crop was sold or saved and a PBR could have been enforced against the growers for that second and later generation ‘propagating material’.<sup>133</sup> And even though the State of Tasmania and Cultivaust did not authorize production or reproduction of second and later generation ‘propagating material’,<sup>134</sup> there was a ‘reasonable opportunity’ for the State of Tasmania and Cultivaust to exercise their PBRs by imposing conditions on growers to prevent those growers from dealing in those crops.<sup>135</sup> This was specifically relevant because the evidence showed that even when Grain Pool indicated they would not impose the State of Tasmania’s and Cultivaust’s preferred production royalty or EPR, they still did not impose limitations on growers dealing with second and later generation ‘propagating material’.<sup>136</sup> As a consequence, the grain grown and harvested from farm saved seeds was *not* to be treated as ‘propagating material’ because it was grown (‘produced and reproduced’) with the PBR owner being the State of Tasmania and Cultivaust having had a ‘reasonable opportunity’ to exercise their PBR.<sup>137</sup> The facts in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* are significant here because Cultivaust sent a letter before action to Grain Pool on 16 April 1996 asserting and exercising their

<sup>128</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

<sup>129</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [150] (Mansfield J).

<sup>130</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [175] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 14(2) and 17(1).

<sup>131</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1)(a).

<sup>132</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187]-[188] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 14(2) and 17(1).

<sup>133</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [195] and [197] (Mansfield J).

<sup>134</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [192] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1)(a).

<sup>135</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [197]-[199] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1).

<sup>136</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [198] (Mansfield J). Noting the solicitors for Cultivaust wrote to Grain Pool asserting their PBR: see [138], [200]-[201] and [203].

<sup>137</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [199] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1)(b).

PBR.<sup>138</sup> After that date, the deeming of the ‘exclusive rights’ to the ‘harvested material’ (and products of ‘harvested material’) would not apply because there then had been, from the date of the letter, a ‘reasonable opportunity’ to exercise the PBR.<sup>139</sup> The implied licence for the growers to sell the first harvest, however, remained, although not for the second and subsequent harvests.<sup>140</sup> The effect of the 16 April 1996 letter before action was marginal because Cultivaust had supplied almost all the seeds that resulted in the harvests before that date, including the harvests from farm saved seeds.<sup>141</sup> The quantum of damages from possible Grain Pool’s infringement after the 16 April 1996 letter before action did not have to be determined as the claim failed because that harvest was within the bounds of the now repealed food and feed exemption.<sup>142</sup>

Justice Mansfield then considered exhaustion<sup>143</sup> and where the allegedly infringing act happens *after* the ‘propagating material’ has been sold with the grantee’s consent, then PBR does not exhaust where there is ‘*further* production or reproduction of the material’ (emphasis added).<sup>144</sup> Applied to Grain Pool, Justice Mansfield considered:

1. *Initial variety G0* – The grain purchased by the growers (G0) as ‘propagating material’ was sold by the State of Tasmania and Cultivaust with an implied licence for the growers to grow and sell that harvested material (G1),<sup>145</sup> and this was a bare implied licence because the State of Tasmania and Cultivaust did not impose any conditions on the sale of the grain purchased by the growers (G0) when they could have.<sup>146</sup> The PBR’s ‘exclusive rights’ also exhausts on the consented first sale except where there is ‘*further* production or reproduction’ (emphasis added) of the propagating material or export of propagating material for a purpose other than ‘final consumption’ to a country that ‘does not provide PBR in relation to the variety’.<sup>147</sup> There is, however, a dissonance in Justice Mansfield’s decision because there was a first sale presumably exhausting the PBR’s ‘exclusive rights’ while there was also an implied licence to grow and sell the grain harvested (G1) from the purchased grain (G0) – if the sale exhausts the PBR’s ‘exclusive rights’ then there is no need for an implied licence?<sup>148</sup> The Grain Pool was not involved or affected at this stage as their only role was to accept harvested grain (G1+) from growers,<sup>149</sup> and so the issue was not addressed or resolved. Importantly, however, Justice Mansfield and the State of Tasmania and Cultivaust all accepted that growers had an implied licence to grow and sell the harvest G0 seeds that were purchased without conditions,<sup>150</sup> even though they could

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<sup>138</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [138] and [203] (Mansfield J).

<sup>139</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J).

<sup>140</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J).

<sup>141</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [204] (Mansfield J).

<sup>142</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [204] and [226]-[227] (Mansfield J).

<sup>143</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23.

<sup>144</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [209] (Mansfield J). See also *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] and [55] (Finn, Emmett and Bennett JJ); *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1)(c).

<sup>145</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

<sup>146</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [150] (Mansfield J).

<sup>147</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [177] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1)(c) and (d).

<sup>148</sup> This dissonance was addressed by the High Court in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [84] (Kiefel CJ, Bell and Keane JJ) and [141] (Gageler J).

<sup>149</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [5] (Mansfield J).

<sup>150</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

have been sold subject to conditions (as the 16 April 1996 letter before action demonstrates).

2. *First generation G1* – The sale of grain harvested (G1) from the purchased grain (G0) does exhaust where the propagating material was lawfully acquired unless there is ‘further production or reproduction’ of the propagating material or export of propagating material for a purpose other than ‘final consumption’ to a country that ‘does not provide PBR in relation to the variety’.<sup>151</sup> To be clear, however, the growers have an implied licence to sell their harvest<sup>152</sup> and the exhaustion does not apply to growing (‘production or reproduction’)<sup>153</sup> the G1 because that will be ‘further production or reproduction’ (emphasis added).<sup>154</sup> Again, the Grain Pool was not involved or affected at this stage as their only role was to accept harvested grain (G1+) from growers,<sup>155</sup> and Justice Mansfield had accepted that the growers had an implied licence to grow and sell the grain harvested (G1) from the purchased grain (G0).<sup>156</sup>
3. *Second and later generations G2+* – Justice Mansfield considered that the State of Tasmania’s and Cultivaust’s PBR was ‘spent’ (exhausted) after the first harvest (G1) was delivered to Grain Pool with the growers’ implied licence to grow and sell the grain harvested (G1) from the purchased grain (G0) *unless* this was mediated by the *Plant Breeder’s Rights Act 1994* (Cth) provisions for ‘harvested material’ or products of ‘harvested material’ (the ‘reasonable opportunity’) or exhaustion (‘further production or reproduction’ or export to a country without PBR, and so on).<sup>157</sup> He concluded that the saving of seeds and their further growing and delivery of saved seed harvested material to Grain Pools (G2+) did not exhaust the PBR because there was a ‘further production or reproduction of the propagating material’ (emphasis added) of the saved seed harvested materials.<sup>158</sup> Justice Mansfield’s reasoning appears to be that ‘the word “further” in s 23(1)(c) provides the reason for treating the first generation crop differently, and for excluding from the aegis of s 23 the second and subsequent generation crops’.<sup>159</sup> The effect of the word ‘further’ was to preserve the PBR’s ‘exclusive rights’ where there is more production or reproduction of the propagating material (G2+) (or export to a country without PBR, and so on).<sup>160</sup> Presumably, where ‘harvested material’ from saved seed is sold that will exhaust the PBR unless it further attracts the ‘further production or reproduction of the propagating material’ (emphasis added) limit on exhaustion.<sup>161</sup> Importantly, here the farmer saved seed exemption applies so that a grower can save

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<sup>151</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1)(c) and (d).

<sup>152</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>153</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 11(a).

<sup>154</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1)(c).

<sup>155</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [5] (Mansfield J).

<sup>156</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192], [203] and [210] (Mansfield J).

<sup>157</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [209] (Mansfield J).

<sup>158</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210]-[211] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1).

<sup>159</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>160</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1)(c) and (d).

<sup>161</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [209] (Mansfield J).

‘harvested material’,<sup>162</sup> that does not exhaust because it attracts the ‘*further* production or reproduction of the propagating material’ (emphasis added).<sup>163</sup>

Significantly, Justice Mansfield expressly rejected Grain Pool’s contention that the lawful purchase of the propagation material by growers (G0) exhausted the State of Tasmania and Cultivaust PBR’s ‘exclusive rights’.<sup>164</sup> If that had been accepted then, presumably because the State of Tasmania and Cultivaust did not impose any conditions on the sale of the grain purchased by the growers (G0),<sup>165</sup> Grain Pool would not have been subject to any PBR infringement claims as the PBR’s ‘exclusive right’ would have all exhausted on the first sale to the growers (G0).

On appeal to the Full Federal Court, Justices Finn, Emmett and Bennett did not decide any of these matters as the appeal was confined to the proper construction of the now repealed exception of foods, food ingredients or fuels.<sup>166</sup> The decision did, however, provide some useful commentary. Justices Finn, Emmett and Bennett considered that the exhaustion included two distinct qualifications to the PBR’s ‘exclusive rights’, the latter a qualification of the former:

1. The exhaustion provision<sup>167</sup> qualifies the PBR’s ‘exclusive rights’<sup>168</sup> by limiting the operation of the PBR ‘exclusive rights’ that apply ‘to propagating material *after the propagating material has been sold* by the grantee or with the grantee’s consent’ (emphasis in original).<sup>169</sup>
2. After the sale of propagating material, the ‘exclusive rights’ will apply again if there is either ‘*further* production or reproduction of the material’ (emphasis added) or ‘the export of the material, for a purpose other than final consumption, to a country that does not provide PBR’.<sup>170</sup> In effect, while the PBR’s ‘exclusive rights’ exhausted for G0 and G1 on sale, the grower of G2+ will be *further* producing or reproducing the materials that are propagating materials then the PBR’s ‘exclusive rights’ will apply (and will not have exhausted).

Justices Finn, Emmett and Bennett then concluded that Justice Mansfield’s treatment of the exhaustion issue was ‘unexceptionable’.<sup>171</sup> And they noted that for them, Justices Finn, Emmett and Bennett, it was ‘unnecessary to express any view on the specific operation of s 23(1)’.<sup>172</sup>

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<sup>162</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187] and [210] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 17.

<sup>163</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>164</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [211] (Mansfield J).

<sup>165</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [150] (Mansfield J).

<sup>166</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [1] (Finn, Emmett and Bennett JJ). See also *Plant Breeder’s Rights Act 1994* (Cth) s 18, although subsequently repealed.

<sup>167</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23.

<sup>168</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 11.

<sup>169</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] (Finn, Emmett and Bennett JJ).

<sup>170</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] (Finn, Emmett and Bennett JJ).

<sup>171</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [55] (Finn, Emmett and Bennett JJ).

<sup>172</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] (and [55]) (Finn, Emmett and Bennett JJ).



## 2.4 Sun World International Inc v Registrar of Plant Breeder's Rights

In *Sun World International Inc v Registrar of Plant Breeder's Rights* the dispute concerned, in part, the sale of plant material where registration was sought under the *Plant Variety Rights Act 1987* (Cth).<sup>173</sup> Under that scheme, an application could be refused where 'the sale took place ... before the making of the application'<sup>174</sup> and where "'sell" in relation to a plant or reproductive material of a plant, includes let on hire and exchange by way of barter'.<sup>175</sup> The Registrar of Plant Breeder's Rights (Registrar) had refused the grant of a plant variety right on the basis that the plant materials had been sold some years before the application was made.<sup>176</sup> The question on appeal was whether there had been a 'sale' for the purposes of the *Plant Variety Rights Act 1987* (Cth)?<sup>177</sup> Importantly, there had been five significant transactions before the application with each transaction involving an agreement that was wider in scope than the mere disposition of plant material with the other party and included restrictions or controls on the use of the materials.<sup>178</sup> In resolving the dispute the question was stated as 'it all comes back to whether Parliament intended the word "sell" ... be construed as being confined to a transfer of the general absolute property in the plant or reproductive material for a consideration limited to money'.<sup>179</sup> Justice Carr concluded, and Justices Burchett and Mansfield agreed:<sup>180</sup>

in my opinion when Parliament provided in s 3 of the [*Plant Variety Rights Act 1987* (Cth)] that 'sell' in relation to a plant or reproductive material of a plant, includes let on hire and exchange by way of barter, it intended the word 'sell' to be interpreted in a very wide sense and not just in its primary sense. In my view, so construed, 'sell' encompasses the sales which were made as part of the five transactions described above. Put another way, I do not think that the above definition of 'sell' should be construed as 'sell' means sell (*stricto sensu*) and includes 'let on hire and exchange by way of barter'. In my opinion there are sufficient contextual indications that the words 'sale' and 'sell' were used in the [*Plant Variety Rights Act 1987* (Cth)], not in their strict technical sense, but in their ordinary English meaning. In each of the five transactions there was a sale of the plant or reproductive material for a consideration which included money. Neither the fact that the price was low or nominal, nor that the sale was part of a larger transaction nor that restrictive covenants were imposed, in my view removes the legal characteristic of a relevant sale from the transactions.<sup>181</sup>

The effect of this decision was that transactions with the plant material that included restrictive covenants on use were held to be sales including: (1) a sale with a condition to 'not asexually propagate from the grapevines or sell, transfer or give them or their propagation wood away' for the life of a plant patent,<sup>182</sup> (2) licensing growers to asexually propagate the plant material and only supply third parties with prior approval and no right to sub-license,<sup>183</sup> (3) agreements not to propagate, reproduce or market without the prior authorisation and an exclusive marketing right over the fruit for five years (two transactions),<sup>184</sup> and (4) 'a

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<sup>173</sup> (1998) 42 IPR 321 (Burchett, Carr and Mansfield JJ).

<sup>174</sup> *Plant Variety Rights Act 1987* (Cth) s 14.

<sup>175</sup> *Plant Variety Rights Act 1987* (Cth) s 3(1) ('sell').

<sup>176</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 323 (Carr J).

<sup>177</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 322 (Burchett J), 323 (Carr J) and 329 (Mansfield J).

<sup>178</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 327 (Carr J).

<sup>179</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 328 (Carr J).

<sup>180</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 322-323 (Burchett J) and 329 (Mansfield J).

<sup>181</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 328 (Carr J).

<sup>182</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 163 (French J).

<sup>183</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

<sup>184</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

territorially limited exclusive licence to propagate and distribute on a controlled basis propagating material ... under a restricted licence to grow the vine only' and growers undertook 'that they would never reproduce or distribute propagating material of the vine'.<sup>185</sup> There was also evidence that 'no commercial arm's length transactions had occurred'.<sup>186</sup> Importantly, an assignment of rights to apply for a PBR that included a disposition of plant materials was not considered to be a sale in this matter,<sup>187</sup> although it could be in some circumstances but they were not addressed.<sup>188</sup>

This analysis of *Sun World International Inc v Registrar of Plant Breeder's Rights* shows that the term 'sold' could engage exhaustion merely where there has been any exchange involving valuable consideration,<sup>189</sup> and not the more limited circumstances where there is a transfer of the title of the property in goods from a seller to a buyer for a money consideration. More broadly, this might be any commercial arrangement where the PBR owner authorizes another to deal with the PBR, and then any limitations imposed on that dealing through contract and equity would apply without recourse to the PBRs 'exclusive rights' under the *Plant Breeder's Rights Act 1994* (Cth).

### **2.5 Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís**

This case concerned the mandarin tree variety 'Nadorcott' that Sanchís purchased between 1995 and 2006 from a nursery that was open to the public and planted in 2005 (506 trees) and 2006 (998 trees) with some plants replaced in 2006 (100 trees) with other plants purchased from the same nursery.<sup>190</sup> A community plant variety right under the *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights* (Regulation 2100/94) was applied for in 1995, granted in 2004 and all appeals finally dismissed in 2006.<sup>191</sup> The issue before the court was whether the planting and harvesting of fruit required authorisation hence infringement or that the fruit was 'harvested material' that required prior authorisation and a 'reasonable opportunity' to exercise the community plant variety right.<sup>192</sup> The specific concern was about the application of Regulation 2100/94 to the provisional application before the granting date in 2006 and equitable remuneration and then infringement after that date.<sup>193</sup> Importantly, Sanchís was not using the purchased plants or the harvested fruit for propagation so the fruit was considered as just 'harvested material'.<sup>194</sup>

In applying Regulation 2100/94, the court considered the regulation set out two different forms of protection: one where authorisation was required for 'acts of production or

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<sup>185</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

<sup>186</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164-165 (French J).

<sup>187</sup> See *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 322-323 (Burchett J), 326-327 (Carr J) and 329 (Mansfield J); *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 174 (French J).

<sup>188</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 174 (French J).

<sup>189</sup> '[T]he exchange of a commodity for money or other valuable consideration': *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 172 (French J).

<sup>190</sup> *Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís* (2019) Case C-176/18, [11]-[12] (P.G. Xuereb, T. von Danwitz and A. Kumin); *Club de Variedades* Case C-176/18 (Saugmandsgaard Øe), above n. 100, [15].

<sup>191</sup> *Club de Variedades* Case C-176/18 (Xuereb et al.), *ibid.*, [11].

<sup>192</sup> *Ibid.*, [17]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 13.

<sup>193</sup> *Club de Variedades* Case C-176/18 (Xuereb et al.), *ibid.*, [19].

<sup>194</sup> *Ibid.*, [20].

reproduction (multiplication)', and so on (the primary right – 'propagated material'),<sup>195</sup> and the other for 'harvested material' that 'requires the authorisation of the holder of a community plant variety right only where that harvested material was obtained through the unauthorised use of variety constituents of the protected variety, unless that holder had reasonable opportunity to exercise his or her right in relation to those variety constituent' (the secondary right – 'harvested material').<sup>196</sup> For the court the planting and harvesting of fruit was not an 'act of production or reproduction (multiplication)' because it was not a production or reproduction of the 'propagating material', but rather was the production of harvested fruit that was 'harvested material'.<sup>197</sup> As such, the Regulation 2100/94 standard was to first determine whether there was 'unauthorised use' and then a 'reasonable opportunity'.<sup>198</sup> In making this assessment the court had regard to the policy justification for community plant variety rights identified in the Regulation 2100/94 recitals, and that protection must not go beyond what is necessary to encourage breeding and that the public interest in agricultural production justifies restricting the exercise of community plant variety rights.<sup>199</sup> Further, the extension to 'harvested material' avoids exhaustion of the community plant variety right against third parties where they do not have 'consent' or further propagation of the variety was not 'authorised' by the right holder.<sup>200</sup> The result in this case was that:

the activity of planting a protected variety and harvesting the fruit thereof, which is not liable to be used as propagating material, requires the authorisation of the holder of the community plant variety right relating to that plant variety where the conditions laid down in Article 13(3) of that regulation [namely, 'unauthorised use' and 'reasonable opportunity'] are fulfilled.<sup>201</sup>

The next question for the court was whether the propagation and sale to a farmer (Sanchís) by a nursery after the application but before the final grant of the community plant variety right was 'unauthorised'?<sup>202</sup> The starting point was that after grant any act of the 'exclusive rights' would be infringement unless authorized and so their performance without authorisation would necessarily be 'unauthorised'.<sup>203</sup> But before that grant, the applicant cannot prevent the acts of the 'exclusive rights' so their performance without authorisation would not be 'unauthorised' as such, although they could be equitable remuneration where those acts had been performed.<sup>204</sup> In this case, Sanchís planting and harvesting *before* the grant was not 'unauthorised' so there was no extension of the community plant variety right to fruit as 'harvested material',<sup>205</sup> and *after* grant the planting and harvesting which was not likely to be used as propagating material was not 'acts of production or reproduction

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<sup>195</sup> Ibid., [21]-[24] and [29]; *Club de Variedades* Case C-176/18 (Saugmandsgaard Øe), above n. 100, [25]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 13.2.

<sup>196</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), above n. 190, [21]-[24] and [29]; *Club de Variedades* Case C-176/18 (Saugmandsgaard Øe), *ibid.*, [25]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 13.3.

<sup>197</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), *ibid.*, [29].

<sup>198</sup> *Ibid.*, [29]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 13.3.

<sup>199</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), *ibid.*, [32]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Recitals 5, 14, 17, 18 and 20.

<sup>200</sup> *Ibid.*, [31]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 16.

<sup>201</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), *ibid.*, [39].

<sup>202</sup> *Ibid.*, [40].

<sup>203</sup> *Ibid.*, [41].

<sup>204</sup> *Ibid.*, [42]-[45].

<sup>205</sup> *Ibid.*, [46].

(multiplication)' because it was harvesting fruit and so there was no requirement for 'authorisation'.<sup>206</sup> The acts of the 'exclusive rights' of 'offering for sale', 'selling or other marketing', and so on, *after* the grant would need the prior 'authorisation' and so Sanchís harvesting the fruit would have been an 'unauthorised' use (infringement) as those acts required authorisation for 'harvested material'.<sup>207</sup> The matter could not be finally determined by this court as they had no evidence about the 'reasonable opportunity' and returned the matter to the referring court.<sup>208</sup>

## **2.6 Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens**

The case concerned the apple tree Nicoter variety marketed under the 'Kanzi' trade mark.<sup>209</sup> Nicolai NV applied for a community plant variety right in 2001, sold the right to Better3fruit NV in 2002 and concluded a licence agreement in 2003 to grow and market apple trees of the Nicoter variety under the 'Kanzi' trade mark that included a term that Better3fruit would 'not dispose of or sell any product covered by the licence unless the other party signs in advance the grower's licence'.<sup>210</sup> In 2004, Nicolai NV sold 7000 apple trees of the Nicoter variety to Hustin without any undertakings to the growing of the apples or the sale of the harvest.<sup>211</sup> Hustin grew the apples, harvested them and supplied them to Goossens.<sup>212</sup> The Better3fruit NV and Nicolai NV 2003 licence agreement was terminated in 2005, an agreement between Better3fruit NV and Greenstar-Kanzi Europe NV was concluded some time before 2007 and then in 2007 Greenstar-Kanzi Europe NV brought an infringement action against Hustin as the unauthorised grower and Goossens for selling apples under the 'Kanzi' trade mark that had been supplied to him by Hustin.<sup>213</sup> At first instance there was found to be infringement<sup>214</sup> that was overturned on appeal because 'the limitations referred to in the licensing contract between Better3fruit and Nicolai were not enforceable against Mr Hustin and Mr Goossens'.<sup>215</sup> On appeal against that decision the issue was whether there had been exhaustion at the time of first dealing and a preliminary ruling was sought from the Court of Justice.<sup>216</sup> The question was whether the community plant variety right should:

be interpreted in such a way that the holder or the person enjoying the right of exploitation may bring an action for infringement against anyone who effects acts in respect of material which was sold or disposed of to him by a licensee of the right of exploitation if the limitations in the licensing contract between the licensee and the holder of the community plant variety right that were stipulated to apply in the event of the sale of that material were not respected?<sup>217</sup>

In the context of the facts, this was essentially a question of whether Greenstar-Kanzi Europe NV could enforce its community plant variety right against the third parties Hustin and Goossens who did not comply with the conditions or limitations set out in the licensing

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<sup>206</sup> Ibid., [46] and [50].

<sup>207</sup> Ibid., [47]-[48] and [50]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Articles 13(2) and (3).

<sup>208</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), *ibid.*, [50].

<sup>209</sup> *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens* (2011) C-140/10, [10] (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

<sup>210</sup> Ibid., [11]-[14].

<sup>211</sup> Ibid., [15].

<sup>212</sup> Ibid., [15] and [17].

<sup>213</sup> Ibid., [16]-[18].

<sup>214</sup> Ibid., [18].

<sup>215</sup> Ibid., [19].

<sup>216</sup> Ibid., [20].

<sup>217</sup> Ibid., [20].

contract between Better3fruit NV and Nicolai NV?<sup>218</sup> And recall that Nicolai NV had sold the 7000 apple trees to Hustin without any undertakings.<sup>219</sup>

The court distinguished between the ‘primary’ right to exclusive dealing with the ‘variety constituents’ (that would include ‘propagating material’) (Article 13(2)) and the ‘secondary’ right to dealings with ‘harvested material’ (Article 13(3); see Attachment 1).<sup>220</sup> The court then noted the effect of exhaustion,<sup>221</sup> and that an infringement action brought by Greenstar-Kanzi Europe NV was only possible if the rights had not exhausted.<sup>222</sup> This in effect framed the exhaustion question in this case as exhaustion being a defence to the infringement claim – the third parties Hustin and Goossens escaped infringement because the rights had exhausted on the Better3fruit NV sale to Nicolai NV. The court did not have sufficient facts to finally decide the matter and so only set out a general proposition.<sup>223</sup> Looking to trade mark laws for analogous laws<sup>224</sup> and the policy justifying variety rights,<sup>225</sup> the court determined:

If the referring court were to establish that the protected material was disposed of by the person enjoying the right of exploitation in breach of a condition or limitation in the licensing contract relating directly to the essential features of the community plant variety right, it would have to be concluded that that disposal of the material, by the person enjoying the right of exploitation to a third party, was effected without the holder’s consent, so that the latter’s right is not exhausted. However, infringement of contractual provisions of any other nature in the licensing contract does not prevent exhaustion of the holder’s right.<sup>226</sup>

There was no doubt that Hustin and Goossens were third parties that had enjoyed exploiting the variety right without Better3fruit NV’s authorisation because Nicolai NV had not passed on the contractual undertakings. Hustin and Goossens as third parties could thus escape infringement if the agreement between Better3fruit NV’s and Nicolai NV did not include ‘essential features’ of the community plant variety right.<sup>227</sup> What constituted these ‘essential features’ was not addressed.<sup>228</sup> Importantly for the analysis here, the Advocate General provided a more nuanced approach to what appears to have been adopted by the court:

Although that is a matter for investigation by the referring court, I note that, according to [Greenstar-Kanzi Europe NV], under the licensing contract of 8 November 2001, Better3fruit granted to [Nicolai NV] the exclusive right to grow and market Nicoter apple trees, as well as the use of the rights associated with those trees ... the fact that [Nicolai NV] may not have complied with its obligations, the purpose of which is to protect selectivity in the production and marketing of Kanzi apples, by failing to require the other parties to conclude in advance either a grower’s licence or a marketing licence, does not support the conclusion that [Nicolai NV] disposed of material of the protected variety without the holder’s consent. By the right it granted to [Nicolai NV], Better3fruit expressly authorised [Nicolai NV] to sell Nicoter apple trees. By disposing of the marketing rights in the protected material to [Nicolai NV] in that way, Better3fruit exploited the economic value of its exclusive right. If [Nicolai NV] does not comply with its contractual obligations towards Better3fruit, it is the latter, and not a third party, which must bear the

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<sup>218</sup> Ibid., [21]-[22].

<sup>219</sup> Ibid., [15].

<sup>220</sup> Ibid., [26].

<sup>221</sup> Ibid., [31].

<sup>222</sup> Ibid., [32].

<sup>223</sup> Ibid., [42]-[44].

<sup>224</sup> Ibid., [37].

<sup>225</sup> Ibid., [41].

<sup>226</sup> Ibid., [43].

<sup>227</sup> Ibid., [43] and [44].

<sup>228</sup> See Gert Würtenberger, P. van der Kooij, Bart Kiewiet and Martin Ekvad, *European Union Plant Variety Protection* (Oxford University Press, 2021) §6.105.

consequences. In my view, an infringement of the conditions attached to prior authorisation cannot be treated in the same way, in law, as an absence of authorisation enforceable on others (footnote omitted).<sup>229</sup>

In effect, where the protected variety has been put onto the market with the authorisation of the protected variety owners, then the rights exhaust. If the protected variety is put on the market without authorisation, then there will be exhaustion, including against third parties, unless there is a breach of an 'essential condition' of an agreement limiting the protected variety.

## **2.7 Advisory Council on Intellectual Property**

The exhaustion provision (s 23) was reviewed by the Advisory Council on Intellectual Property (ACIP) in 2010.<sup>230</sup> The review accepted that the decisions in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* did create some confusion among stakeholders about its likely interpretation<sup>231</sup> but that the interests of ensuring compliance with UPOV 1991 and harmonization with other countries outweighed the interests in making substantial changes in Australia.<sup>232</sup> The key problem identified was about the confused understanding when the 'exclusive rights' exhausted on the sale of G0 propagating material and then applied again to G2+ after reproduction of G1.<sup>233</sup> For example, the farmer's privilege authorise growers to save and reproduce the G1 propagating material but not the 'exclusive rights' other than conditioning and further reproduction by the grower with the G2+ propagating material, such as selling that propagating material.<sup>234</sup>

The ACIP also noted the uncertainty about the ways that PBRs might exhaust and the implementation of EPR arrangements.<sup>235</sup> EPRs are collected on the harvested materials (including propagating materials that are harvested materials) delivered to grain handlers by growers and others with the royalty paid on the amount delivered (G1 and G2+) rather than a traditional royalty on the sale of the original materials (G0). Where the PBRs exhaust on G0 (and G1) but do not for G2+, then administering when EPRs can be imposed becomes complex, especially where the PBR owner has to rely on contract to 'over-ride' exhaustion on G1 and then rely on the PBRs 'exclusive rights' for G2+.<sup>236</sup> To address these problems, and provide some clarity, ACIP proposed:

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.<sup>237</sup>

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<sup>229</sup> *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens*, Opinion of the Advocate General (2011) C-140/10, [45] (Niilo Jääskinen).

<sup>230</sup> ACIP Review of Enforcement, above n. 69, pp. 71-76.

<sup>231</sup> See *ibid.*, pp. 73-74.

<sup>232</sup> *Ibid.*, pp. 9-10. Notably, ACIP did consider some amendment was appropriate to address their recommendation about a 'purchase right', although that was not taken up by the Australian Government (p. 10).

<sup>233</sup> *Ibid.*, pp. 75-76.

<sup>234</sup> *Ibid.*, p. 75. See also *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>235</sup> *Ibid.*, p. 76.

<sup>236</sup> *Ibid.*, p. 76.

<sup>237</sup> *Ibid.*, p. 76.

ACIP concluded, however, that there was ‘significant’ merit in maintaining the ‘current interpretation of the law on exhaustion’.<sup>238</sup> This was because the current law complied with UPOV 1991, was ‘in harmony’ with the law and practices of other UPOV members and provided growers with certainty that they did not require an explicit or implied licence to grow and sell their crops. ACIP’s recommendation was an amendment:

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.<sup>239</sup>

The Australian Government response to the ACIP report was that this recommendation was ‘[n]ot accepted’.<sup>240</sup> This was because the ACIP recommendation had been linked to a ‘purchase right’ and the Australian Government had rejected the need for a ‘purchase rights’.<sup>241</sup> ACIP’s position was that a ‘purchase rights’ was desirable for some plant industry sectors like the grains industry but not others like the horticulture and ornamental industries and that a ‘purchase right’ should be determined by IP Australia for declared taxa.<sup>242</sup> A ‘purchase rights’ was to be an ‘exclusive right’ to ‘purchase the material’<sup>243</sup> and would facilitate and better enable EPRs because PBR holders would be able to impose EPRs on purchasers of the ‘propagating material’ and ‘harvested material’ without having to impose complicated contractual arrangements on initial purchasers to pass on to later buyers and dealers.<sup>244</sup> ACIP stated:

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 alone.<sup>245</sup>

The Australian Government response to the ACIP’s recommendation of a ‘purchase right’ was ‘[n]ot accepted at this stage’ because it might disturb the current balance of the *Plant Breeder’s Rights Act 1994* (Cth) and that existing contractual measures were suitable for the specific needs of different sectors.<sup>246</sup> The ACIP recommendation about exhaustion was, therefore, necessary to avoid a new ‘purchase right’ reducing the effectiveness of the current exhaustion provision that was clarified by *Cultivaust Pty Ltd v Grain Pool Pty Ltd* to only apply

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<sup>238</sup> Ibid., p. 76.

<sup>239</sup> Ibid., p. 77 (Recommendation 11).

<sup>240</sup> Australian Government, *Government Response – Enforcement of Plant Breeder’s Rights* (2016) available at <<https://www.ipaustralia.gov.au/about-us/public-consultations/archive-ip-reviews/ip-reviews/government-response-enforcement-pbr>>.

<sup>241</sup> Ibid.

<sup>242</sup> ACIP Review of Enforcement, above n. 69, pp. 41-42.

<sup>243</sup> ACIP Review of Enforcement, above n. 69, p. 42.

<sup>244</sup> See ACIP Review of Enforcement, above n. 69, pp. 40-42.

<sup>245</sup> ACIP Review of Enforcement, above n. 69, p. 40.

<sup>246</sup> Australian Government, *Government Response – Enforcement*, above n. 240.

to new purchase varieties and their first growing (G0 and G1) and not their further growing (G2+).<sup>247</sup>

ACIP had also assumed that there was an express or implied licence at the point of sale so that a purchaser was authorized to sell the first crop (G1) to a third party.<sup>248</sup> The idea that on purchase there is an implied licence for dealings with patents has been rejected by the High Court majority in *Calidad Pty Ltd v Seiko Epson Corp.*<sup>249</sup> How this might apply to PBRs under the *Plant Breeder's Rights Act 1994* (Cth) has not been settled (see **§5.4**).

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<sup>247</sup> (2004) 62 IPR 11, [210] (Mansfield J). See also ACIP Review of Enforcement, above n. 69, pp. 41 and 77.

<sup>248</sup> *Ibid.*, pp. 41, 45, 49, 75, 76 and 77.

<sup>249</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).



### Part 3: Review of relevant prior academic and trade literature

The study of exhaustion in the *Plant Breeder's Rights Act 1994* (Cth) has not been extensively addressed in the academic and trade literature. The early patent litigation in Australia and the overturning of the decision by the Privy Council in *National Phonograph Company of Australia Ltd v Menck* favouring the implied licence doctrine<sup>250</sup> provided an accepted view about the role and place of exhaustion in Australian intellectual property, including PBRs under the *Plant Breeder's Rights Act 1994* (Cth) (and the former *Plant Variety Rights Act 1987* (Cth)).<sup>251</sup> With the recent High Court decision in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* where the majority decided in favour of the exhaustion doctrine<sup>252</sup> and the minority favoured the implied licence doctrine,<sup>253</sup> there has been some analysis of the likely consequences of the changed approach in Australia.<sup>254</sup> It seems likely that the exhaustion doctrine will apply to the *Plant Breeder's Rights Act 1994* (Cth) because the 'exclusive rights' to produce, reproduce and sell a PBR'ed plant variety<sup>255</sup> are similar to the *Patents Act 1990* (Cth) 'exclusive right' to make and use a patented invention.<sup>256</sup> This is likely to be a welcome clarification, as it has long been recognised that the implied licence ideal does not work well for plant materials:

The implied-license doctrine is not easy to apply to biological subject matter, such as patented seed. When the patented seed grows and produces new seed, is the new seed a new 'making' of the patented seed, and hence outside the implied license? Or is it simply an aspect of the original 'using', and hence within the scope of the implied license?<sup>257</sup>

As a matter of practice, the legal form of exhaustion has not been a major impediment to commerce because it has long been accepted that licence terms and conditions imposed at the point of sale (dealing) will bind the parties and can address many of the concerns that rights holders have about the exploitation of their inventions.<sup>258</sup> Re-imagined according to the exhaustion ideal rather than the implied licence, these are merely arrangements that will

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<sup>250</sup> *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 28-29 (Macnaghten, Atkinson, Shaw, Meech and Robson JJ).

<sup>251</sup> See, for example, Matthew Rimmer, *Plant Breeder's Rights: An Australian Commentary* (ACIPA, 2004) p. 46.

<sup>252</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).

<sup>253</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [180]-[194] (Nettle, Gordon and Edelman JJ).

<sup>254</sup> See Amelia Causley-Todd, 'The End of the Implied Licence Doctrine in Australian Patent Law: Is Copyright Next?' (2022) 35 *Australian Intellectual Property Law Bulletin* 11; Adam Liberman, 'The Difficulties and Implications of the High Court of Australia Decision in *Calidad v Seiko*: Patent Exhaustion, Implied Licences and Commercial Transactions' (2021) 126 *IP Forum* 20; Natasha Burns, 'Right to Repair: Intellectual Property and Additive Manufacture of Spare Parts' (2021) 33 *Australian Intellectual Property Law Bulletin* 150; Michael Williams and Vanessa Farago-Diener, 'Rewriting Judicial History or Just Refilling Ink? Patents and the Right to Repair in Australia Post-*Calidad*: Logic, Simplicity and Coherence with Legal Principle Prevail over Rights Which They Have Held for More Than a Century' (2020) 31 *Australian Intellectual Property Journal* 147; Andrew Rankine, 'Parallel Imports of Patented Goods in Australia: Limits of the Implied Licence' (2019) 32 *Australian Intellectual Property Law Bulletin* 44. See also Katharine Stephens, 'Exhaustion of IP Rights in the UK Post-Brexit' (2021) 34 *Australian Intellectual Property Law Bulletin* 5.

<sup>255</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>256</sup> See *Patents Act 1990* (Cth) ss 3 and 13 and sch 1 ('exploit'). Contrast the kinds of rights under the *Copyright Act 1968* (Cth) s 31(1): see Causley-Todd, above n. 254, 13.

<sup>257</sup> Mark Janis and Jay Kesan, 'Intellectual Property Protection for Plant Innovation: Unresolved Issues after *J.E.M. v Pioneer*' (2002) 20 *Nature Biotechnology* 1161, 1163. See also Bernard Le Buanec, 'Protection of Plant-related Innovations: Evolution and Current Discussion' (2006) 28 *World Patent Information* 50, 54.

<sup>258</sup> Janis and Kesan, *ibid.*, 1163.

now be resolved as contract and equity disputes and contract enforcement rather than infringement.<sup>259</sup>

A key concern of the recent academic and trade literature is about the effect of the change from an implied licence to an exhaustion doctrine, and the effects this will have on commercial transactions involving patent protected goods and services<sup>260</sup> and the repair of patent protected goods.<sup>261</sup> The repair controversy does not apply to plants because the object of invention is the 'propagating material' of a plant variety that cannot itself be repaired.<sup>262</sup> This suggests that the academic and trade controversy is about the kinds of terms and conditions that might be imposed on a transaction involving a PBR'ed variety that adequately protects the interests of the PBR holder.

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<sup>259</sup> See Liberman, above n. 254, 26-27.

<sup>260</sup> See *ibid.*, 26-27.

<sup>261</sup> See Williams and Farago-Diener, above n. 254.

<sup>262</sup> Elegantly presented in Mark Janis, 'A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law' (1999) 58 *Maryland Law Review* 423.

## Part 4: Review of any empirical materials

The IP Australia Policy Register raised the issue of PBRs and exhaustion:

In the former Advisory Council on Intellectual Property's (ACIP's) 2010 review of Plant Breeder's Rights (PBR) Enforcement, many stakeholders, particularly the breeders of agricultural varieties, were uncertain about the exhaustion of rights under s23 of the Plant Breeder's Rights Act. ACIP considered that the amount of confusion in the industry over exhaustion of Plant Breeder's Rights is significant enough to create inefficiencies in the industry.

To address this, ACIP recommended that the Plant Breeder's Rights Act be amended to make it clear that growers are able to grow and sell crop G0 (seed) and G1 (plant produced from the seed) of a plant variety without the authorisation of the Plant Breeder's Rights owner. Growers would still require authorisation to grow and sell crops G2+ (i.e. plants propagated from the G1 plant). The government accepted this recommendation in June 2011.<sup>263</sup>

There have been no responses.

The exhaustion issue has been raised before the Plant Breeder's Rights Consultative Committee with International Community of Breeders of Asexually Reproduced Horticultural Plant Varieties (CIOPORA) providing a detailed submission asserting:

1. Concern was that applying a broad definition to 'sold' as suggested by the Federal Court in *Sun World International Inc v Registrar of Plant Breeder's Rights* has 'the effect that most commercialisation arrangements will result in exhaustion, including leasing plant material and licensing use of propagating material subject to conditions and limitations'.<sup>264</sup>
2. The consequences of a broad definition of 'sold' was to make controlling the variety complicated and left only complex contract arrangements, rather than statutory rights, high costs for legal advice clarifying rights and interests and these contracts were not enforceable against third parties. CIOPORA was of the view that:

PBR should only be exhausted to the extent there is an outright sale with no conditions or limitations attached to acts covered by the scope of the right. It is a matter of the parties concerned (title-holder and licensee) to draft the scope of the license and to precisely describe the acts covered by the license. If conditions and limitations exist in relation to PBR protected acts, then the right should be considered not fully exhausted. It can be assumed that, if for example the title-holder or its licensee sells apple trees to an apple grower without any specific agreement, the apple grower has been granted an unlimited implied license to produce and sell apples from these trees in the territory, where the PBR is valid. A cut-rose grower buying rose plants without a specific agreement has the implied right to produce cut-roses for the purpose of selling them – directly or via the trade chain – to end-consumers in the territory, where the PBR is valid. However, to the extent that a licence has been put in place, then the breeder's right should only be exhausted to the extent of that licence. A breach of such a licence agreement should constitute unauthorised conduct for the purpose of section 53 of the PBR Act and thereby an infringement.

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<sup>263</sup> IP Australia Policy Register, *Clarify Exhaustion of Plant Breeder's Rights Provisions*, Policy ID: 53 (IP Australia, 2022) at <<https://www.ipaustralia.gov.au/policy-register/clarify-exhaustion-pbr-rights-provisions-around-sale-g0-and-g1-material>>.

<sup>264</sup> The CIOPORA concern was that '*Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 87 FCR 405, the Federal Court of Australia considered the word 'sell' in the context of novelty. The Court noted the definition of 'sell' is a very wide one, including 'let on hire and exchange by way of barter', and consequently held that various licences transferring property in PBR protected propagating material subject to conditions and limitations, including restrictions on further disposition and propagation, were sales'.

3. Exhaustion as proposed in UPOV 1991 is only addressed in the *Plant Breeder's Rights Act 1994* (Cth) s 23 to cover national exhaustion and does not address international exhaustion. UPOV 1991 uses the phrase 'in the territory of the Contracting Party' (Article 16.1) restrict exhaustion to sales in the territory of the Contracting Party so that sales in another territory will not result in exhaustion. CIOPORA considered that an Australian court could interpret the exhaustion in the *Plant Breeder's Rights Act 1994* (Cth) s 23 to mean that a sale of plant materials in a country other than Australia and imported into Australia could be exhaustion: 'CIOPORA is of the opinion that this is not in conformity with the 1991 Act of UPOV. In a globalised world with increased trade, it is important that the title holder can control its variety in various territories'.

To address these concerns CIOPORA recommended confining the definition of 'sell' to the novelty question (as the *Plant Breeder's Rights Act 1994* (Cth) ss 3(1) and 43(6) currently applies) and separately define 'sold' for the purposes of exhaustion in *Plant Breeder's Rights Act 1994* (Cth) s 23. The definition of 'sold' should 'to an outright sale of propagating material, where no conditions or limitations are attached to the buyer's use of that propagating material. Where conditions and limitations are imposed in a licence that relate to acts covered by the right, the right is exhausted to the extent of the authorisation'. CIOPORA also recommended that 'marketing of material in another country should not lead to exhaustion in Australia. Any import of said material or material produced from it into another territory, where a (parallel) PBR exists, requires a separate authorization (license) of the respective title-holder'.

## Part 5: Analysis of the policy issue

The exhaustion provision in the *Plant Breeder's Rights Act 1994* (Cth) raises specific policy issues that are addressed here.

### 5.1 The termination (surrender) arrangements

Under the *Plant Breeder's Rights Act 1994* (Cth) the 'holder of PBR in a plant variety may, at any time, by written notice to the Registrar, offer to surrender that right'.<sup>265</sup> Once surrendered then the PBR will be terminated and this will be entered on the Register.<sup>266</sup> This is an important provision because there is no broader public benefit having PBRs in place where the holder does not want to exploit their PBR and the PBR variety might then be available without restrictions, and without the need to engage in proving or satisfying provenance for the variety. To promote this there are fees payable by the PBR owner to maintain their PBR<sup>267</sup> as an 'annual maintenance of a PBR' on 'each anniversary of the grant' presently being \$400-\$450 each anniversary.<sup>268</sup> These fees were increased from \$345-\$395 to \$400-\$450 each anniversary in 2020.<sup>269</sup>

This fixed annual fee under the *Plant Breeder's Rights Act 1994* (Cth) contrasts with a similar escalating annual fee imposed on patents under the *Patents Act 1990* (Cth) that increases with the longevity of a patent.<sup>270</sup> This escalating annual patent fee<sup>271</sup> reflects the ideal that increasing fees will select in favour of valuable patents and against less valuable patents, reduce economic rents and limit patents covering technology that was not originally contemplated through being resurrected and reinterpreted.<sup>272</sup> This will not necessarily apply in the same way to PBRs under the *Plant Breeder's Rights Act 1994* (Cth) because a PBR'ed variety can be used to breed a new variety,<sup>273</sup> unlike a patent that only has a limited exception for experimental use.<sup>274</sup> Further, approximately 15 per cent of patents go to full term<sup>275</sup> while only about 3 per cent of PBRs go to full term.<sup>276</sup> For some plant groupings, such as forage crops where varieties do have a long term, escalating annual fees may have some benefit.<sup>277</sup> Overall escalating annual fees may not have the same benefits for terminating low quality PBR'ed varieties as they do for low quality patents.

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<sup>265</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

<sup>266</sup> *Plant Breeder's Rights Act 1994* (Cth) s 51(3).

<sup>267</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 80(2)(a)(iii); *Plant Breeder's Right Regulations 1994* (Cth) reg 4 and sch 1 (item 15).

<sup>268</sup> *Plant Breeder's Right Regulations 1994* (Cth) reg 4 and sch 1 (item 15).

<sup>269</sup> *Intellectual Property Laws Amendment (Fee Amounts and Other Measures) Regulations 2020* (Cth) reg 4 and sch 1 (items 48 and 49).

<sup>270</sup> See *Patents Act 1990* (Cth) ss 143(a) and 227(1); *Patents Regulations 1991* (Cth) reg 22.2(1) and sch 7 (item 211).

<sup>271</sup> See Productivity Commission, *Intellectual Property Arrangements*, Inquiry Report No. 78 (Productivity Commission, 2016) pp. 232-237.

<sup>272</sup> Productivity Commission, *ibid.*, p. 232. See also Intellectual Property and Competition Review Committee, *Review of intellectual property legislation under the Competition Principles Agreement (Ergas Report)* (IPCRC, 2000) p. 156.

<sup>273</sup> *Plant Breeder's Rights Act 1994* (Cth) s 16(c).

<sup>274</sup> *Patents Act 1990* (Cth) s 119C.

<sup>275</sup> Productivity Commission, *above n. 271*, pp. 211-212.

<sup>276</sup> Charles Lawson and Andrew Cecil, 'Quantitative Assessment of Applications for Plant Breeder's Rights under the Plant Breeder's Rights Act 1994 (Cth) from 1994-2019' (2020) 31 *Australian Intellectual Property Journal* 64, 77 (Table 7).

<sup>277</sup> *Ibid.*, 75 (Figure 3).

## Recommendation 1

The Australian Government should continue to review the quantum of fees for the annual maintenance of a PBR and consider whether the escalating annual fee imposed on patents under the *Patents Act 1990* (Cth) might have some benefits for PBRs under the *Plant Breeder's Rights Act 1994* (Cth).

**Problem:** There is no evidence about the costs and benefits of encouraging the earlier termination (surrender) of PBRs, and whether those 3 per cent that lapse at the maximum term of the PBR are economically important. Hence the recommendation that the Australian Government should continue to review the quantum of fees. The problem is about the quantum of annual fees payable by the PBR owner to maintain their PBR: (1) how much?; and (2) should the fee escalate over time? Both of these policy levers are about encouraging PBR owners to only retain PBRs that they are actively exploiting.

**Preferred solution:** This matter was not raised in any of our consultations or discussions and has not been addressed in the academic and other literature. As such, there does not appear to be any imperative for change. If fees were to be increased and/or escalated over time, then the *Plant Breeder's Rights Act 1994* (Cth) provides a general power to make regulations.<sup>278</sup> The *Plant Breeder's Right Regulations 1994* (Cth) provide the appropriate instrument for setting fees. The *Patents Act 1990* (Cth) and *Patents Act Regulations 1991* (Cth) provide a model of how escalating fees might be structured.<sup>279</sup> In the meantime, the Australian Government should continue to review the quantum of fees considering both increased and/or escalated fees over time. And if fees were to be increased and escalate over time then IP Australia should prepare explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of this policy issue. This might be explanatory materials, case studies, information sheets, and so on.

**Benefits:** Without evidence about whether the PBRs that lapse at the maximum term of the PBR are economically important, the speculative benefits of increased and/or escalated fees over time will be to prevent an overly generous incentive and reduce costs by making PBR'ed varieties available to the market without PBRs. That could balance the costs of a PBR system in favour of the broader public interest in less restricted competition.

**Costs:** Again, without evidence about the PBRs of economically important varieties at the maximum term, it might be that increased and/or escalated fees over time will be a disincentive for further breeding new varieties.

## 5.2 The revocation arrangements

UPOV 1991 provides that revocation can only be applied where the variety is no longer uniform and stable,<sup>280</sup> information, documents or material was not provided that would have enabled the grant,<sup>281</sup> required fees are not paid,<sup>282</sup> or there is not a suitable denomination.<sup>283</sup> In the *Plant Breeder's Rights Act 1994* (Cth) this is implemented as a general ground to revoke a PBR where 'facts existed that, if known before the grant of that right ... would have resulted

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<sup>278</sup> *Plant Breeder's Rights Act 1994* (Cth) s 80(2).

<sup>279</sup> *Patents Act 1990* (Cth) s 143(a); *Patents Act Regulations 1991* (Cth) reg 22.2 and sch 7 (item 211).

<sup>280</sup> UPOV 1991, Article 22.1(1)(a).

<sup>281</sup> UPOV 1991, Article 22.1(1)(b)(i).

<sup>282</sup> UPOV 1991, Article 22.1(b)(ii).

<sup>283</sup> UPOV 1991, Article 22.1(b)(iii).

in the refusal to grant that right',<sup>284</sup> and then specific grounds of failing to pay fees,<sup>285</sup> failure to notify an assignment,<sup>286</sup> failure to comply with a test growing<sup>287</sup> and failure to comply with any conditions made on grant.<sup>288</sup> Revocation may be instigated by the Registrar<sup>289</sup> or any person whose interests are affected by the PBR grant.<sup>290</sup> Before revocation the PBR owner must have an opportunity to respond to the Registrar<sup>291</sup> and the Registrar must give reasons for the revocation decision.<sup>292</sup> This decision can then be reviewed by the Administrative Appeals Tribunal<sup>293</sup> and then the Federal Court.<sup>294</sup> There is no evidence or reports of problems with the operation and application of these revocation provisions.

There is, however, an important overlap in the termination (see **§5.1**) and revocation provision in the *Plant Breeder's Rights Act 1994* (Cth). Where a PBR is surrendered by the PBR owner because of a failure to pay fees, that is addressed in a provision headed 'Entry of particulars of revocation'.<sup>295</sup> In short, a termination (the surrender) that is encouraged by imposing annual maintenance fees where a PBR owner chooses to not pay, and surrender is a different operation to a PBR owner who refuses to pay other fees leading to revocation. This distinction with the pejorative of revocation might be distinguished from a surrender and might be achieved by removing the revocation on surrender provisions<sup>296</sup> to the surrender provision.<sup>297</sup> Where a PBR owner refuses to pay the fee, as opposed to choosing not to pay, then that is already addressed in the revocation provision.<sup>298</sup> This might be resolved through an amendment to the *Plant Breeder's Rights Act 1994* (Cth) moving the orphan surrender provisions from the current revocation provision<sup>299</sup> to the current surrender provision.<sup>300</sup>

## **Recommendation 2**

The Australian Government should consider using consistent terminology for revocation and surrender (termination) of PBRs under the *Plant Breeder's Rights Act 1994* (Cth) and distinguish between choosing not to renew a PBR (surrender) and refusing to pay a fee and other failings (revocation).

**Problem:** The *Plant Breeder's Rights Act 1994* (Cth) currently includes termination (surrender) in the revocation provisions. There needs to be a clear distinction between voluntarily giving up a PBR termination (surrender) and having the PBR taken away (revocation).

**Preferred solution:** This matter was not raised in any of our consultations or discussions and has not been addressed in the academic and other literature. As such, there does not appear

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<sup>284</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(1)(a).

<sup>285</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(1)(b).

<sup>286</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(2)(a).

<sup>287</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(2)(aa).

<sup>288</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(2)(b).

<sup>289</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(1).

<sup>290</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(8).

<sup>291</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(4).

<sup>292</sup> *Plant Breeder's Rights Act 1994* (Cth) s 50(3).

<sup>293</sup> *Plant Breeder's Rights Act 1994* (Cth) s 77(1)(b)(xvi).

<sup>294</sup> *Administrative Appeals Tribunal Act 1975* (Cth) s 44(1).

<sup>295</sup> *Plant Breeder's Rights Act 1994* (Cth) s 51.

<sup>296</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 51(2) and (3).

<sup>297</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

<sup>298</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 50(1)(b) and 51(1)(a).

<sup>299</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 51(2) and (3).

<sup>300</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

to be any imperative for change. If there were to be a change, however, the solution would be an amendment to the *Plant Breeder's Rights Act 1994* (Cth) to move the orphan termination (surrender) provisions from the current revocation provision<sup>301</sup> to the current surrender provision.<sup>302</sup> This may not presently require attention and might be addressed when the *Plant Breeder's Rights Act 1994* (Cth) is next amended.

**Benefits:** Clear use of terminology in the *Plant Breeder's Rights Act 1994* (Cth) and removing the pejorative of revocation when there is beneficial termination (surrender).

**Costs:** Unintended consequences from any amendment that seeks to clarify the terminology, although none are presently apparent.

### 5.3 The expiry of PBRs

UPOV 1991 provides that the PBR term should be 'a fixed period'<sup>303</sup> and for a 'period ... not shorter than' 25 years for trees and vines and 20 years for other plant forms.<sup>304</sup> This is to be determined from 'the date of the grant of the breeder's right'.<sup>305</sup> This arrangement was accepted in the UPOV 1991 negotiations after some discussions about the suitable duration with proposals of between a minimum of 15 years and a maximum of 30 years.<sup>306</sup> An unresolved concern, however, was that the actual term being granted might potentially be a lot longer than from the time from grant because of the provisional protection afforded under UPOV 1991<sup>307</sup> *de facto* extended the term from the date of application in addition to the 20/25 years after grant.<sup>308</sup> This is reflected in the *Plant Breeder's Rights Act 1994* (Cth) with the term of the PBR being calculated from 'the day that the grant of PBR in the variety is made'<sup>309</sup> and 'lasts for'<sup>310</sup> 25 years for trees and vines<sup>311</sup> and 20 years for any other variety.<sup>312</sup> Provision is also made for the *Plant Breeder's Right Regulations 1994* (Cth) to set out longer period for some taxons, but this has not been done.<sup>313</sup> The *Plant Breeder's Rights Act 1994* (Cth) also provides for provisional protection.<sup>314</sup>

Thus, the PBR is granted<sup>315</sup> after an application has been made,<sup>316</sup> accepted<sup>317</sup> and assessed by the Registrar.<sup>318</sup> When the application is made, a priority date is determined as the date of the application<sup>319</sup> with some differences for foreign applications.<sup>320</sup> This priority date is

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<sup>301</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 51(2) and (3).

<sup>302</sup> *Plant Breeder's Rights Act 1994* (Cth) s 52.

<sup>303</sup> UPOV 1991, Article 19.1.

<sup>304</sup> UPOV 1991, Article 19.2.

<sup>305</sup> UPOV 1991, Article 19.2.

<sup>306</sup> UPOV Publication No. 346(E), above n. 30, [683]-[691] and [969]-[974] (pp. 279-280 and 324-325).

<sup>307</sup> See UPOV 1991, Article 13.

<sup>308</sup> UPOV Publication No. 346(E), above n. 30, [970]-[971] (pp. 324-325).

<sup>309</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(1).

<sup>310</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(2).

<sup>311</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(2)(a).

<sup>312</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(2)(b).

<sup>313</sup> *Plant Breeder's Rights Act 1994* (Cth) s 22(3).

<sup>314</sup> *Plant Breeder's Rights Act 1994* (Cth) s

<sup>315</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 44(1).

<sup>316</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 24(1).

<sup>317</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 30(1).

<sup>318</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 44(1)(b).

<sup>319</sup> *Plant Breeder's Rights Act 1994* (Cth) s 28.

<sup>320</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 28(2) and 29.



important for determining the order in which applications are assessed by the Registrar. More importantly, however, when the application is accepted<sup>321</sup> then ‘the applicant is taken to be the grantee’ of the PBR (provisional protection) and can enforce the PBR’s ‘exclusive rights’ against infringers<sup>322</sup> until the PBR is either granted<sup>323</sup> or rejected.<sup>324</sup> The concern would be that, at least in theory, an application could be made and accepted and then not granted or rejected so that the actual term might continue a lot longer than the statutory term of 25 years for trees and vines<sup>325</sup> and 20 years for any other variety.<sup>326</sup> This does not seem likely. The annual reporting about the administration of the provides metrics about dealings with applications. These reports show in 2020-2021 that 100 per cent of initial examination were completed within 8 weeks of receiving the application and 95 per cent of further examinations were completed within 4 weeks,<sup>327</sup> in 2019-2020 that 100 per cent of initial examination were completed within 8 weeks of receiving the application and 100 per cent of PBRs were registered within 10 working days where all the relevant criteria had been met,<sup>328</sup> in 2019-2020 that 100 per cent of initial examination were completed within 8 weeks of receiving the application and 100 per cent of PBRs were registered within 10 working days where all the relevant criteria had been met,<sup>329</sup> and so on. There is no data available about the time from acceptance of an application to the grant of a PBR, although customer service satisfaction suggests there is not a problem with delays within IP Australia.<sup>330</sup> Further, a review of PBR terms from 1994-2019<sup>331</sup> showed that the duration of the average PBR to termination (voluntarily surrendered) or revocation<sup>332</sup> was 6.2 years,<sup>333</sup> These are well short of the 20/25 years that were possible. For those PBRs that expired (reached the maximum PBR term),<sup>334</sup> only 3 per cent of the PBRs granted were in this category meaning that 97 per cent of granted PBR ceased to apply before the PBR term was reached.<sup>335</sup> In short, 97 per cent of granted PBRs had exhausted before the maximum possible term since grant, and the durations were well short of the possible maximum term from grant.

### **Recommendation 3**

The Australian Government should retain the current PBR duration from the date of grant of 25 years for trees and vines and 20 years for any other variety.

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<sup>321</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 30(1).

<sup>322</sup> *Plant Breeder’s Rights Act 1994* (Cth) ss 53 and 54.

<sup>323</sup> *Plant Breeder’s Rights Act 1994* (Cth) ss 39(1) and 44(1).

<sup>324</sup> *Plant Breeder’s Rights Act 1994* (Cth) ss 39(1) and 44(1).

<sup>325</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 22(2)(a).

<sup>326</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 22(2)(b).

<sup>327</sup> Department of Industry, Science, Energy and Resources, *Annual Report 2020-21* (Department of Industry, Science, Energy and Resources, 2021) p. 266 (Program 1).

<sup>328</sup> Department of Industry, Science, Energy and Resources, *Annual Report 2019-20* (Department of Industry, Science, Energy and Resources, 2020) p. 294 (Program 1).

<sup>329</sup> Department of Industry, Innovation and Science, *Annual Report 2018-19* (Department of Industry, Innovation and Science, 2019) p. 254 (Program 1).

<sup>330</sup> See, for examples, Department of Industry, Science, Energy and Resources, above n. 327, p. 265; Department of Industry, Science, Energy and Resources, above n. 328, p. 295; Department of Industry, Innovation and Science, *ibid.*, p. 251; and so on.

<sup>331</sup> From 10 November 1994 to 19 September 2019: Lawson and Cecil, above n. 276, 75 (Table 5).

<sup>332</sup> See *Plant Breeder’s Rights Act 1994* (Cth) ss 50 and 52.

<sup>333</sup> Lawson and Cecil, above n. 276, 77 (Table 7).

<sup>334</sup> See *Plant Breeder’s Rights Act 1994* (Cth) s 22(2).

<sup>335</sup> Lawson and Cecil, above n. 276, 77 (Table 7).

**Problem:** The problem is whether current arrangements are appropriate, whether some varieties are gaining (much) more than the intended term, and whether some taxons should have a longer term? Current evidence shows that 97 per cent of granted PBRs had exhausted before the maximum possible term since grant, and the durations were well short of the possible maximum term from grant.<sup>336</sup> This suggests that the limits of the term from grant are not problematic.

**Preferred solution:** This matter was not raised in any of our consultations or discussions and the problems for actual PBR durations for applications and particular taxons not having a sufficient term has not been addressed in the academic and other literature. As such, there does not appear to be any imperative for change. If there were to be a change, however, the solution would be:

- To consider increased and/or escalated fees over time to encourage shorter durations (see Recommendation 2 and §5.2).
- To set out longer periods for some taxons in the *Plant Breeder's Right Regulations 1994* (Cth).<sup>337</sup>

**Benefits:** Without evidence about the PBR duration from application or problems for specific taxons, the benefits of increased and/or escalated fees over time to balance overly generous incentive or that there are sufficient incentives to promote breeding specific taxons that otherwise might not happen are speculative. If these are real problems, then balancing the incentives through PBR duration will be relevant.

**Costs:** Again, without evidence the costs are speculative, along the same lines as the speculated benefits.

#### **5.4 The implied license ideal and exhaustion**

In the litigation reported in *Cultivaust Pty Limited v Grain Pool Pty Limited* the Federal Court found that the implied licence in the sale of seed (G0) provided the necessary authorisation for the grower to grow and sell the first crop (G1).<sup>338</sup> After that, however, the PBR would have exhausted for subsequent generations (G1+) unless the PBR extends to 'harvested material' and products of 'harvested material' ('reasonable opportunity')<sup>339</sup> or avoids exhaustion through 'further production or reproduction' (emphasis added) or export to a country without PBR, and so on.<sup>340</sup> The consequence in *Cultivaust Pty Limited v Grain Pool Pty Limited* was that the State of Tasmania and Cultivaust could not recover against Grain Pool for infringement of their PBR for storing, selling and exporting barley grown from the farm saved seed (the second and subsequent generation crops; G2+), not because their PBR had exhausted when they sold the initial grain to the growers,<sup>341</sup> but because the cascading PBR 'exclusive rights'<sup>342</sup> did not apply to the 'harvested materials' as 'propagating material' as the State of Tasmania and Cultivaust had had a 'reasonable opportunity' to exercise their PBR.<sup>343</sup> Importantly, on the

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<sup>336</sup> Ibid., 77 (Table 7).

<sup>337</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 22(3).

<sup>338</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J). See also *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] and [55] (Finn, Emmett and Bennett JJ).

<sup>339</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15 respectively.

<sup>340</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [209] (Mansfield J).

<sup>341</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [211] (Mansfield J).

<sup>342</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>343</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [199] (Mansfield J); *Plant Breeder's Rights Act 1994* (Cth) s 14(1)(b).

facts, the Cultivaust letter before action sent to Grain Pool on 16 April 1996 asserting and exercising their PBR<sup>344</sup> was the ‘reasonable opportunity’ to exercise the PBR and Grain Pool would have been infringing in dealing with harvested seeds after that date.<sup>345</sup> The point here though is that all the grain supplied to growers before that date was not subject to conditions at the time of sale,<sup>346</sup> so the extension of the PBR’s ‘exclusive rights’ to the ‘harvested material’ and products of ‘harvested material’ did not apply to Grain Pool because the State of Tasmania and Cultivaust had had a ‘reasonable opportunity’ and did not take that opportunity until the 16 April 1996 letter before action.<sup>347</sup> The appeal of this decision to the Full Federal Court on a different issue affirmed the earlier decision,<sup>348</sup> and the appeal court justices expressed the opinion that the treatment of the exhaustion issue was ‘unexceptionable’.<sup>349</sup> Essentially, for present purposes, *Cultivaust Pty Limited v Grain Pool Pty Limited* confirmed that the implied license doctrine applied under the *Plant Breeder’s Rights Act 1994* (Cth) because the State of Tasmania and Cultivaust made their arguments based on growers having an implied license to grow and sell their first harvest,<sup>350</sup> Justice Mansfield accepted this in his analysis,<sup>351</sup> and the Full Federal Court did not disagree finding Justice Mansfield’s treatment of the exhaustion issue ‘unexceptionable’.<sup>352</sup>

This is now complicated by the question whether the implied licence doctrine continues to apply under the *Plant Breeder’s Rights Act 1994* (Cth) or whether a different exhaustion doctrine should be applied. This arises because of the recent High Court decision in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* where the majority decided in favour of the exhaustion doctrine<sup>353</sup> and the minority favoured the implied licence doctrine.<sup>354</sup> The dispute was about the sale of single use patent protected printer ink cartridges without conditions where the used cartridges were modified, refilled and sold again for reuse.<sup>355</sup> The issue was, in part, whether the original sale exhausted the *Patents Act 1990* (Cth) ‘exclusive rights’ to make, use and import the patented invention.<sup>356</sup> The decision provides insight into the reasoning about the majority favoured exhaustion doctrine<sup>357</sup> and the minority favoured implied licence doctrine.<sup>358</sup> This traces back to a dispute where the High Court in *National Phonograph Company of Australia Ltd v Menck* applied the exhaustion

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<sup>344</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [138] and [203] (Mansfield J).

<sup>345</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J).

<sup>346</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [150] (Mansfield J).

<sup>347</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [197]-[199] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) s 14(1).

<sup>348</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [1] (Finn, Emmett and Bennett JJ).

<sup>349</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [55] (Finn, Emmett and Bennett JJ).

<sup>350</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

<sup>351</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186], [192] and [210] (Mansfield J).

<sup>352</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [55] (Finn, Emmett and Bennett JJ).

<sup>353</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).

<sup>354</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [180]-[194] (Nettle, Gordon and Edelman JJ).

<sup>355</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [3] (Kiefel CJ, Bell and Keane JJ) and [142] (Nettle, Gordon and Edelman JJ).

<sup>356</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [1] (Kiefel CJ, Bell and Keane JJ) and [145] (Nettle, Gordon and Edelman JJ). See also *Patents Act 1990* (Cth) ss 13(1) (‘a patent gives the patentee the exclusive rights ... to exploit the invention and to authorise another person to exploit the invention’) and 3 (‘exploit’) and sch 1 (‘exploit’ including ‘... make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things ...’).

<sup>357</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).

<sup>358</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [180]-[194] (Nettle, Gordon and Edelman JJ).

doctrine<sup>359</sup> and were then overturned by the Privy Council favouring the implied licence doctrine.<sup>360</sup> *Calidad Pty Ltd v Seiko Epson Corporation* was an opportunity for the High Court to reappraise the earlier decisions and finally determine the approach for patents in Australia,<sup>361</sup> and this favoured the exhaustion doctrine.<sup>362</sup>

For the majority the exhaustion doctrine was:

It is not disputed that on the sale or resale of a patented product the purchaser becomes the owner of that item of property. It is a principle of the law of personal property that the owner of chattels has an absolute right to use or dispose of them as they think fit. This principle was applied by a majority of this Court in 1908 in *Menck* (High Court), where it held that conditions on resale could only be imposed as a matter of binding agreement. The Court applied a doctrine that a patentee's monopoly rights of use and sale with respect to a product arising from statute are exhausted on sale.<sup>363</sup>

For the majority the implied licence doctrine was:

In *Menck* (Privy Council) it was held that a patentee may impose conditions on the sale or use of patented goods at the time of their sale to the original purchaser. Any conditions so imposed continue to apply to the goods after sale so long as persons later obtaining title to them have notice of the conditions. If no conditions are imposed, the owner of the goods has the ordinary rights of ownership, but only because in such a case the law implies a full licence.<sup>364</sup>

The majority decision was to apply the exhaustion doctrine that for the sale of the single use patent protected printer ink cartridges '[t]he sale takes the product outside the scope of the patentee's monopoly rights'.<sup>365</sup> The significance of the decision was to reject the 'legal fiction' that a patent holder maintains their 'exclusive rights' in products after sale by granting the purchaser an implied license.<sup>366</sup> Instead, the majority decided that the patent holder's 'exclusive rights' are exhausted on sale (except making),<sup>367</sup> and that after a sale without conditions<sup>368</sup> the re-purposing, re-manufacturing or re-using by the purchaser (or another person who has taken ownership of the product) are not an infringement<sup>369</sup> unless they are making a new product embodying the patented invention.<sup>370</sup> As authority, the majority set out the example of the United States Supreme Court decision in *Impression Products Inc v*

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<sup>359</sup> *National Phonograph Company of Australia Ltd v Menck* (1908) 7 CLR 481, 519 (Griffith CJ), 526-527 (Barton J) and 531 (O'Connor J).

<sup>360</sup> *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 28-29 (Macnaghten, Atkinson, Shaw, Meech and Robson JJ).

<sup>361</sup> On the basis that the High Court is not bound by Privy Council decision: see *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [9] (Kiefel CJ, Bell and Keane JJ) and [136]-[141] (Gageler J).

<sup>362</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).

<sup>363</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [5] (Kiefel CJ, Bell and Keane JJ).

<sup>364</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [6] (Kiefel CJ, Bell and Keane JJ).

<sup>365</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [75] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

<sup>366</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [78] (Kiefel CJ, Bell and Keane JJ) and [126] (Gageler J).

<sup>367</sup> See *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [45]-[70] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

<sup>368</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [9] and [76] (Kiefel CJ, Bell and Keane JJ).

<sup>369</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [9] (Kiefel CJ, Bell and Keane JJ).

<sup>370</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [45] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

*Lexmark International Inc.*<sup>371</sup> There Lexmark sold patent protected toner cartridges for laser printers that were later refilled and sold for reuse by Impression Products.<sup>372</sup> To address this competition Lexmark installed chips to prevent reuse and offered discounts to customers agreeing to a single use and return of the empty cartridges to Lexmark.<sup>373</sup> To counter further refilling and reuse sale by Impression Products, Lexmark brought proceedings alleging patent infringement by refurbishing and reselling the cartridges.<sup>374</sup> The United States Supreme Court held Lexmark's single-use/no-resale restrictions in contracts were 'enforceable under contract law, but they do not entitle Lexmark to retain patent rights in an item that it has elected to sell'.<sup>375</sup> In effect, the patent holder's patent 'exclusive rights' exhausted on sale and they could impose restrictions through contract which were then enforceable through contract (and equity) and not the patent's exclusionary powers and infringement proceedings.<sup>376</sup> As another example, the majority pointed to the United States Supreme Court in *Boston Store of Chicago v American Graphophone Co* where sellers were contracted to sell a patented graphophone at specified prices and could only enforce that through contract law and not patent law.<sup>377</sup>

Returning to *Calidad Pty Ltd v Seiko Epson Corporation* and the issue of making a new product embodying the claimed invention, both the majority and minority agreed that modifying a product after sale could be an infringement by making the product, not by reference to a characteristic of the product as sold as the Full Federal Court had decided,<sup>378</sup> but according to the essential features of the patent as claimed.<sup>379</sup> For both the majority and minority the refilling through drilling and then sealing a small hole to inject ink, reprogramming the memory chip and substituting an integrated circuit for reuse of the cartridges did not amount to a making of the invention, but rather modifications and replacements.<sup>380</sup> Meanwhile, the majority and minority differed in their views about whether cutting off interfaces so as to fit different printers was making a new product. For the majority there was no making because 'what remained [after modifications] were the original Epson cartridges with some modifications which enabled their re-use'<sup>381</sup> and the 'modifications to the original Epson cartridges were consistent with the exercise of the rights of an owner to alter an article to improve its usefulness and enable its re-use'.<sup>382</sup> While for the minority the cutting off of

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<sup>371</sup> *Impression Products Inc v Lexmark International Inc* (2017) 137 S. Ct. 1523; 123 IPR 375 (Roberts CJ, with whom Kennedy, Thomas, Breyer, Alito, Sotomayor and Kagan JJ joined, and Ginsburg J provided a separate judgement); *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [17]-[22] (Kiefel CJ, Bell and Keane JJ).

<sup>372</sup> *Impression Products Inc v Lexmark International Inc* (2017) 123 IPR 375, 378 (Roberts CJ).

<sup>373</sup> *Impression Products Inc v Lexmark International Inc* (2017) 123 IPR 375, 378 (Roberts CJ).

<sup>374</sup> *Impression Products Inc v Lexmark International Inc* (2017) 123 IPR 375, 378-379 (Roberts CJ).

<sup>375</sup> *Impression Products Inc v Lexmark International Inc* (2017) 123 IPR 375, 380 (Roberts CJ).

<sup>376</sup> *Impression Products Inc v Lexmark International Inc* (2017) 123 IPR 375, 380 (Roberts CJ).

<sup>377</sup> *Boston Store of Chicago v American Graphophone Co* (1918) 246 U.S. 8; *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [21] (Kiefel CJ, Bell and Keane JJ).

<sup>378</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 142 IPR 381, [84]-[86] (Greenwood J), [141] and [156] (Jagot J) and [206] and [291] (Yates J). See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [61]-[63] and [80] (Kiefel CJ, Bell and Keane JJ), [112] Gageler J) and [264] (Nettle, Gordon and Edelman JJ).

<sup>379</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [69]-[79] (Kiefel CJ, Bell and Keane JJ) and [263]-[266] (Nettle, Gordon and Edelman JJ).

<sup>380</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [67]-[70] (Kiefel CJ, Bell and Keane JJ) and [264]-[265] (Nettle, Gordon and Edelman JJ).

<sup>381</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [69] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

<sup>382</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [70] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

interfaces so as to fit different printers was ‘such a significant change to the form and function of the cartridges’ that ‘changing each cartridge from the cartridge it had been into a new and different cartridge adapted to a new and different task’ was the making of the patented invention and infringement of the patent.<sup>383</sup>

The majority decision establishes that for patents the ideal of an implied licence no longer applies. The exhaustion doctrine applies, and this means that on the sale of a patented product or product of a patented process, the patent holder’s ‘exclusive rights’ end for further dealings with that product, and any restriction need to be set out in contracts at the time of that sale.<sup>384</sup> This exhaustion doctrine does not, however, exhaust the ‘exclusive rights’ over other *new* embodiments of the invention, such as making that product again. This was a critical distinction drawn by the majority:

Regardless of whether the exhaustion doctrine or the implied licence doctrine is to be preferred, neither doctrine has any part to play in determining whether there has been an infringement of a patent by reason that a new product embodying the claimed invention has been made. The sale of a patented product cannot confer an implied licence to make another and it cannot exhaust the right of a patentee to prevent others from being made. The right to make a product is a separate and distinct right from the right to use or to sell (footnotes omitted).<sup>385</sup>

The key question is whether this exhaustion doctrine applies to the PBR ‘exclusive rights’ under the *Plant Breeder’s Rights Act 1994* (Cth)? This requires a closer examination of the reasoning in the *Calidad Pty Ltd v Seiko Epson Corporation* decision.

In the High Court and Privy Council decisions in *National Phonograph Company of Australia Ltd v Menck* the patent was characterised as a negative right to exclude others that was a right to bring an action to restrain infringement (a chose in action) rather than about the thing (a chose in possession).<sup>386</sup> The simple question in the case was whether the patent holder could prevent those using and selling patented products that the patent holder had sold based on the patent’s ‘exclusive rights’.<sup>387</sup> The High Court majority followed the United States (and European) approach and concluded that once sold the patented goods ‘passed out of the limit of the monopoly’.<sup>388</sup> The High Court dissent reasoned that the common law and patent co-existed and continued after sale<sup>389</sup> with the ‘[c] consequence ... that a purchaser of patented goods had no ability to use the patented goods at all, and no ability to resell the patented goods to anyone, other than if and to the extent that the purchaser was permitted to do so as a licensee of the patentee’.<sup>390</sup> The Privy Council then harmonised this dissent with the ideal that the common law rights of ownership and the patent holder’s ‘exclusive rights’

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<sup>383</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [266] (Nettle, Gordon and Edelman JJ).

<sup>384</sup> The *Calidad Pty Ltd v Seiko Epson Corporation* decision was very clear on this point as there were no contractual conditions imposed on the transaction at the time of sale and it was a pure infringement claim: see *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [4] (Kiefel CJ, Bell and Keane JJ).

<sup>385</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [45] (Kiefel CJ, Bell and Keane JJ).

<sup>386</sup> *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 22 (Macnaghten, Atkinson, Shaw, Merey and Robson LLJ); *National Phonograph Company of Australia Ltd v Menck* (1908) 7 CLR 481, 508 (Griffith CJ). See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [119] (Gageler J).

<sup>387</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [120] (Gageler J).

<sup>388</sup> *National Phonograph Company of Australia Ltd* (1908) 7 CLR 481, 511 (Griffith CJ). See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [121] (Gageler J).

<sup>389</sup> *National Phonograph Company of Australia Ltd* (1908) 7 CLR 481, 539 (Isaacs J).

<sup>390</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [122] (Gageler J).

could co-exist with the patent holder granting a licence, that was implied at the time of sale.<sup>391</sup> This also means that any restrictions imposed at the time of sale are conditions of the patent grant and not the contract of sale.<sup>392</sup> This is, of course, ‘a convenient legal fiction’<sup>393</sup> that unravels where the patented products are on sold, abandoned, scavenged, recycled, and so on, breaking the privity of contract and leaving any recourse to equity (that it cannot resolve)<sup>394</sup> – the ‘position is a riddle, if not a muddle. It is certainly a mess’.<sup>395</sup> In short:<sup>396</sup>

The exhaustion of rights doctrine cuts through that mess. It does so as a matter of statutory construction, on the clear-eyed understanding that ‘the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold’. Applied to the *Patents Act 1990* [(Cth)], it involves nothing more than construing the references to ‘hire’, ‘sell’, ‘otherwise dispose of’, ‘use’ and ‘import’ in the definition of ‘exploit’ in relation to an invention as having no application to a product in relation to which the patentee has already exploited the invention by exercising the patentee’s common law right to sell the product (footnotes excluded).<sup>397</sup>

The consequence of applying the exhaustion doctrine instead of the implied licence doctrine is to clearly delineate when the *Patents Act 1990* (Cth) ‘exclusive rights’<sup>398</sup> end:

the exhaustion doctrine leaves no patent rights to be enforced *with respect to the particular product sold*. Under the exhaustion doctrine a patentee’s rights to make and to sell another product embodying the claimed invention remained unaffected. So too does the patentee continue to have the right to use a product so made and to prevent others from doing so, at least until the product is sold ... it does not prevent a patentee from imposing restrictions and conditions as to the use of a patented product after its sale but simply requires that they be obtained by negotiation in the usual way and enforced according to the law of contract or in equity (emphasis in original).<sup>399</sup>

Again, the key question is whether this exhaustion doctrine applies to PBR ‘exclusive rights’ under the *Plant Breeder’s Rights Act 1994* (Cth)? This seems likely and will potentially provide clarity to the application of the PBR ‘exclusive rights’ after the uncertainty following the *Cultivaust Pty Ltd v Grain Pool Pty Ltd* outcome.<sup>400</sup> Further, it seems incredible that the High Court would apply a different conception of implied license to the *Plant Breeder’s Rights Act 1994* (Cth) than to the *Patents Act 1990* (Cth). In *Calidad Pty Ltd v Seiko Epson Corporation* the majority was clear that the *Patents Act 1990* (Cth) ‘exclusive rights’ were negative rights<sup>401</sup> and that the nature of these rights were unaffected by the sale of a patented product<sup>402</sup> where there is ‘a sense of finality’ as the chattel passes from the patent holder<sup>403</sup> and the

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<sup>391</sup> *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 22-23 (Macnaghten, Atkinson, Shaw, Merey and Robson LLJ). See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [125]-[126] (Gageler J).

<sup>392</sup> *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 24 (Macnaghten, Atkinson, Shaw, Merey and Robson LLJ). See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [126] (Gageler J).

<sup>393</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [126] (Gageler J).

<sup>394</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [127]-[130] (Gageler J).

<sup>395</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [132] (Gageler J).

<sup>396</sup> See also *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[76] (Kiefel CJ, Bell and Keane JJ).

<sup>397</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [133] (Gageler J).

<sup>398</sup> *Patents Act 1990* (Cth) ss 3 and 13 and sch 1 (‘exploit’).

<sup>399</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [74] and [76] (Kiefel CJ, Bell and Keane JJ).

<sup>400</sup> See, for example, ACIP Review of Enforcement, above n. 69, pp. 75-76.

<sup>401</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [85] (Kiefel CJ, Bell and Keane JJ).

<sup>402</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [87] (Kiefel CJ, Bell and Keane JJ).

<sup>403</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [89] (Kiefel CJ, Bell and Keane JJ). See also *National Phonograph Company of Australia Ltd v Menck* (1908) 7 CLR 481, 512 (Griffith CJ).

patent holder 'is rewarded for the often considerable efforts and expense' of invention.<sup>404</sup> Similarly, the sale of a PBR'ed variety has that same finality and suitable reward for breeding the new plant variety. The consequence of first sale exhaustion would mean construing the *Plant Breeder's Rights Act 1994* (Cth) 'exclusive rights' to 'produce or reproduce', 'condition the material for the purpose of propagation', 'offer the material for sale', 'sell the material', 'import the material', 'export the material' and 'stock the material' for any of those purposes<sup>405</sup> exhausting for 'propagating material' where the PBR holder has exercised their common law right to sell the materials. Following *Sun World International Inc v Registrar of Plant Breeder's Rights* a sale might be *any* commercial arrangement involving money.<sup>406</sup> The only likely limits under the *Plant Breeder's Rights Act 1994* (Cth) where the PBR reward is captured through the extension of the PBR to 'harvested material' and products of 'harvested material' that are deemed 'propagating material' ('reasonable opportunity')<sup>407</sup> and the 'further production or reproduction of the propagating material' (emphasis added) or export to a country without PBR, and so on, after being sold,<sup>408</sup> and authorisation by or under a Commonwealth, State or territory law.<sup>409</sup> If this is correct, and absent any of these limitations, then the only avenue for PBR holders to reach into future dealings with the PBR'ed material after they have been sold is through contracts agreed at the time of sale and enforced through contract and equity, subject to any limitations such as competition and consumer laws.<sup>410</sup>

As a test of this exhaustion doctrine, what if the exhaustion doctrine had applied in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, would the outcome have been different? Recall that there it was accepted that the exhaustion provision was avoided because the grain purchased by the growers (G0) as 'propagating material' was sold by the State of Tasmania and Cultivaust with an implied licence for the growers to grow and sell the first generation harvested material (G1).<sup>411</sup> According to this implied licence, and the State of Tasmania and Cultivaust acknowledged this at the time,<sup>412</sup> then the growing, harvest and selling of the first generation harvested seed (G1) would have been authorized at the time of sale.<sup>413</sup> Thus, through a combination of exemption for exhaustion because the seeds were being further produced and reproduced and implied licences, dealings with the original seeds (G0) and first harvested (G1) were lawful.<sup>414</sup> Removing the implied licence from this analysis and applying the exhaustion doctrine means that at the first sale of the grain purchased by the growers (G0) the PBR would exhaust. The State of Tasmania and Cultivaust could at that first sale have imposed contractual conditions on the sale, including conditions of use and liability for royalty arrangements, and this would be resolved as a matter of contract and equity but *not* PBR infringement. The consequence of this exhaustion would be that there were no PBR rights to be enforced over the particular plant variety materials sold (G0), although the right to

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<sup>404</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [92] (Kiefel CJ, Bell and Keane JJ).

<sup>405</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>406</sup> '[T]he exchange of a commodity for money or other valuable consideration': *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 172 (French J).

<sup>407</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15.

<sup>408</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210]-[211] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) ss 23(1).

<sup>409</sup> *Plant Breeder's Rights Act 1994* (Cth) s 18.

<sup>410</sup> See *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [74] and [77] (Kiefel CJ, Bell and Keane JJ).

<sup>411</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

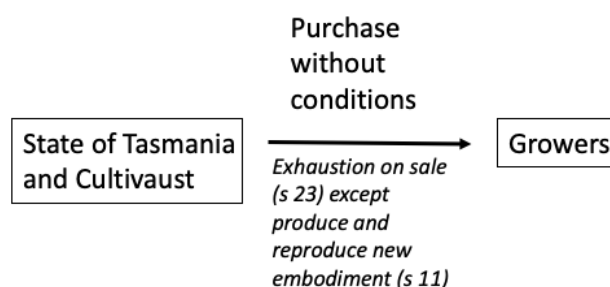
<sup>412</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186], [192] and [210] (Mansfield J).

<sup>413</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186] (Mansfield J).

<sup>414</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186] and [210] (Mansfield J). Noting also that '[i]n any event, that sale is by implication consented to by [the State of] Tasmania and Cultivaust (as they acknowledge)': [210].



produce and reproduce the plant material embodying the PBR'ed variety are unaffected because that would itself be an infringement in producing or reproducing a new embodiment of the variety (G1). In other words, growers would need the express authorisation from the PBR holder (the State of Tasmania and Cultivaust) to grow and then deal with a plant variety (G1) where the harvested material is 'propagating material' as defined in the *Plant Breeder's Rights Act 1994* (Cth) – that is, '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'.<sup>415</sup> And without the PBR owner's consent the PBR in the new embodiment would not exhaust on sale,<sup>416</sup> so in this case the State of Tasmania's and Cultivaust's consent would be required for the growers to offer and sell their harvest (G1) to Grain Pool, and Grain Pool would have infringed by selling, exporting and stocking the harvested 'propagating material' (G1). The farmer saved seed exemption would not apply because that exemption is only engaged after the first harvest 'propagating material' (G1+) is used for conditioning and reproduction of 'further propagating material'.<sup>417</sup> Figure 1 provides an overview of how the various transactions might be conceived.



**Figure 1: Exhaustion on first sale.** Resolution of the facts in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* after *Calidad Pty Ltd v Seiko Epson Corporation* considering the sale of 'propagating material' from the State of Tasmania and Caultivast to growers under the *Plant Breeder's Rights Act 1994* (Cth).

Dealing with the first harvest (G1) and the second and subsequent harvests (G2+) is more complicated. Recall the State of Tasmania's and Cultivaust's action was about an alleged infringement by Grain Pool of the PBR to sell, export and stock material that had been grown and harvested, some from lawfully saved seeds,<sup>418</sup> and all delivered to Grain Pool.<sup>419</sup> Importantly, Grain Pool acquired the grain for sale to maltsters and animal feeders rather than for 'further production and reproduction' (emphasis added),<sup>420</sup> and there were no conditions imposed on growers at the time of sale limiting their dealings with the seed including harvested seed.<sup>421</sup> The issue was then simply whether Grain Pool had infringed the PBR, if a PBR applied to those harvested seeds (G1+)?<sup>422</sup> But this was a more complicated question of whether the 'harvested material' was deemed PBR'ed 'propagating material'

<sup>415</sup> See *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [74] and [76] (Kiefel CJ, Bell and Keane JJ). See also *Plant Breeder's Rights Act 1994* (Cth) s 3(1) ('propagating material').

<sup>416</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>417</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e).

<sup>418</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [179] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) ss 14(2) and 17(1).

<sup>419</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [179] (Mansfield J).

<sup>420</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [149] and [179] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>421</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [150] (Mansfield J).

<sup>422</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [185] (Mansfield J).

through addressing the facts questions of whether that was authorized by the PBR holder and had there been a 'reasonable opportunity' to impose the PBR on the original 'propagating material'.<sup>423</sup> This was further complicated by a 16 April 1996 Cultivaust letter before action to Grain Pool asserting and exercising their PBR over seeds sold to growers after that date.<sup>424</sup> Reducing this complexity, the essential questions is about 'propagating material' purchased from Cultivaust before 16 April 1996 and the interaction of the PBR over that 'propagating material' and the extension of these PBRs to 'harvested material' and products of 'harvested material' that are deemed 'propagating material' ('reasonable opportunity')<sup>425</sup> and the 'further production or reproduction of the propagating material' (emphasis added) or export to a country without PBR, and so on, after being sold.<sup>426</sup> Justice Mansfield in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* clarifies the interaction between these various elements of the *Plant Breeder's Rights Act 1994* (Cth) as 'not alter[ing] the nature of the exclusive rights of the grantee of PBR', but rather, 'extend[ing] the circumstances in which the exclusive rights may be exercised'<sup>427</sup> and being 'limited in time'.<sup>428</sup> Figures 2 and 3 provide an overview of how these various transactions might be conceived. Applying the exhaustion doctrine to the *Cultivaust Pty Ltd v Grain Pool Pty Ltd* facts and circumstances, the following points are important:

1. 'Propagating material' – Any material that is 'propagating material' from the first harvest (G1) and the second and subsequent harvests (G2+) that is an embodiment of the PBR'ed variety will have available the PBR's 'exclusive rights' until they exhaust on consented sale.<sup>429</sup> Growers would need the express authorisation from the PBR holder to grow and then deal with a plant variety where the harvest is 'propagating material' (to grow and harvest G1+), subject to the exemption from the PBR for conditioning and further reproducing 'propagating material' in 'farming activities' (farmer saved seeds) (to grow and harvest G2+)<sup>430</sup> and the exclusion for 'further production and reproduction' until sale (to grow and harvest G2+).<sup>431</sup> Where the PBR owner has not consented to the sale, those dealing with the 'propagating material' (G1+, with each new embodiment of the 'propagating material' availed of the 'exclusive rights' in their own right) will be subject to the PBR.<sup>432</sup> In *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, taking into account the first sale exhaustion doctrine, each production and reproduction resulted in 'propagating material' (viable barley seeds), and so the PBR's 'exclusive rights' might be expected to apply to each new embodiment of the PBR'ed variety *per se* subject to the farmer saved seeds exemption (to grow and harvest G1+). The growers of G1+ could have relied on the farmer saved seeds exemption to condition and reproduce second and subsequent harvests (G2+) but would have required authorisation from the State of Tasmania and Cultivaust

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<sup>423</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187]-[190] (Mansfield J).

<sup>424</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [138] and [203] (Mansfield J).

<sup>425</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15.

<sup>426</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210]-[211] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 23(1). Noting also that authorisation by or under a Commonwealth, State or territory law simply leads to equitable remuneration: *Plant Breeder's Rights Act 1994* (Cth) s 18.

<sup>427</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [218] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15.

<sup>428</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [220] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>429</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 11 and 23(1).

<sup>430</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 17(1).

<sup>431</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 23(1)(c) and (4).

<sup>432</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 11 and 23(1)(c).

to produce and deal with any new embodiments without infringement (G2+). And Grain Pool would have required authorisation from the State of Tasmania and Cultivaust to avoid infringement to sell, export and stock material that had been grown and harvested unless that sale by the grower was authorised by the State of Tasmania and Cultivaust (G2+). This analysis makes some assumptions about 'harvested material' that is also 'propagating material (see §5.6).

2. *'Harvested material'* – Where material is harvested from a PBR'ed 'propagating material' that was grown without authorisation and there has not been a 'reasonable opportunity' to exercise the PBR, then PBR rights will extend to that material until they exhaust when the PBR owner has had a 'reasonable opportunity' to exercise their PBR over the 'propagating material'.<sup>433</sup> And this will apply to each iteration of a new embodiment of the produced or reproduced 'propagating material' that is 'harvested material' (G1+) subject to the exemption from the PBR for conditioning and further reproducing 'propagating material' in 'farming activities' (farmer saved seeds) (to grow and harvest G2+).<sup>434</sup> In *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, taking into account the first sale doctrine, each production and reproduction (G1+) resulted in 'harvested material' (barley seeds), and so the PBR's 'exclusive rights' extend where there was no authorisation and there had not been a 'reasonable opportunity' (G1+).<sup>435</sup> Until the 16 April 1996 Cultivaust letter before action to Grain Pool asserting and exercising their PBR, there was no authorisation and no 'reasonable opportunity' so the PBR extended to that 'harvested material' (to grow and harvest G1+) except the conditioned and further reproduced 'propagating material' used in 'farming activities' (farmer saved seeds) (to grow and harvest G2+).<sup>436</sup> For 'harvested material' produced by the growers (G1+) and received by Grain Pool, the PBRs were extended and infringed by growers offering for sale and selling and Grain Pool selling, exporting and stocking the 'harvested material'. This analysis makes some assumptions about 'harvested material' that is also 'propagating material (see §5.6).
3. *Products of 'harvested material'* – Where material is harvested from a PBR'ed 'propagating material' that was grown without authorisation and there has not been a 'reasonable opportunity' to exercise the PBR over the 'propagating material' or 'harvested material', then a PBR will extend to the products of 'harvested material' until they exhaust when the PBR owner has had a 'reasonable opportunity' to exercise their PBR over the 'propagating material'.<sup>437</sup> And this will apply to each iteration of a new embodiment of the produced or reproduced propagating material where there is a 'product' (G1+). This was not in issue in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*. This analysis makes some assumptions about 'harvested material' that is also 'propagating material (see §5.6).
4. *'Further production and reproduction' of propagating material* – Where there has been the sale of 'propagating material', then the 'further production and reproduction' of that 'propagating material' will not exhaust until that further produced and reproduced 'propagating material' is sold with consent.<sup>438</sup> And this will apply to each iteration of a

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<sup>433</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>434</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 17(1).

<sup>435</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>436</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 17(1).

<sup>437</sup> *Plant Breeder's Rights Act 1994* (Cth) s 15(b).

<sup>438</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 23(1)(c) and (4).

new embodiment of the produced or reproduced 'propagating material' (G1+). The second and subsequent harvests (G2+) were also a 'further production and reproduction' of the original material (G0) and the PBR would not have exhausted for the original material (G0) and the first harvest (G1) and subsequent harvests (G2+) until the following subsequent harvests are sold.<sup>439</sup> Notably, 'further' is used in the present context to mean the next production and reproduction of 'propagating material' starting from the original 'propagating material',<sup>440</sup> in contrast to the same term in dealing with farmer saved seeds where the context is the second and subsequent harvested 'propagating material'.<sup>441</sup> In *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, taking into account the first sale doctrine, the 'further production and reproduction' of the 'propagating material' would not be exhaust on the sale of the original 'propagating material' (G0) and would continue to enliven a PBR on each new embodiment in subsequent harvests (G1+), and accumulate so that the PBR for the 'propagating material' for each harvest will have application. For example, a grower purchasing seed (G0), saving that seed for 'further production and reproduction' over 3 generations (G1-G3) and then delivering the fourth generation to Grain Pool (G4) – the grower would have need to account for the PBR in the new embodiments (G1-G3) and Grain Pool for the PBR in the new embodiment delivered to them (G4). The farmer saved seed exemption would apply to 'farming activities' and there would be no infringement (G1-G3),<sup>442</sup> and the PBR enliven again on sale of either the 'propagating material'<sup>443</sup> or 'harvested material' deemed 'propagating material' (G4).<sup>444</sup> This analysis makes some assumptions about 'harvested material' that is also 'propagating material' (see §5.6).

5. *Export to a country without PBR, and so on* – Recall exhaustion does not apply where PBR'ed material is exported to a country that does not provide a PBR for that variety and where the material is not finally consumed.<sup>445</sup> So, where there has been the sale of 'propagating material', then the 'export ... to a country that does not provide PBR ... [and] for a purpose other than final consumption' of that 'propagating material' will not exhaust until that material is sold with consent of the PBR owner.<sup>446</sup> And this will apply to each iteration of a new embodiment of the produced or reproduced 'propagating material' (G1+). For example, a grower purchasing seed (G0), exporting the seed to a country that does not provide PBR, and then the grower or another producing or reproducing 'propagating material' (G1+) and then importing that into Australia (where the *Plant Breeder's Rights Act 1994* (Cth) applies),<sup>447</sup> then the PBR might be enforced against the dealings with the original seed (as a new embodiment of the 'propagating material'),<sup>448</sup> the 'harvested material' deemed 'propagating material'<sup>449</sup> or the product of 'harvested material' deemed 'propagating material'.<sup>450</sup> Where the farmer saved seed exemption

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<sup>439</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 23(1)(c) and (4).

<sup>440</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>441</sup> See *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e).

<sup>442</sup> See *Plant Breeder's Rights Act 1994* (Cth) ss 14(2) and 17(1)(d) and (e).

<sup>443</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>444</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>445</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(d).

<sup>446</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(d).

<sup>447</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 10.

<sup>448</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>449</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>450</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 15.

applied to 'farming activities' there would be no infringement,<sup>451</sup> and the PBR would then enliven again on sale of either the new embodiments of the 'propagating material',<sup>452</sup> 'harvested material' deemed 'propagating material'<sup>453</sup> or the product of 'harvested material' deemed 'propagating material'.<sup>454</sup> This was not in issue in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.

6. *Farm saved seeds* – Where a person engaged in 'farming activities' uses 'propagating material' in those activities and 'propagating material' is harvested, then conditioning and further reproduction will not exhaust until that further reproduced 'propagating material' is sold with the consent of the PBR owner.<sup>455</sup> And this will apply to each iteration of a new embodiment of the harvested 'further propagating material' (G1+).<sup>456</sup> In *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, taking into account the first sale doctrine, the growers saved the seeds and delivered them to Grain Pool (G0) such that their conditioning and harvesting of 'further propagating material' (G1+)<sup>457</sup> would be exempted from PBR.<sup>458</sup> Justice Mansfield considered that the *Plant Breeder's Rights Act 1994* (Cth) provisions 'authorises the use of the farm saved seed in producing a further crop and the harvesting of further propagating material from plants grown from that seed' and then the 'harvest from farm saved seed, except for further farm saved seed, is to be treated as if it were propagating material to which s 11 operates, that is it is propagating material the subject of PBR'.<sup>459</sup> The apparent effect of the farm saved seed exemption is to expressly address the 'conditioning'<sup>460</sup> and 'reproducing' (but not 'producing') in 'farming activities'<sup>461</sup> so that the PBR does not apply until the plant material (and it will necessarily be 'propagating material') is returned to dealing with others,<sup>462</sup> and when it returns this will be 'propagating material' *per se* attracting all the PBR, without the need to address any of the 'harvested material' elements, like 'authorisation' and 'reasonable opportunity'. Why material harvested from 'propagating material' (G1+) is considered differently depending on whether it was harvested from farm saved seeds is unclear? This analysis makes some assumptions about 'harvested material' that is also 'propagating material' (see §5.6).

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<sup>451</sup> See *Plant Breeder's Rights Act 1994* (Cth) ss 14(2) and 17(1)(d) and (e).

<sup>452</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>453</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>454</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>455</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>456</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e).

<sup>457</sup> Noting the different use of 'further' in the exemption of the PBR for 'further propagating material' for farmer saved seeds and in the exhaustion provision for 'further production and reproduction' to avoid exhaustion: *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e) and 23(1)(c) respectively. See also ACIP Review of Enforcement, above n. 69, pp. 51 and 75.

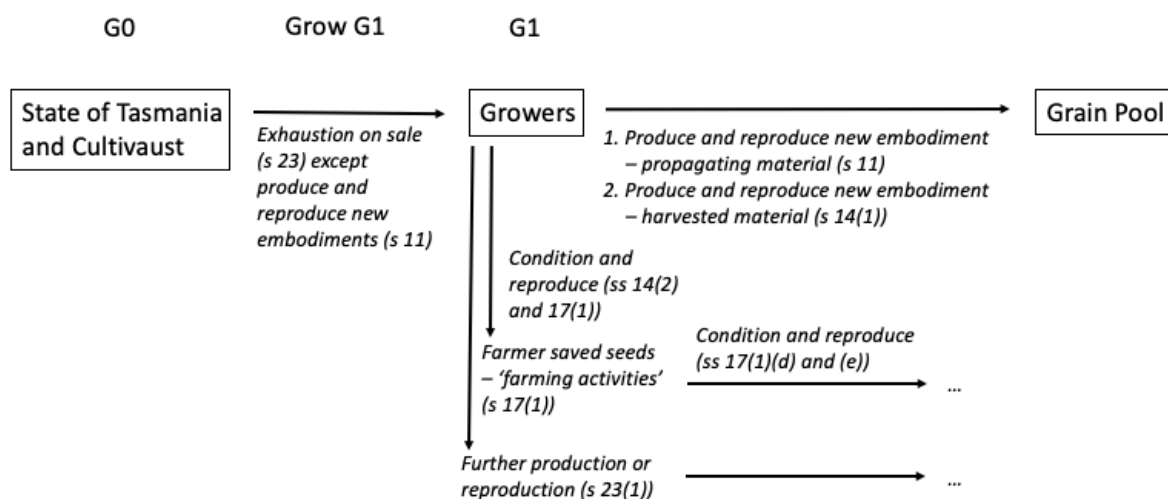
<sup>458</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e).

<sup>459</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187]-[188] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and (2) and 17(1).

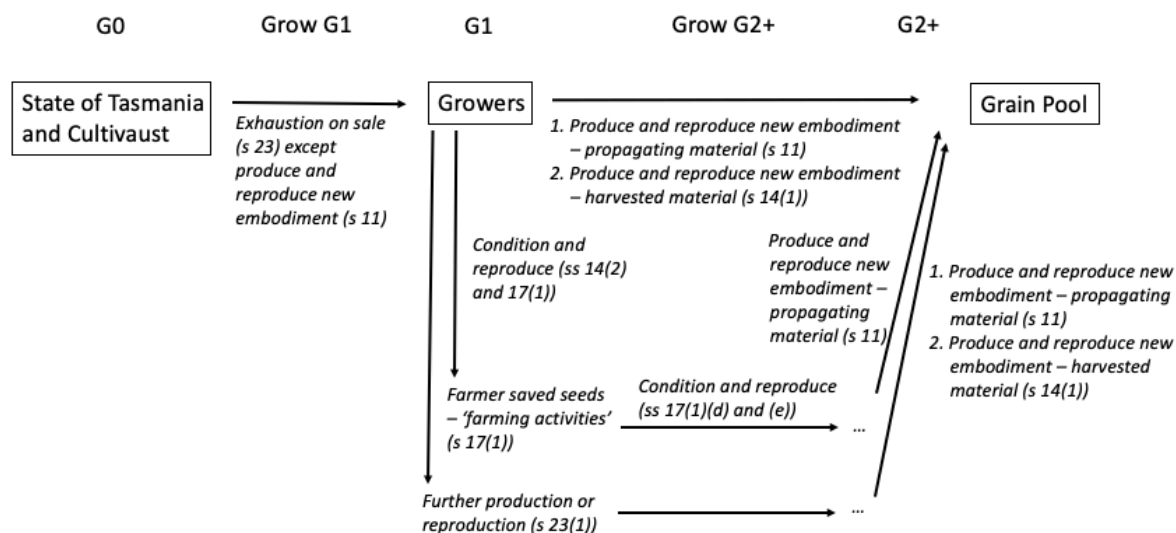
<sup>460</sup> *Plant Breeder's Rights Act 1994* (Cth) s 3(1) ('conditioning').

<sup>461</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 17(1)(d) and (e).

<sup>462</sup> Noting that the *Plant Breeder's Rights Act 1994* (Cth) s 17(1) provides 'a person engaged in farming activities ... for use in such activities'.



**Figure 2: Exhaustion on first harvest.** Resolution of the facts in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* after *Calidad Pty Ltd v Seiko Epson Corporation* considering the growing of ‘propagating material’ from purchase to the first harvest under the *Plant Breeder’s Rights Act 1994* (Cth).



**Figure 3: Exhaustion on second and subsequent harvests.** Resolution of the facts in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* after *Calidad Pty Ltd v Seiko Epson Corporation* considering the growing of ‘propagating material’ from the first and subsequent harvests under the *Plant Breeder’s Rights Act 1994* (Cth).

So, applying the exhaustion doctrine from *Calidad Pty Ltd v Seiko Epson Corporation*, the outcome in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* would have likely been that the State of Tasmania’s and Cultivaust’s PBR exhausted on the first sale, and without any conditions imposed on the growers they could produce and reproduce, sell, export, and so on, the PBR’ed ‘propagating material’ sold (G0). But the subsequent generation ‘propagating material’ (G1+) and Grain Pool’s dealings with that ‘propagating material’ would likely have been subject to the PBR because the subsequent generation ‘propagating material’ (G1+) were new embodiments of the plant variety attracting the PBR’s ‘exclusive rights’ as ‘propagating material’ and not the route through ‘harvested material’ deemed ‘propagating material’. Similarly, growers of subsequent generation ‘propagating material’ (G1+) would avoid infringement to the extent of the farm saved seed exception for conditioning and reproducing ‘propagating material’, but not the production, sale, export, and so on, and

stocking for those purposes.<sup>463</sup> In short, Grain Pool's dealings would likely have been an infringement of the State of Tasmania's and Cultivaust's PBR because they were dealing with a new embodiment of the PBR'ed variety's actual 'propagating material' as defined in the *Plant Breeder's Rights Act 1994* (Cth).

The consequence of applying the exhaustion doctrine to the *Cultivaust Pty Ltd v Grain Pool Pty Ltd* circumstances would be that growers were not infringing the PBRs in conditioning and reproducing subsequent generations of 'propagating material' (G1+) because of the explicit saved seed exemption.<sup>464</sup> Also, growers would not have been infringing the PBRs in producing, conditioning and stocking for those purposes because of the specific exemption from exhaustion for acts 'involv[ing] further production and reproduction' of 'propagating material' (G1+).<sup>465</sup> But they would be infringing the State of Tasmania's and Cultivaust's PBR in 'offer the material for sale', 'sell' and 'stock the material' for those purposes<sup>466</sup> the harvest of saved seeds, and Grain Pool would have been infringing the 'sell', 'export' and 'stock the material' for any of those purposes.<sup>467</sup> This is because they were dealing with a new embodiment (G1+) of the PBR'ed 'propagating material' without authorization from the PBR holder (the State of Tasmania and Cultivaust). Thus, *any* dealings with the G1+ 'propagating material' of a PBR protected variety, such as selling seeds harvested from a PBR'ed variety, would require the authorisation of the PBR owner (see Figure 4).

The last matter to consider is what happens for exhaustion where a third party does some of the acts of the PBR that have not been authorised, like the *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens* case.<sup>468</sup> Recall there Better3fruit NV licenced Nicolai NV to use the protected variety with limiting conditions about growing and marketing apple trees, and then Nicolai NV sold apple trees to Hustin without conditions, and then Hustin supplied apples to Goossens.<sup>469</sup> Greenstar-Kanzi Europe NV concluded an agreement to exploit the community plant variety right some time before 2007 and then in 2007 Greenstar-Kanzi Europe NV as the relevant right's holder brought an infringement action against Hustin and Goossens.<sup>470</sup> The question was, in essence, whether it was a defence to infringement action against Hustin and Goossens that Better3fruit NV licenced Nicolai NV and that Nicolai NV had then sold onto the third party Hustin (and then Goossens) contrary to the limiting agreement between Better3fruit NV and Nicolai NV? The court considered a broad public policy principle that 'protection enjoyed by the holder is not to be excessive'<sup>471</sup> that was consistent with the Regulation 2100/94 providing 'the principle of exhaustion of rights must ensure that the protection is not excessive'.<sup>472</sup> With this in mind the court said:

It is therefore clear that an infringement of any clause of the licensing contract does not always result in violation of the holder's consent. In particular, that consent cannot be considered to be violated where the person enjoying the right of exploitation contravenes a provision of the licensing contract which does

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<sup>463</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>464</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>465</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1).

<sup>466</sup> See *Plant Breeder's Rights Act 1994* (Cth) ss 11(d), (f) and (g).

<sup>467</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 11(d), (f) and (g).

<sup>468</sup> (2011) C-140/10 (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

<sup>469</sup> *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens* (2011) C-140/10, [12]-[18] (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

<sup>470</sup> *Ibid.*, [16]-[18] (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

<sup>471</sup> *Ibid.*, [41].

<sup>472</sup> Regulation 2100/94, Preamble, Recital 14.

not affect the consent to the placing of the goods on the market and which therefore has no effect on the exhaustion of the holder's right.<sup>473</sup>

The court did not have the relevant agreement before it and determined as a general proposition that a community plant variety right does not exhaust in the hands of third parties where the dealing by the right holder has not been authorized for the 'essential features' of the community plant variety right.<sup>474</sup> What constituted these 'essential features' was not addressed, and might be:

Probably conditions with regard to the number of plants to be produced and sold by the licensee, the quality of the plant material, and geographical limitations can be regarded essential, whereas for example, conditions regarding the licensee's internal administration, the policing of the territory involved in the licence agreement, and the settlement of disputes perhaps cannot.<sup>475</sup>

In the same case the Advocate General opined that 'an infringement of the conditions attached to prior authorization cannot be treated in the same way, in law, as an absence of authorization enforceable on others'.<sup>476</sup> In other words, where the variety owner has *not* had an opportunity to exploit their variety right then there will *not* be exhausted, so exhaustion applies on first sale unless the possible infringement of the licensee relates to the 'essential features' of the variety right.<sup>477</sup>

The *Plant Breeder's Rights Act 1994* (Cth) provides there is no exhaustion if there is, in part, 'further production or reproduction of the material'.<sup>478</sup> The scope of 'further' is unclear as the exhaustion appears to apply to the first crop (G1) but not subsequent crops (G2+) perhaps avoiding the PBR owner authorizing (an implied licence?) the first crop sale (G1) but not subsequent crop sales (G2+).<sup>479</sup> The litigation reported in *Cultivaust Pty Limited v Grain Pool Pty Limited* may not have resolved these concerns. There Justice Mansfield considered that the 'use of the word "further" ... provides the reason for treating the first generation crop differently, and for excluding from the aegis of [exhaustion] the second and subsequent generation crops'.<sup>480</sup> On appeal the Full Federal Court concluded that Justice Mansfield's treatment of the exhaustion issue was 'unexceptionable'.<sup>481</sup> The concern is that the use of the term 'further' may have different meanings when applied to the exhaustion provisions meaning G2+<sup>482</sup> and the farmer saved seeds provisions meaning G1+.<sup>483</sup>

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<sup>473</sup> *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens* (2011) C-140/10, [41] (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

<sup>474</sup> *Ibid.*, [43] and [44]. See also *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens*, Opinion of the Advocate General (2011) C-140/10, [57] (Niilo Jääskinen).

<sup>475</sup> Würtenberger *et al.*, above n. 228, §6.105. See also Gert Würtenberger, 'Plant Variety Rights and Breach of Licence' (2012) 7 *Journal of Intellectual Property Law and Practice* 161, 163-164.

<sup>476</sup> *Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens*, Opinion of the Advocate General (2011) C-140/10, [57] (Niilo Jääskinen).

<sup>477</sup> See Jacques De Werra, 'An Essential Brick in the Building of European Copyright: Regulation of Copyright Transactions' in Tatiana Synodinou, *Codification of European Copyright Law: Challenges and Perspectives* (Kluwer Law International, 2012) pp. 270-271.

<sup>478</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>479</sup> See also ACIP Review of Enforcement, above n. 69, p. 75.

<sup>480</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>481</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [55] (Finn, Emmett and Bennett JJ).

<sup>482</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23.

<sup>483</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17.



ACIP addressed this concern in the context of farmer saved seeds and exhaustion. There ACIP assumed that there was an implied licence for a grower to grow and sell the first harvest (G1) and so the ‘further’ production and reproduction from farmer saved seeds (G2+) required authorisation as those rights had not exhausted.<sup>484</sup> ACIP note the inconsistent uses of the term ‘further’ when applied to the exhaustion provisions meaning G2+<sup>485</sup> and the farmer saved seeds provisions meaning G1+.<sup>486</sup> ACIP concluded:

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.<sup>487</sup>

If the exhaustion applies to the *Plant Breeder’s Rights Act 1994* (Cth) as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* on the first sale (dealing),<sup>488</sup> however, then the PBR will also exhaust on that first sale (dealing) and there will be no implied licence for the grower to grow and sell the first harvest. Unlike the reasoning of Justice Mansfield, the ‘further’ would then likely refer to the new embodiment of the produced or reproduced ‘propagating material’ rather than the produced or reproduced ‘propagating material’ over which there was an implied licence for the grower to grow and sell that ‘propagating material’.<sup>489</sup> If the High Court *Calidad Pty Ltd v Seiko Epson Corporation* decision applies to the *Plant Breeder’s Rights Act 1994* (Cth) then ‘further production or reproduction of the material’ is likely clarifying that a new embodiment of the ‘propagating material’ is not exhausted by prior sale (or dealing) of an earlier embodiment of that material in the same plant variety. Any ‘exclusive rights’, however, would exhaust on first sale unless the PBR owner-imposed conditions at the time of the sale (or dealing), although those conditions would be enforced through contract, equity and consumer laws (see §5.5). So, the PBR will apply to any new embodiment that is the result of the ‘further production or reproduction of the material’, unless it is itself ‘further’ produced or reproduced. In short, this resolves the ACIP concerns.

#### **Recommendation 4**

The Australian Government should clarify that the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder’s Rights Act 1994* (Cth). This is necessary to avoid the uncertainty that existed with the application of the implied licence doctrine, such as the decisions in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*.

#### **Recommendation 5**

If the Australian Government considers the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* applies to the *Plant Breeder’s Rights Act 1994* (Cth) is correct, then explanatory materials should be prepared to assist

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<sup>484</sup> ACIP Review of Enforcement, above n. 69, p. 72 citing *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>485</sup> *Ibid.*, p. 75. See also *Plant Breeder’s Rights Act 1994* (Cth) s 23.

<sup>486</sup> *Ibid.*, p. 72. See also *Plant Breeder’s Rights Act 1994* (Cth) s 17.

<sup>487</sup> *Ibid.*, p. 76.

<sup>488</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [9] (Kiefel CJ, Bell and Keane JJ) and [136]-[141] (Gageler J).

<sup>489</sup> See also ACIP Review of Enforcement, above n. 69, pp. 51 and 75.

the PBR stakeholders, including small and medium enterprises, understanding the practical effects of this doctrine. This might be explanatory materials, case studies, information sheets, and so on.

**Problem:** The High Court in *Calidad Pty Ltd v Seiko Epson Corporation* clarified that the exhaustion doctrine applies to the *Patents Act 1990* (Cth), and the question is whether this same reasoning will be applied to the *Plant Breeder's Rights Act 1994* (Cth) so that a PBR exhausts, subject to some limited circumstances, on first sale?

**Preferred solution:** This is a question that can only finally be resolved by the High Court. It seems incredible that the High Court would not apply the same reasoning to the *Plant Breeder's Rights Act 1994* (Cth). To pre-empt this eventuality, the preferred option is to accept that the exhaustion doctrine applied to the *Plant Breeder's Rights Act 1994* (Cth) and apply the scheme accordingly.

**Benefits:** The key benefit of applying the exhaustion doctrine as articulated by the High Court in *Calidad Pty Ltd v Seiko Epson Corporation* is that it would resolve some of the key uncertainties from the decision in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*. More broadly, the exhaustion doctrine clarifies the scope of the PBR so that stakeholders can more clearly arrange their affairs with clear property rights.

**Costs:** The key cost here is that buyers and growers using PBR'ed varieties will no longer be considered to have an implied licence to grow and sell varieties they have acquired, and instead will require authorisation to grow and sell those varieties. These costs, and the other costs of change are likely to be minimal as most PBR owners already use contracts to order their affairs that adequately address the current uncertainties, and over time their affairs might be simplified where there is clarity that the PBR does exhaust on first sale.

### ***5.5 The exhaustion doctrine and 'harvested material' that is also 'propagating material'***

The *Plant Breeder's Rights Act 1994* (Cth) makes provision for cascading rights to 'harvested material'<sup>490</sup> and the products of 'harvested material'<sup>491</sup> that are deemed to be 'propagating material' with the PBR's 'exclusive rights' available to 'propagating material'.<sup>492</sup> For both 'harvested material' and the products of 'harvested material' the threshold requirements are that they are 'produced or reproduced without authorisation' and there has not been a 'reasonable opportunity' to exercise the 'exclusive rights' over the 'propagating material'.<sup>493</sup> Recall that in *Cultivaust Pty Limited v Grain Pool Pty Limited*, Justice Mansfield in the Federal Court found that the implied license in the sale of seed (G0) provided the necessary authorisation for the grower to grow and sell the first crop (G1).<sup>494</sup> The growers also saved some of the harvest (G1) that was later grown and harvested (G2+) and delivered to Grain Pool.<sup>495</sup> There the State of Tasmania and Cultivaust could not recover against Grain Pool for infringement of their PBR for storing, selling and exporting barley grown from the farm saved seed (the second and subsequent generation crops) because the State of Tasmania and

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<sup>490</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14.

<sup>491</sup> *Plant Breeder's Rights Act 1994* (Cth) s 15.

<sup>492</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15(1).

<sup>493</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 15(1).

<sup>494</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J). See also *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] and [55] (Finn, Emmett and Bennett JJ).

<sup>495</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [75], [148] and [179] (Mansfield J).

Cultivaust had had a 'reasonable opportunity' to exercise their PBR.<sup>496</sup> As a consequence, the decision did not address the kinds of implied licences growers might have had for those saved seeds (G2+) that were grown and delivered to Grain Pool. This was a key problem identified when ACIP reviewed these decisions (see §2.5) pointing to a confused industry understanding about when the 'exclusive rights' exhausted on the sale of G0 propagating material and then applied again to G2+ after reproduction of G1.<sup>497</sup> This was further complicated by the uncertain use of the word 'sold'<sup>498</sup> and 'sell'<sup>499</sup> in the *Plant Breeder's Rights Act 1994* (Cth) and when exhaustion is engaged in a dealing with the propagating (and harvested) materials (see §5.6). So, how would the exhaustion doctrine apply to saved seeds retained and used for the grower's own use and then produced for others?

In *Cultivaust Pty Limited v Grain Pool Pty Limited*, Justice Mansfield considered that saved seed retained and used for the grower's own use were 'harvested material'.<sup>500</sup> An implied license in the sale of seed (G0) provided the necessary authorisation for the grower to grow and sell the first crop (G1).<sup>501</sup> Justice Mansfield also considered that the *Plant Breeder's Rights Act 1994* (Cth) provision exempting farm saved seeds was a statutory authorisation to use the farm saved seed in producing a further crop and the harvesting of further propagating material.<sup>502</sup> As Justice Mansfield notes, however, this is an authorisation to condition propagating material for 'reproduction purposes' and for the 'reproduction of ... further propagating material',<sup>503</sup> and not production *per se*.<sup>504</sup> Justice Mansfield then says:

In my view, s 14(2) describes the status of second and subsequent generations of crop (other than that retained for farm saved seed), so that the second and subsequent generations of crop are also to be treated as if the harvested material were propagating material covered by s 11. The second and subsequent generations of crop assume or meet the description of propagating material covered by PBR. Section 14(2) is quite explicit. It directs that s 14(1) applies to the harvest from farm saved seed, except for that part of the harvest which is itself retained as farm saved seed. Section 17(1) enables a grower to retain farm saved seed from the crop grown from legitimately acquired seed, or from a further crop grown from farm saved seed. Section 14(1) deals with the status of crops grown from farm saved seed, if that crop is itself propagating material. The harvest from farm saved seed, except for further farm saved seed, is to be treated as if it were propagating material to which s 11 operates, that is it is propagating material the subject of PBR.<sup>505</sup>

Justice Mansfield then applies this understanding finding that the State of Tasmania and Cultivaust sold their PBR'ed variety to the growers without any limitations when they could have imposed limitations at first sale, including limitations that applied to Grain Pool.<sup>506</sup>

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<sup>496</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [199] (Mansfield J); *Plant Breeder's Rights Act 1994* (Cth) s 14(1)(b).

<sup>497</sup> ACIP Review of Enforcement, above n. 69, pp. 75-76.

<sup>498</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 3(1) ('synonym'), 23(1) and (2), 26(2), 43(5), (6), (7) and (7C) and 57(2).

<sup>499</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 3(1) ('sell'), 11, 19(3) and 43(6) (note).

<sup>500</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [168] (Mansfield J). See *Plant Breeder's Rights Act 1994* (Cth) ss 14(2) and 17(1).

<sup>501</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J). See also *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2005) 67 IPR 162, [12] and [55] (Finn, Emmett and Bennett JJ).

<sup>502</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>503</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1)(d) and (e).

<sup>504</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187] (Mansfield J).

<sup>505</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [188] (Mansfield J).

<sup>506</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [195] (Mansfield J).

In *Calidad Pty Ltd v Seiko Epson Corporation* the first sale of the cartridges exhausted the patent's 'exclusive rights' in the embodiment of the invention at the time of sale but, very importantly, did not exhaust the making of new embodiments of the invention.<sup>507</sup> There the issue was about a new embodiment of the invention and whether 'the modifications resulted in a new product being made'.<sup>508</sup> In *Cultivaust Pty Ltd v Grain Pool Pty Ltd* the issue would have been whether the materials grown (G1+) from the materials sold (G0) were new embodiments of the 'propagating material'? In that case the 'propagating material' first sold (G0) was grown and harvested and was both 'propagating material' and 'harvested material',<sup>509</sup> but most importantly, the 'propagating material' harvested (G1+) were the same (distinctive) plant variety as the PBR'ed 'propagating material' sold (G0). And as subsequent generation 'propagating material' (G1+), it would have been subject to the usual PBR 'exclusive rights' (absent any contractual arrangements imposed through the first sale G0) because it was a new embodiment of the PBR'ed variety.<sup>510</sup> Justice Mansfield's decision in *Cultivaust Pty Ltd v Grain Pool Pty Ltd*, however, creates some ambiguity here where the 'harvested material' is deemed 'propagating material' for the purposes of extending the PBR to 'harvested material', and where that 'harvested material' is also 'propagating material' that might be considered a new embodiment of the PBR'ed variety. Put simple, should a barley seed grown and harvested from a PBR'ed barley variety be considered as a new embodiment of the 'propagating material' to which the 'exclusive rights' apply directly,<sup>511</sup> or as a 'harvested material' subject to the thresholds of unauthorized use and 'reasonable opportunity' to exercise the PBR (so deemed 'propagating material')?<sup>512</sup>

The ambiguity arises, first, in applying the exhaustion provision to the first and subsequent generations of 'harvested material' (G1+) where Justice Mansfield reasons that the purchaser of the original PBR'ed 'propagating material' (G0) which was not to be further used for production or reproduction was not infringement because it was both lawfully allowed by the implied licence to the grower and the first sale exhaustion of the PBR.<sup>513</sup> For subsequent 'harvested material' (G1+), however, neither the implied licence nor the first sale exhaustion applied because 'use of the word "further" in s 23(1)(c) provides the reason for treating the first generation crop differently, and for excluding from the aegis of s 23 the second and subsequent generation crops'.<sup>514</sup> In other words, the first sale exhausted the PBR in the purchased seeds (G0), but PBR was enlivened in the new embodiments of the 'propagating material' (G1+), subject to the extensions for 'harvested material' and products of 'harvested material' that are deemed 'propagating material' (without the threshold of 'reasonable opportunity').<sup>515</sup> So, once 'propagating material' is designated 'harvested material', does it always remain designated 'harvested material' through all future generations and before the PBR applies the thresholds of not authorized and 'reasonable opportunity' need to be satisfied?<sup>516</sup> Secondly, in applying the then exemption for food, food ingredient or fuel, or for

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<sup>507</sup> See *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [45]-[46] (Kiefel CJ, Bell and Keane JJ).

<sup>508</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [49] (Kiefel CJ, Bell and Keane JJ).

<sup>509</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [167]-[168] (Mansfield J).

<sup>510</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>511</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>512</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>513</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>514</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210] (Mansfield J).

<sup>515</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210]-[211] (Mansfield J).

<sup>516</sup> Recall, Justice Mansfield stated: 'In my view, s 14(2) describes the status of second and subsequent generations of crop (other than that retained for farm saved seed), so that the second and subsequent

any use which did not involve the production or reproduction of the propagating material,<sup>517</sup> Justice Mansfield had to determine whether the exemption was limited to only the first generation harvested seeds (G1) or applied more broadly to subsequent generation seeds (G2+).<sup>518</sup> He reasoned that PBR'ed 'propagating material', like patents,<sup>519</sup> that had been lawfully acquired for non-reproductive purposes and used consistently with the PBR, such as the storage and sale of first generation harvested seeds (G1) by Grain Pool, was 'squarely' within the food, feed and fuel exemption.<sup>520</sup> For subsequent generations (G2+), however, he reasoned that the exemption was broad and focused on the acts done in relation to the 'propagating material' rather than uses, and as such, 'focuses attention on the quality of the particular act that might otherwise infringe PBR'.<sup>521</sup> Thus, Grain Pool storing and selling the harvested barley for malting was also within the exemption.<sup>522</sup> And thirdly, Justice Mansfield considered that PBR persisted where the 'harvested material' of second and subsequent generations (G2+) was 'harvested material' deemed to be 'propagating material' where the 'propagating material' was used without authorisation and there had been no 'reasonable opportunity' to exercise the PBR.<sup>523</sup> In deeming the 'harvested material' to be 'propagating material', Justice Mansfield was relying on the State of Tasmania and Cultivaust having had a 'reasonable opportunity' to exercise their PBR over the original seed sold to growers (that was 'propagating material'), rather than dealing with the second and subsequent generations (G2+) as 'propagating material' *per se* with their own immediate PBR without the route through having had a 'reasonable opportunity'. In short, Justice Mansfield treated 'propagating material' that was also 'harvested material' differently to other 'propagating material', and it is not clear when that treatment changes and the additional not authorized and 'reasonable opportunity' standard ceases to be necessary, as it did for the treatment of the first sale exhaustion and the food, feed and fuel exemption. This was highlighted by his specific treatment of the farmer saved seed exemption<sup>524</sup> and its interaction<sup>525</sup> with harvested materials.<sup>525</sup> His judgement assumed the implied licence applied to growing and selling the first harvest (G1)<sup>526</sup> and he was clear that the 'harvest from farm saved seed, except for further farm saved seed, is to be treated as if it were propagating material to which s 11 operates, that is it is propagating material the subject of PBR', although whether that was 'propagating material' *per se* (s 11) or 'harvested material' deemed 'propagating material' (s 14(1)) (being G2+ from farm saved seeds) was uncertain.<sup>527</sup> His analysis left unresolved what treatment should be applied to:<sup>528</sup>

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generations of crop are also to be treated as if the harvested material were propagating material covered by s 11': *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [188] (Mansfield J).

<sup>517</sup> See *Plant Breeder's Rights Act 1994* (Cth) s 18 (before amendment). See also *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1 (Item 4).

<sup>518</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [213]-[227] (Mansfield J).

<sup>519</sup> Citing *National Phonograph Company of Australia Ltd v Menck* (1911) 12 CLR 15, 28-29 (Macnaghten, Atkinson, Shaw, Merey and Robson LLJ).

<sup>520</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [215] (Mansfield J).

<sup>521</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [224] (Mansfield J).

<sup>522</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [226] (Mansfield J).

<sup>523</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [188] and [216] (Mansfield J).

<sup>524</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>525</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(2).

<sup>526</sup> See *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186], [192], [203] and [210] (Mansfield J).

<sup>527</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187]-[188] (Mansfield J). See also *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and (2) and 17(1). Noting that Justice Mansfield also says: '... so that the second and subsequent generations of crop are also *to be treated as if* the harvested material were propagating material covered by s 11' (emphasis added): [188].

<sup>528</sup> See also ACIP Review of Enforcement, above n. 69, pp. 34-35.

1. 'harvested material' from original 'propagating material' supplied to growers that was sold and that harvest and then used for another harvest by the buyer (so *not* farm saved seeds used for farming activities),<sup>529</sup> and whether that was to be considered as 'propagating material' *per se*<sup>530</sup> or 'harvested material' deemed 'propagating material'<sup>531</sup> (being G3+)?
2. 'harvested material' from original 'propagating material' supplied to growers that was sold and that harvest was then used for another harvest by the buyer (so *not* farm saved seeds used for farming activities),<sup>532</sup> and whether that was 'further produced and reproduced', and when sold whether that was to be considered as 'propagating material' *per se*<sup>533</sup> or 'harvested material' deemed 'propagating material'<sup>534</sup> (being G3+)?

This distinction is important for characterising the exhaustion on the extension of the PBR to 'harvested material',<sup>535</sup> farmer saved seeds<sup>536</sup> and the 'involves further production and reproduction' of the 'propagating material'.<sup>537</sup> Justice Mansfield treatment is also now, at least arguably, inconsistent with the majority in *Calidad Pty Ltd v Seiko Epson Corporation* that rejected the implied licence doctrine for a patented invention (see also **§5.4**):

The sale of a patented product cannot confer an implied licence to make another and it cannot exhaust the right of a patentee to prevent others from being made. The right to make a product is a separate and distinct right from the right to use or to sell. The definition of 'exploit' in the *Patents Act 1990* [(Cth)] makes this plain.<sup>538</sup>

Similarly for the production and reproduction of 'propagating material' under the *Plant Breeder's Rights Act 1994* (Cth), the PBR is an exclusive right to 'produce or reproduce' and so, in the words of *Calidad Pty Ltd v Seiko Epson Corporation*, 'cannot exhaust' the right of the PBR holder to prevent others from producing and reproducing the protected variety. This is particularly likely if 'propagating' in the *Plant Breeder's Rights Act 1994* (Cth) is equivalent to 'making' in the *Patents Act 1990* (Cth).<sup>539</sup>

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<sup>529</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>530</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>531</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>532</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1).

<sup>533</sup> *Plant Breeder's Rights Act 1994* (Cth) s 11.

<sup>534</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

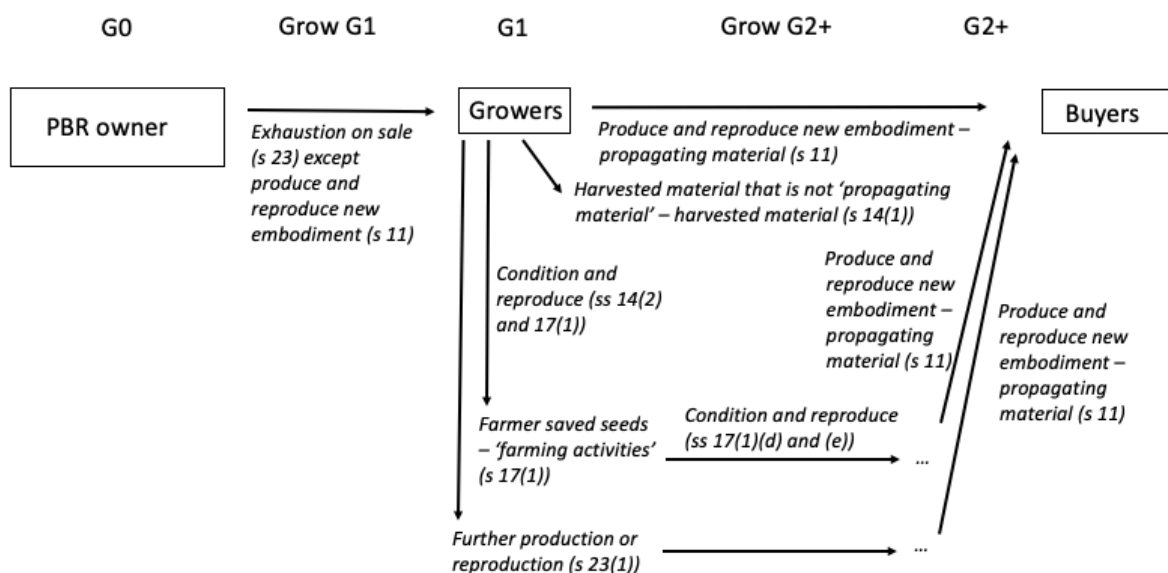
<sup>535</sup> *Plant Breeder's Rights Act 1994* (Cth) s 14(1).

<sup>536</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1) and 17(1).

<sup>537</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)

<sup>538</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [45] (Kiefel CJ, Bell and Keane JJ) and [112] (Gageler J).

<sup>539</sup> "[M]aking" – that is propagating': UPOV Publication No. 346(E), above n. 30, [803.2].



**Figure 4: New embodiments of ‘propagating material’ are ‘propagating material’ and not ‘harvested material’.** After *Calidad Pty Ltd v Seiko Epson Corporation* a new embodiment of a PBR’ed variety should be considered to be ‘propagating material’ and not ‘harvested material’.

Thus, following *Calidad Pty Ltd v Seiko Epson Corporation*, it seems likely that this confusion might be clarified if ‘harvested material’ that is also ‘propagating material’ is considered as a new embodiment of the PBR’ed ‘propagating material’, and ‘harvested material’ includes *only* materials that are harvested from ‘propagating materials’ that are not themselves ‘propagating materials’, such as straw harvested from a barley crop (see Figure 4). This was also the view adopted by ACIP in its review of PBR enforcement,<sup>540</sup> and accepted by the Australian Government but not implemented,<sup>541</sup> concluding 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 *Plant Breeder’s Rights Act 1994 (Cth)*<sup>542</sup> and considered that the definitions might be amended or a note be added to the relevant provision.<sup>543</sup> The form of the proposed note was an explanatory note in an amended *Plant Breeder’s Rights Act 1994 (Cth)* (s 11):

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.<sup>544</sup>

There remain problems with this approach, however, as that the *Plant Breeder’s Rights Act 1994 (Cth)* presently very clear provides that where materials are harvested from ‘propagating materials’ then a person engaged in ‘farming activities’ is exempt from the PBR by conditioning and reproducing that ‘propagating material’ that is from that ‘harvested material’.<sup>545</sup> This *Plant Breeder’s Rights Act 1994 (Cth)* provision must apply to ‘propagating

<sup>540</sup> Notably, ACIP considered that Justice Mansfield in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* stated that harvested barley ‘is propagating material within the meaning of s 11’: ACIP Review of Enforcement, above n. 69, p. 31. This is probably not correct as Justice Mansfield actually said ‘it is to be treated as if it is propagating material for the operation of s 11’: *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [55].

<sup>541</sup> See Australian Government, Government Response – Enforcement, above n. 240, [2].

<sup>542</sup> ACIP Review of Enforcement, above n. 69, p. 39.

<sup>543</sup> *Ibid.*, pp. 39 and 42.

<sup>544</sup> *Ibid.*, p. 39.

<sup>545</sup> *Plant Breeder’s Rights Act 1994 (Cth)* ss 14(2) and 17(1).

material’ because that is the only material that can be used ‘for reproductive purposes’.<sup>546</sup> This provision might be repealed with the accompanying Explanatory Memorandum making it clear that the provision as amended only applies to ‘harvested material’ that is not also ‘propagating material’.

#### **Recommendation 6**

The Australian Government should amend the *Plant Breeder’s Rights Act 1994* (Cth) to clarify that ‘harvested material’ that is also ‘propagating material’ is considered as ‘propagating material’ rather than just deemed ‘propagating material’.

#### **Recommendation 7**

The Australian Government should amend the *Plant Breeder’s Rights Act 1994* (Cth) s 14(2) that presently deals with ‘harvested material’ as ‘propagating material’ by removing that subsection.

#### **Recommendation 8**

IP Australia should prepare explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of these amendments. This might be explanatory materials, case studies, information sheets, and so on.

**Problem:** The policy problem is how to apply the exhaustion provisions in the *Plant Breeder’s Rights Act 1994* (Cth) (whether implied licence doctrine or exhaustion doctrine) particularly where the ‘harvested material’ is also ‘propagating material’ (such as grains, ornamentals, and so on), and what this means for dealings with PBR’ed varieties, particularly harvests from saved seeds (G2+).

**Preferred solution:** The costs of inaction are ongoing uncertainty and the use of contracts at the time of first sale to order the subsequent dealings with PBR’ed varieties. This might be addressed by clarifying that ‘harvested material’ that is also ‘propagating material’ is considered to be ‘propagating material’ for the purposes of the *Plant Breeder’s Rights Act 1994* (Cth). This could be done with: (1) an amendment of the *Plant Breeder’s Rights Act 1994* (Cth) to include a note about ‘harvested material’ that is also ‘propagating material’;<sup>547</sup> and (2) the repeal of *Plant Breeder’s Rights Act 1994* (Cth) s 14(2) that presently deals with ‘harvested material’ as ‘propagating material’. Together with any amendments, the Australian Government should also prepare explanatory materials to assist the PBR stakeholders in understanding the practical effects of the changes. This might be explanatory materials, case studies, information sheets, and so on.

**Benefits:** Our consultations revealed a significant uncertainty about how the current arrangements apply under the *Plant Breeder’s Rights Act 1994* (Cth), and particularly where the ‘harvested material’ is also ‘propagating material’ (such as grains, ornamentals, and so on). The benefits of action would be clarity that the PBR owner needs to order their affairs at the time of first sale and that dealings need to be resolved purely through contract, equity and consumer laws, and that when ‘harvested material’ that is also ‘propagating material’ is

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<sup>546</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 14(2).

<sup>547</sup> See ACIP Review of Enforcement, above n. 69, p. 39. ACIP proposed adding an explanatory note at *Plant Breeder’s Rights Act 1994* (Cth) s 11: ‘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’.



considered to be ‘propagating material’ there is no need to address the uncertain thresholds of ‘authorisation’ and ‘reasonable opportunity’.

**Costs:** The costs of change are likely to be minimal as the current uncertainty means that most PBR owners already use contracts to order their affairs that adequately address the current uncertainty and over time their affairs might be simplified where there is clarity that ‘harvested material’ that is also ‘propagating material’ is considered to be ‘propagating material’.

### **5.6 Sold and sell – sales, licences and authorisations**

The *Plant Breeder’s Rights Act 1994* (Cth) provides the exhaustion ‘after the propagating material has been sold’.<sup>548</sup> The meaning of ‘sold’ is perhaps unclear. In *Cultivaust Pty Ltd v Grain Pool Pty Ltd* it was accepted that the exhaustion provision was avoided because the grain purchased by the growers (G0) as ‘propagating material’ was sold by the State of Tasmania and Cultivaust with an implied licence for the growers to grow and sell that harvested material (G1).<sup>549</sup> And then the saving of seeds and their further growing and delivery of the harvested material (seeds) to Grain Pools (G2+) did not exhaust the PBR’s ‘exclusive rights’ because that was a ‘further production or reproduction of the propagating material’ of the saved seed harvested materials.<sup>550</sup> If the State of Tasmania and Cultivaust had imposed conditions on the growers at the time they acquired the initial PBR’ed ‘propagating material’ (G0), the question is whether that would have been enough to avoid a sale for the purposes of the *Plant Breeder’s Rights Act 1994* (Cth) exhaustion scheme? In other words, what does ‘sold’ mean?

The decision in *Sun World International Inc v Registrar of Plant Breeder’s Rights*, while about the *Plant Variety Rights Act 1987* (Cth), was that transactions with the plant material that included restrictive covenants on use were held to be sales.<sup>551</sup> This included transactions that were not commercial arm’s length transactions,<sup>552</sup> terms limiting propagation,<sup>553</sup> supply to only approved third parties and no right to sub-licence,<sup>554</sup> terms limiting propagation, reproduction or marketing without the prior authorisation and exclusive marketing rights<sup>555</sup> and terms limiting territorial uses.<sup>556</sup> So, what kind of transaction will be less than ‘sold’ for the purposes of PBR exhaustion?

In the *Plant Breeder’s Rights Act 1994* (Cth) exhaustion scheme, the term ‘sold’ in relation to the ‘propagating material’ is not defined.<sup>557</sup> The term ‘sell’, however, is defined in the *Plant Breeder’s Rights Act 1994* (Cth) to include ‘letting on hire and exchanging by way of barter’.<sup>558</sup> This is significant because the *Plant Breeder’s Rights Act 1994* (Cth) sets out a grace period for

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<sup>548</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1).

<sup>549</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [162], [186], [192] and [210] (Mansfield J).

<sup>550</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [210]-[211] (Mansfield J). See also *Plant Breeder’s Rights Act 1994* (Cth) ss 23(1).

<sup>551</sup> *Sun World International Inc v Registrar of Plant Breeder’s Rights* (1998) 42 IPR 321, 322-323 (Burchett J), 328 (Carr J) and 329 (Mansfield J).

<sup>552</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164-165 (French J).

<sup>553</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 163 (French J).

<sup>554</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

<sup>555</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

<sup>556</sup> *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 164 (French J).

<sup>557</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1).

<sup>558</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 3(1) (‘sell’).

lodging applications that includes a situation where ‘plant material of the variety has not been sold to another person by, or with the consent of, the breeder’ in the context of determining novelty.<sup>559</sup> Clearly, the broader understanding of ‘sold’ there also includes ‘sell’ as ‘letting on hire and exchanging by way of barter’.<sup>560</sup> This potentially includes any kind of commercial dealing with the ‘propagating material’. Importantly, UPOV 1991 addresses exhaustion with the ideal that the PBR exhausts when the PBR’ed material ‘has been sold or otherwise marketed by the breeder or with his consent’.<sup>561</sup> The scope of ‘otherwise marketed’ is probably consistent with the decision in *Sun World International Inc v Registrar of Plant Breeder’s Rights* where the dealings that were less than a sale were sufficient to exhaust the PBR (there a plant variety right).<sup>562</sup> What constitutes ‘otherwise marketed’ is not clear and will likely have an effect on the interpretation of the *Plant Breeder’s Rights Act 1994* (Cth).<sup>563</sup> The scope of actions that are less than sale (and including ‘otherwise marketed’ in UPOV 1991) need to be clarified so that it is certain where PBR owners might not exhaust their PBRs if they deal with less than their full PBR’s exclusive rights in a sale. The decision in *Sun World International Inc v Registrar of Plant Breeder’s Rights*, however, points to a sale for the purposes of the *Plant Breeder’s Rights Act 1994* (Cth) as including any exchange involving valuable consideration,<sup>564</sup> and not the more limited circumstances where there is a transfer of the title of the property in goods from a seller to a buyer for a money consideration. Notably, this is also consistent with the ideals of the first sale exhaustion doctrine where the intellectual property owner has the opportunity at the time of sale to arrange their property interests so that the intellectual property exhausts on sale with any arrangements following through only as a matter of contract, equity and consumer law (see §5.5). In this sense, any dealing with a PBR where another party is authorized (or consented) to do one of the exclusive acts of the PBR, then that will be an exhausting sale, subject to the limitations of ‘further production and reproduction of the [propagating] material’ and export to a country without PBRs.<sup>565</sup>

The *Plant Breeder’s Rights Act 1994* (Cth) was also amended by the *Plant Breeder’s Rights Amendment Act 2002* (Cth) to repeal the then exemption of food, fodder and fuel from the scheme and include a substitute provision dealing with restrictions on PBRs by or under a Commonwealth, State or Territory laws.<sup>566</sup> This also included a consequential amendment to the exhaustion provisions where remuneration had been paid or was arranged to be paid for authorized uses of the PBR’ed plant variety.<sup>567</sup> The effect of that provision is to exhaust the PBR where remuneration had been paid or was arranged to be paid, except where there is ‘further production or reproduction’ of the propagating material or export of propagating material for a purpose other than ‘final consumption’ to a country that ‘does not provide PBR in relation to the variety’.<sup>568</sup> The same issues of exhaustion will arise for these dealings and they are not rehearsed again here.

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<sup>559</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 43(6).

<sup>560</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 3(1) (‘sell’).

<sup>561</sup> UPOV, Article 16.1.

<sup>562</sup> *Sun World International Inc v Registrar of Plant Breeder’s Rights* (1998) 42 IPR 321, 322-323 (Burchett J), 328 (Carr J) and 329 (Mansfield J).

<sup>563</sup> See *Plant Breeder’s Rights Act 1994* (Cth) s 10.

<sup>564</sup> ‘[T]he exchange of a commodity for money or other valuable consideration’: *Sun World International Inc v Registrar of Plant Variety Rights* (1997) 39 IPR 161, 172 (French J).

<sup>565</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1)(c) and (d).

<sup>566</sup> *Plant Breeder’s Rights Amendment Act 2002* (Cth) s 3 and sch 1 (item 4).

<sup>567</sup> *Plant Breeder’s Rights Amendment Act 2002* (Cth) s 3 and sch 1 (item 5).

<sup>568</sup> *Plant Breeder’s Rights Act 1994* (Cth) ss 23(3)(a) and (b).

### Recommendation 9

IP Australia should clarify the scope of 'sold' in the *Plant Breeder's Rights Act 1994* (Cth) s 23 exhaustion provisions as including any acts with the PBR'ed variety, and that any limitations are addressed through contract law with disputes resolved through contract and equity, subject to any limitations such as competition and consumer laws. Alternatively, if this is not accepted, then provide some clarity about the kinds of dealings that are less than a sale that exhausts the PBR through IP Australia prepared explanatory materials to assist the PBR stakeholders, including small and medium enterprises, understanding the practical effects of the scope of 'sold'. This might be explanatory materials, case studies, information sheets, and so on.

**Problem:** The policy problem is whether the scope of actions that are less than sale (and including 'otherwise marketed' in UPOV 1991) need to be clarified so that it is certain where PBR owners might not exhaust their PBRs if they deal with less than their full PBR's exclusive rights in a sale.

**Preferred solution:** To address this policy problem, no legislative changes are necessary. IP Australia should, however, prepare explanatory materials to assist the PBR stakeholders in understanding the practical effects of this policy issue. This might be explanatory materials, case studies, information sheets, and so on. Further, the effect of the exhaustion doctrine identified by the High Court majority in *Calidad Pty Ltd v Seiko Epson Corporation* is likely to simplify this analysis because the PBR owner has the opportunity at the time of first sale (dealing) to arrange their PBR interests and any arrangements following through only as a matter of contract, equity and consumer law.

**Benefits:** The benefits of accepting the current meaning of 'sold' as addressed in *Sun World International Inc v Registrar of Plant Breeder's Rights* are likely to be minimal as most PBR owners already address the uncertainty through their contracting arrangements at first sale. IP Australia providing materials to clarify the meaning is likely to be significant so that stakeholders have clearer arrangements in their dealings with PBR'ed varieties.

**Costs:** The costs of accepting the current meaning of 'sold' are likely to be minimal as most PBR owners already address the uncertainty through their contracting arrangements at first sale. There is a cost, however, to the ongoing uncertainty about the potential meanings that are efficiently addressed through providing better information to PBR stakeholders.

UPOV 1991 provides that a breeder's right is only available for the propagating or harvested material of the variety that 'has not been sold or otherwise disposed of to others, by or with the consent of the breeder, for purposes of exploitation of the variety' at the time of the application.<sup>569</sup> This has been adopted in the *Plant Breeder's Rights Act 1994* (Cth) as a requirement of applying for a PBR the variety and that 'the variety has not been exploited or has been only recently exploited'<sup>570</sup> except when the plant material (including 'harvested material' and the products of 'harvested material')<sup>571</sup> has been exploited before the application by more than one year in Australia<sup>572</sup> or before four or six years outside Australia

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<sup>569</sup> UPOV, Article 6.1.

<sup>570</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(1)(e).

<sup>571</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(10).

<sup>572</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(6)(a).

for trees/vines and other varieties respectively,<sup>573</sup> as part of or related to a transaction selling the right to apply for a PBR,<sup>574</sup> as part of multiplying the material for the breeder,<sup>575</sup> evaluating the material,<sup>576</sup> or a by-product or surplus product from these activities.<sup>577</sup> The concern is that following the decision in *Sun World International Inc v Registrar of Plant Breeder's Rights*, that held transactions with the plant material that included restrictive covenants on use were sales,<sup>578</sup> then any dealings with developmental materials before considerations about applying for PBRs has the potential to extinguish a PBR application.

There was express recognition of the research and testing activities preceding a PBR application requiring special treatment<sup>579</sup> with amendments in the *Plant Breeder's Rights Amendment Act 2002* (Cth) introducing specific exceptions.<sup>580</sup> At the time 'the Government proposes to recognise extended periods for on-farm and experimental testing as valid pre-registration activities'<sup>581</sup> and detailed the activities in transactions it considered appropriate including field testing, laboratory trials, small-scale processing trials, multiplication on behalf of the breeder and sales of the resulting by-products and surpluses.<sup>582</sup> At this stage this appears to be more of a theoretical concern than one actually preventing PBR applications.

### **5.7 'Authorisation' for extension and exemption and 'consent' for exhaustion**

The *Plant Breeder's Rights Act 1994* (Cth) uses 'authorisation' and 'consent' in the various extension and exemption of PBR provisions. In the context of extending PBRs, the *Plant Breeder's Rights Act 1994* (Cth) provides that PBRs extend to 'harvested material' and the products of 'harvested material' where, in part, there has not been an 'authorisation' by the PBR owner.<sup>583</sup> Similarly, the *Plant Breeder's Rights Act 1994* (Cth) extends to the exclusive acts of a PBR by a person 'authorised' by or under a Commonwealth, State or Territory law but without 'authorisation' by the PBR owner.<sup>584</sup> The term 'authorisation' also appears in the context of infringement where the exclusive acts of a PBR are done without 'authorisation' by the PBR owner.<sup>585</sup> Meanwhile, in the context of exhausting PBRs, the *Plant Breeder's Rights Act 1994* (Cth) provides that PBRs exhaust with the PBR owner's 'consent' to a sale of the 'propagating material' unless there is either further production or reproduction of the protected materials,<sup>586</sup> or where the protected materials are exported to a country without plant breeder's rights (or plant variety rights) and the materials are not for final consumption.<sup>587</sup> The distinction between 'authorisation' and 'consent' is unclear.

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<sup>573</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(6)(b).

<sup>574</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(7).

<sup>575</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(7A).

<sup>576</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(7B).

<sup>577</sup> *Plant Breeder's Rights Act 1994* (Cth) s 43(7C).

<sup>578</sup> *Sun World International Inc v Registrar of Plant Breeder's Rights* (1998) 42 IPR 321, 322-323 (Burchett J), 328 (Carr J) and 329 (Mansfield J).

<sup>579</sup> See Senate, *Hansard*, 13 March 2002, p. 605 (Senator Kay Patterson); House of Representatives, *Hansard*, 12 December 2002, pp. 10591-10592 (Minister for Agriculture, Fisheries and Forestry).

<sup>580</sup> *Plant Breeder's Rights Amendment Act 2002* (Cth) s 3 and sch 1 (Item 26).

<sup>581</sup> Senate, *Hansard*, 13 March 2002, p. 605 (Senator Kay Patterson); House of Representatives, *Hansard*, 12 December 2002, p. 10592 (Minister for Agriculture, Fisheries and Forestry).

<sup>582</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 7A-7C.

<sup>583</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 14(1)(a) and 15(a) respectively.

<sup>584</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 18(1)(a) and (b).

<sup>585</sup> *Plant Breeder's Rights Act 1994* (Cth) ss 53(1) and (2),

<sup>586</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>587</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(d).

UPOV 1991 also uses ‘authorisation’ in the context of protected acts,<sup>588</sup> and ‘consent’ in the context of the novelty<sup>589</sup> and exhaustion standards.<sup>590</sup> And these UPOV 1991 uses are consistent with their apparent uses in the *Plant Breeder’s Rights Act 1994* (Cth): extending variety rights to ‘harvested material’ and the products of ‘harvested material’, with the requirement, in part, that there has not been ‘authorisation’,<sup>591</sup> and exhaustion where the plant variety has been sold or otherwise marketed with the variety right owner’s ‘consent’.<sup>592</sup> The UPOV 1991 Diplomatic Conference appears to use similarly worded provisions with ‘authorisation’<sup>593</sup> in the context of scope of protection (including harvested material),<sup>594</sup> exceptions,<sup>595</sup> exhaustion,<sup>596</sup> provisional protection<sup>597</sup> and the use of a denomination,<sup>598</sup> and ‘consent’<sup>599</sup> in the context of novelty,<sup>600</sup> release into a country prior to an application,<sup>601</sup> UPOV ratification and so on,<sup>602</sup> UPOV application to the European Union,<sup>603</sup> excluding conditioning of seeds by third parties<sup>604</sup> and scope of the variety right.<sup>605</sup>

The overlapping uses of ‘authorisation’ and ‘consent’ suggest that there was not a clear distinction in mind in UPOV 1991. For example, in discussing the scope of the variety right that expressly addresses ‘authorisation’ the delegates often used the term ‘consent’ when dealing with ‘authorisation’.<sup>606</sup> Importantly, ‘authorisation’ was said to be ‘a classical term in intellectual property and in the UPOV Convention’,<sup>607</sup> and had been used in UPOV 1978 to articulate the scope of protection,<sup>608</sup> and so it is not clear why the UPOV 1991 that introduced express provisions dealing with exhaustion that had not been in UPOV 1978<sup>609</sup> and used different language when dealing with the scope of rights (‘authorisation’) and exhaustion (‘consent’). Importantly, however, the basic proposal developed for the UPOV 1991 Diplomatic Conference by the Administrative and Legal Committee had replaced the term ‘consent’ with the term ‘authorisation’ for the provisions dealing with ‘harvested material’ and the products of ‘harvested material’ but ‘the intention was not to modify the text in substance’.<sup>610</sup> This suggests that ‘authorisation’ and ‘consent’ should have the same meaning.

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<sup>588</sup> UPOV, Articles 14.1 and 14.4

<sup>589</sup> UPOV, Article 6.1.

<sup>590</sup> UPOV, Article 16.1.

<sup>591</sup> UPOV, Articles 14.2 and 14.3; *Plant Breeder’s Rights Act 1994* (Cth) ss 14(1)(a) and 15(a) respectively.

<sup>592</sup> UPOV, Article 16.1; *Plant Breeder’s Rights Act 1994* (Cth) s 23(1).

<sup>593</sup> See UPOV Publication No. 346(E), above n. 30, pp. 28 (basic proposal Article 13; basic proposal Article 14(1)), 29 (adopted text Article 13; adopted text Article 14(1)), 32 (basic proposal Article 14(2)), 31 (adopted text Article 14(2)-(5)), 31 (basic proposal Article 15) and 35 (adopted text Article 17(2)).

<sup>594</sup> *Ibid.*, [9]-[10], [18], [788], [789], [797], [820], [854], [855], [860], [866.2], [879], [894.1], [943], [945.1], [945.2], [946], [948]-[950.3], [952]-[953], [956], [960], [964.1], [967.1], [1009], [1013], [1020.1], [1022], [1024], [1034], [1529.3], [1545]-[1548], [1557.1], [1584.1]-[1584.2] and [1598].

<sup>595</sup> *Ibid.*, [1143.1], [1186.3] and [1297].

<sup>596</sup> *Ibid.*, [1661.2]-[1661.3] and [1947].

<sup>597</sup> *Ibid.*, [655].

<sup>598</sup> *Ibid.*, [705] and [707.1].

<sup>599</sup> *Ibid.*, pp. 22 (basic proposal Article 6) and 23 (adopted text Article 6).

<sup>600</sup> *Ibid.*, [340.4], [342.4], [343.1], [344.2], [345], [346] and [351.2].

<sup>601</sup> *Ibid.*, [1834].

<sup>602</sup> *Ibid.*, [1453].

<sup>603</sup> *Ibid.*, [1326.2].

<sup>604</sup> *Ibid.*, [889.2].

<sup>605</sup> *Ibid.*, [807].

<sup>606</sup> See *Ibid.*, [344.2], [807] and [889.2].

<sup>607</sup> *Ibid.*, [789].

<sup>608</sup> UPOV 1978, Article 5.

<sup>609</sup> See UPOV 1991, Article 16.

<sup>610</sup> Administrative and Legal Committee, *Report* (1990) UPOV/CAJ/27/8, [74].

The UPOV explanatory notes provide little guidance and add some complications. The only relevant materials suggest that ‘the acts in respect of the propagating material [that a breeder may authorize] are a matter for the breeder to decide’.<sup>611</sup> These included ‘remuneration’, the ‘period of authorization’, the ‘method by which the authorized acts may be undertaken (e.g. method of production or reproduction, export routes etc.)’, ‘quality and quantity of material to be produced’, ‘territory(ies) covered by the authorization for export’, ‘conditions under which the person authorized may license/sub-license other parties’, and so on.<sup>612</sup> A complication that is addressed in other UPOV explanatory notes is the advice about ‘unauthorized use’ in the context of ‘harvested material’.<sup>613</sup> There the ‘unauthorized use’ means ‘the acts in respect of the propagating material that require the authorization of the holder of the breeder’s right in the territory concerned (Article 14(1) of the 1991 Act), but where such authorisation was not obtained’.<sup>614</sup> The reference to ‘Article 14(1) of the 1991 Act’ is to the protected acts of a variety right which is a limited meaning for ‘authorisation’. That matter is currently being addressed through a renegotiation of the explanatory notes and may have some consequences for a broader scope of meaning of ‘unauthorized use’.<sup>615</sup> The imperative appears to be the problems of applying different standards of authorisation to ‘propagating material’ and ‘harvested material’ where some ‘harvested material’ require no authorisation.<sup>616</sup> The present complication, however, is that UPOV 1991 appears to use the term ‘authorisation’ narrowly to only include the protected acts, like propagation and reproduction, conditioning, selling, and so on.

Under the *Plant Breeder’s Rights Act 1994* (Cth) in *Cultivaust Pty Ltd v Grain Pool Pty Ltd* the main issue was whether Grain Pool was, in part, authorized to produce and reproduce ‘propagating material’ that had been supplied to growers to grow and harvest in the context of assessing whether there was an extension of the PBR to ‘harvested material’.<sup>617</sup> Significantly, Grain Pool acknowledged that it received, sold and exported the Franklin barley without the authorisation of the PBR owner or licensee.<sup>618</sup> The original seeds had been purchased by growers from the PBR owner or licensee and there were no conditions imposed at the time of sales.<sup>619</sup> The consequence for these circumstances was that Justice Mansfield found that the delivery of the first harvest (G1) to Grain Pool was authorized at the time of sale by the implied licence to grow and harvest through the sale of seeds (but see **§5.4**),<sup>620</sup> and the second and subsequent harvest from farmer saved seeds was also authorised because the first sale had been without conditions and the PBR owner and licensee was aware

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<sup>611</sup> International Union for the Protection of New Varieties of Plants, *Explanatory Notes on Conditions and Limitations Concerning the Breeder’s Authorization in Respect of Propagating Material under the UPOV Convention* (2010) UPOV/EXN/CAL/1, [2].

<sup>612</sup> *Ibid.*, [3].

<sup>613</sup> International Union for the Protection of New Varieties of Plants, *Explanatory Notes on Acts in Respect of Harvested Material under the 1991 Act of the UPOV Convention* (2013) UPOV/EXN/HRV/1, [4]-[6].

<sup>614</sup> *Ibid.*, [4].

<sup>615</sup> See Working Group on Harvested Material and Unauthorized Use of Propagating Material, *Draft Agenda* (2022) WG-HRV/2/1.

<sup>616</sup> See Philippe de Jong, ‘The Protection of Vines, Grapes and Wine under Plant Variety Rights Law, with a Particular Focus on the EU’ in Julien Chaisse, Fernando Dias Simões and Danny Friedmann (eds.), *Wine Law and Policy: From National Terroirs to a Global Market* (Brill, 2020) pp. 512-513.

<sup>617</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [148] and [186] (Mansfield J).

<sup>618</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [148] (Mansfield J).

<sup>619</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [148] and [150] (Mansfield J).

<sup>620</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [186] (Mansfield J).

that seeds would be saved for later harvests (and why they wanted to impose an EPR).<sup>621</sup> This was not changed by the 16 April 1996 letter before action sent by Cultivaust to Grain Pool asserting and exercising their PBR<sup>622</sup> because the production and reproduction by growers was still authorised.<sup>623</sup> After that date, however, there was a 'reasonable opportunity' to exercise the PBR that meant Grain Pool would have been infringing albeit not because of 'authorisation'.<sup>624</sup> In short, the PBR owners knew and accepted that the growers were going to grow, harvest, save seeds and further grow and harvest, and that was sufficient for there to be 'authorisation' because they could have imposed conditions at the time of sale and chose not to impose any conditions. As the PBR owners didn't impose any conditions or limitations on the growers at sale the case did not distinguish between 'authorisation' of the 'exclusive rights' or more broadly.

Then in *Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís*, Sanchís purchased the mandarin tree variety 'Nadorcott' between 1995 and 2006 from a nursery that was open to the public and planted in 2005 and 2006 with some plants replaced in 2006 with other plants purchased from the same nursery.<sup>625</sup> In applying the relevant Regulation 2100/94 (see Attachment 1), the court used the 'authorisation' (and 'unauthorised') language in dealing with 'harvested material' and 'consent' when dealing with exhaustion.<sup>626</sup> Importantly, the court considered that any act of the 'exclusive rights' after grant would be infringement unless authorized and so their performance without authorisation would be 'unauthorised'.<sup>627</sup> While before grant, the applicant could not prevent the acts of the 'exclusive rights' so their performance without authorisation would not be 'unauthorised'.<sup>628</sup> On the facts in this case, Sanchís planting and harvesting before the grant was not 'unauthorised' so there was no extension of the community plant variety right to fruit as 'harvested material',<sup>629</sup> and after grant the planting and harvesting which was not likely to be used as propagating material were not 'acts of production or reproduction (multiplication)' so there was no requirement for 'authorisation'.<sup>630</sup>

Perhaps more useful in the *Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís* dispute was the opinion of the Advocate General interpreting the 'harvested material' provisions of the Regulation 2100/94 (see Attachment 1).<sup>631</sup> Essentially the opinion was about the same question: whether plants purchased by a farmer from a nursery and the harvested fruits were subject to the payment of an equitable remuneration to the plant breeder *before* the community plant variety right grant and then authorisation from the plant breeder for planting and harvesting fruits *after* the grant.<sup>632</sup> Importantly, this question was confined to the plants planted before the grant and the harvest of fruit before and after the grant (506 trees in 2005 and 998 trees in 2006) and did not address plants planted after the grant (100

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<sup>621</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [193]-[195] (Mansfield J).

<sup>622</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [138] and [203] (Mansfield J).

<sup>623</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J).

<sup>624</sup> *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [203] (Mansfield J).

<sup>625</sup> *Club de Variedades* Case C-176/18 (Xuereb *et al.*), above n. 190, [11]-[12].

<sup>626</sup> Compare *ibid.*, [29] ('authorisation' and 'unauthorised') and [31] ('consent').

<sup>627</sup> *Ibid.*, [41].

<sup>628</sup> *Ibid.*, [42]-[45].

<sup>629</sup> *Ibid.*, [46].

<sup>630</sup> *Ibid.*, [46] and [50].

<sup>631</sup> *Club de Variedades* Case C-176/18 (Saugmandsgaard *Øe*), above n. 100, [1].

<sup>632</sup> *Ibid.*, [3].

replacement trees in 2006).<sup>633</sup> The Advocate General considered that planting the protected variety and harvesting the fruit were not ‘production’ of the plant variety that would have been covered by the primary right to ‘propagating material’,<sup>634</sup> but the production of fruit that would have been covered by the secondary right to ‘harvested material’.<sup>635</sup> The important circumstance here was that the fruit, while itself ‘propagating material’ but not the seeds as they were seedless mandarins, was the harvest and so squarely within the conception of ‘harvested material’ and the secondary right requiring ‘unauthorised use’ and a ‘reasonable opportunity’ to found infringement.<sup>636</sup> Then referring to the history of the UPOV, the Advocate General considered that the breeder’s ‘authorisation’ was:

the breeder’s power to make the *authorisation* of the acts for which his *consent* is required subject to certain contractual conditions and restrictions ... [including] the methods for planting the variety constituents and harvesting the fruit from variety constituents, the multiplication of which is subject to the breeder’s authorisation’ (emphasis added).<sup>637</sup>

Like the court, the Advocate General considered the purpose of the ‘harvested material’ extension:

The purpose of that scheme is to enable the breeder to assert his rights over the fruit produced from the protected variety constituents where the latter has not been able to bring proceedings against the person who has effected an act [being production or reproduction; conditioning; offering for sale; selling or other marketing; exporting; importing; stocking for any of those purposes] in respect of the variety constituents themselves.<sup>638</sup>

The argument made by the community plant variety right owner was that planting mandarin trees and then harvesting fruit was ‘unauthorised use’ even though that concept only applies after the grant of the plant variety right.<sup>639</sup> The Advocate General rejected this drawing a distinction between *before* and *after* the grant.<sup>640</sup> Before the grant there was no production of the variety because there was only ‘vegetative propagation (by grafting, *inter alia*) and the multiplication of variety constituents through the generation of new genetic material’ (footnotes excluded),<sup>641</sup> and that did not require ‘authorisation’ so there was, consequently, no ‘unauthorised use’.<sup>642</sup> After the grant, and importantly for our analysis, the community plant variety right owner argued that ‘unauthorised use’ is any protected rights ‘effected without the consent of the breeder’.<sup>643</sup> The Advocate General rejected this:

the concept of ‘unauthorised use’ seems to me to have meaning only to the extent that one of the acts [being production or reproduction; conditioning; offering for sale; selling or other marketing; exporting; importing; and stocking for any of those purposes] has been effected in respect of the variety constituents without the consent of the breeder *even though his authorisation was required*. It is only

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<sup>633</sup> Ibid., [3].

<sup>634</sup> Ibid., [28]. See also *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights*, Article 13.2(a).

<sup>635</sup> *Club de Variedades Case C-176/18 (Saugmandsgaard Øe)*, *ibid.*, [30].

<sup>636</sup> Ibid., [35]-[36].

<sup>637</sup> Ibid., [34] citing UPOV Publication No. 346(E), above n. 30, [1529.2], [1529.3] and [1543].

<sup>638</sup> Ibid., citing UPOV Publication No. 346(E), above n. 30, [915]-[934].

<sup>639</sup> *Club de Variedades Case C-176/18 (Saugmandsgaard Øe)*, *ibid.*, [43].

<sup>640</sup> Ibid., [35]-[36] and [43]-[44].

<sup>641</sup> Ibid., [31].

<sup>642</sup> Ibid., [28]-[29], [44] and [51].

<sup>643</sup> Ibid., [46].



when the requirement to obtain the consent of the breeder has not been met that the latter may assert his rights over the harvested material (emphasis in original).<sup>644</sup>

The Advocate General concluded that the planting and fruit harvesting for those plants planted before the grant did not require ‘authorisation’ and so there could be no ‘unauthorised use’, even after the grant.<sup>645</sup> This was because the ‘authorisation’ (consent) was for the acts of the protected rights to production or reproduction, conditioning, offering for sale, selling or other marketing, exporting, importing and stocking for any of those purposes, and that required a grant.<sup>646</sup> This is also consistent with UPOV explanatory notes that limited ‘unauthorised use’ to the protected acts of ‘Article 14(1) of the [UPOV 1991]’:

‘Unauthorized use’ refers to the acts in respect of the propagating material that require the authorization of the holder of the breeder’s right in the territory concerned (Article 14(1) of the [UPOV 1991]), but where such authorization was not obtained. Thus, unauthorized acts can only occur in the territory of the member of the Union where a breeder’s right has been granted and is in force.<sup>647</sup>

In summary, the use of the terms ‘authorisation’ and ‘consent’ appear to be artefacts of UPOV 1991 that have been carried through to the *Plant Breeder’s Rights Act 1994* (Cth) and refer to authorizing or consenting to the PBR’s protected acts such as ‘produce or reproduce the material’, ‘condition the material for the purpose of propagation’, ‘offer the material for sale’, and so on. This, however, is not practically likely. The term ‘consent’ is used more broadly in the *Plant Breeder’s Rights Act 1994* (Cth) for certain names of plant varieties<sup>648</sup> and the grace period for sales and recent exploitation before an application<sup>649</sup> that involve more than consenting to the PBR’s protected acts. Further, consent at the time of first sale exhaustion is also subject to a broad array of property interests that are capable of transmission by assignment, operation of law and will.<sup>650</sup> That consenting also involve more than to the PBR’s protected acts such as the quantities and qualities of plants, geographical limitations, dispute settlement, and so on.<sup>651</sup> This shows that what will constitute consent will depend on the circumstances of any dealings (particularly the first sale where the exhaustion doctrine will apply: see §5.4) and indicates a permission from the PBR owner. This also means that if ‘authorisation’ and ‘consent’ have a similar meaning under the *Plant Breeder’s Rights Act 1994* (Cth) then this is different to the UPOV 1991 ideal of to the PBR’s protected acts. This has consequences for the treatment of ‘harvested material’ and the products of ‘harvested material’ under the *Plant Breeder’s Rights Act 1994* (Cth)<sup>652</sup> and this is not addressed here.

### **Recommendation 10**

IP Australia should clarify the likely meanings of the terms ‘authorisation’ and ‘consent’ as they are used in the *Plant Breeder’s Rights Act 1994* (Cth) and review the treatment of ‘authorisation’ for ‘harvested material’ and the products of ‘harvested material’ under the *Plant Breeder’s Rights Act 1994* (Cth).

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<sup>644</sup> Ibid., [46].

<sup>645</sup> Ibid., [62].

<sup>646</sup> Ibid., [55]–[61].

<sup>647</sup> UPOV/EXN/HRV/1, above n. 613, [4]. See also International Union for the Protection of New Varieties of Plants, *Guidance for the Preparation of Laws Based on the 1991 Act of the UPOV Convention* (2017) UPOV/INF/6/5, p. 56.

<sup>648</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 27(7).

<sup>649</sup> *Plant Breeder’s Rights Act 1994* (Cth) ss 43(5) and (6).

<sup>650</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 20(1).

<sup>651</sup> See Würtenberger *et al.*, above n. 228, §6.105.

<sup>652</sup> See *Plant Breeder’s Rights Act 1994* (Cth) ss 14(1) and 15.

**Problem:** The policy problem is that the distinction between ‘authorisation’ and ‘consent’ is unclear with different uses of these terms in the *Plant Breeder’s Rights Act 1994* (Cth) and confusion from the UPOV 1991 treatment of these terms. If applied narrowly to the UPOV 1991 ideal of to the PBR’s protected acts, then the scope of exhaustion is very narrowly applied to consented for the protected acts. So, should consent’ indicates a permission from the PBR owner?

**Preferred solution:** This matter was not raised in any of our consultations or discussions and has not been addressed in the academic and other literature. As such, there does not appear to be any imperative for change. To address this policy problem, no legislative changes are necessary. IP Australia should, however, prepare explanatory materials to assist the PBR stakeholders in understanding the practical effects of ‘consent’ as indicating any permission from the PBR owner and not just consenting (or authorising) to the PBR’s protected acts (as UPOV 1991 explanatory notes might suggest). This might be explanatory materials, case studies, information sheets, and so on.

**Benefits:** The benefits of a clearer understanding that ‘consent’ is not limited to the PBR’s protected acts (as UPOV 1991 explanatory notes might suggest) will encourage PBR holders to deal more with the PBR’ed varieties knowing that they need to clearly arrange their PBR interests and any arrangements at the time of first sale (dealing).

**Costs:** The costs are that consents (or authorisations) that are not related to the PBR’s protected acts (as UPOV 1991 explanatory notes might suggest) will not exhaust the PBR and this remains unclear for subsequent deals with the varieties. Unclear property rules impose additional costs on dealings with PBR’ed varieties.

### **5.8 Sales with the grantee’s ‘consent’ – a step removed**

The *Plant Breeder’s Rights Act 1994* (Cth) provides the exhaustion happens ‘after the propagating material has been sold by the grantee or with the grantee’s consent’.<sup>653</sup> Sales<sup>654</sup> using the ‘propagating material’<sup>655</sup> and ‘harvested material’ deemed ‘propagating material’<sup>656</sup> often happen without the PBR owner being involved. This is especially likely where there are acts that ‘involves further production or reproduction of the [propagating] material’<sup>657</sup> or there is ‘reproduction of that further propagating material’ through farmer saved seeds.<sup>658</sup> In both these instances the specific transaction involving the PBR owner passing on the PBR’ed variety (G0) is a step removed from the propagated or reproduced PBR’ed variety entering the market (G2+) (being sold), and the PBR owner’s ‘consent’ (or ‘authorisation’: see **§5.7**) will be very difficult to address. This is particularly problematic for licensing and EPR arrangements where the PBR owner wants to trade only some of their PBR ‘exclusive rights’ and arrange for the royalty payments steps removed from the initial purchase of the PBR’ed variety. In these instances, the issues of the PBR holder’s consent to the grower and grain

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<sup>653</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1).

<sup>654</sup> Following the decision in *Sun World International Inc v Registrar of Plant Breeder’s Rights* (1998) 42 IPR 321 (Burchett, Carr and Mansfield JJ) this potentially includes any kind of commercial dealing with the ‘propagating material’: see **§5.4**.

<sup>655</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 11.

<sup>656</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 14(1).

<sup>657</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 23(1)(c).

<sup>658</sup> *Plant Breeder’s Rights Act 1994* (Cth) s 17(1)(e).

trader transaction is critical to the likely success of the licensing and EPR arrangements. ACIP also identified parts of the grains industry where dealings with the 'propagating material' did not infringe PBRs being grain accumulators stocking on behalf of traders who purchase the harvested materials, traders purchasing the harvested material and end users such as feedlots and flour millers purchasing or using harvested material.<sup>659</sup>

In each of these instances, if the recent High Court decision in the context of patents in *Calidad Pty Ltd v Seiko Epson Corporation* where the majority decided in favour of the exhaustion doctrine<sup>660</sup> applied to the *Plant Breeder's Rights Act 1994* (Cth), then the first sale would exhaust the PBR with any following conditions imposed and enforced only through contract, equity and consumer law (see §5.4). Without that assumed implied licence to grow and sell the first harvest (G1), growers would then need the 'consent' or 'authorisation' of the PBR own (see §5.7) to produce, reproduce and sell each harvests (G1+) that would be a new embodiment of the PBR'ed variety (G0). The effect of the exemption from exhaustion for 'further production or reproduction of the [propagating] material'<sup>661</sup> and 'reproduction of that further propagating material' (farmer saved seeds)<sup>662</sup> is to exempt the acts of the PBR's 'exclusive rights' from the particular produced or reproduced new embodiment of the variety until sale of the 'propagating material',<sup>663</sup> whereupon those acts of the PBR 'exclusive rights' are infringement.<sup>664</sup> The question is whether the 'exclusive rights' that apply to the new embodiments of the PBR'ed variety are appropriate?

At the time of the ACIP review of PBR enforcement the concern about the scope of 'exclusive rights' was that they did not apply to certain transactions that were important. In the grains industry these were transactions including direct users of harvested grains such as on-farm storage by growers, feeding livestock on farm, processing plants, feed lots, millers, maltsters and ethanol producers:<sup>665</sup>

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.<sup>666</sup>

In the ornamental and horticulture sectors these were transactions including the sale of pot plants, cut flowers and fruit.<sup>667</sup> Essentially, the value of these products was expressed in the end product delivered to the market and at that moment PBR owners were unable to exercise their rights or the PBR was not sufficiently flexible 'to adapt to the different characteristics and evolving market structures of different sectors'.<sup>668</sup>

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<sup>659</sup> ACIP Review of Enforcement, above n. 69, p. 32.

<sup>660</sup> *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 155 IPR 381, [71]-[84] (Kiefel CJ, Bell and Keane JJ) and [114]-[141] (Gageler J).

<sup>661</sup> *Plant Breeder's Rights Act 1994* (Cth) s 23(1)(c).

<sup>662</sup> *Plant Breeder's Rights Act 1994* (Cth) s 17(1)(e).

<sup>663</sup> See also *Cultivaust Pty Ltd v Grain Pool Pty Ltd* (2004) 62 IPR 11, [187]-[188] (Mansfield J).

<sup>664</sup> *Plant Breeder's Rights Act 1994* (Cth) s 53.

<sup>665</sup> ACIP Review of Enforcement, above n. 69, pp. 33-34.

<sup>666</sup> *Ibid.*, p. 32.

<sup>667</sup> *Ibid.*, p. 35.

<sup>668</sup> *Ibid.*, p. 35.

ACIP considered various options, noting that UPOV 1991 was amenable to ‘additional acts’:<sup>669</sup>

1. *Use right* – A use right would apply the PBR that had not exhausted to any uses of the PBR’ed variety. The assertion was that this ‘would capture most uses of protected material and provide a more effective and efficient [royalty] collection process through a smaller number of organisations’<sup>670</sup> and make the PBR more like the *Patents Act 1990* (Cth) patent ‘exclusive rights’ that address ‘exploit[ing] the invention’ being the patent protected product.<sup>671</sup> ACIP concluded, however, that ‘a new use right would be too wide ranging and not in proportion with the level of innovation’ noting that the UPOV 1991 negotiations also considered introducing an additional right for the use of the ‘propagating material’ that was eventually not supported because ‘it was considered too indefinite and wide-ranging’.<sup>672</sup>
2. *Purchase right* – A purchase right would apply the PBR that had not exhausted to any purchasers of the PBR’ed variety. The assertion was that this ‘would enable EPRs to be obtained from end users, traders and accumulators rather than growers’ and this was desirable ‘[b]ecause 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’.<sup>673</sup> ACIP concluded that a new ‘purchase right’ should be included in the PBR ‘exclusive rights’ but only where specific taxa were declared eligible for that right.<sup>674</sup> Notably, ACIP also recommended that ‘harvested material’ that was also ‘propagating material’ be considered as ‘propagating material’ (see **§5.5**).<sup>675</sup> For a purchase right to be successful, however, ACIP also considered that the exhaustion provisions needed to be amended to address the then complexity of implied licences.<sup>676</sup> With the exhaustion doctrine applying on first sale (see **§5.4**) and ‘harvested material’ that was also ‘propagating material’ being considered as ‘propagating material’ *per se* (see **§5.5**), then a purchase right would apply to each new embodiment of the PBR’ed variety (G1+).

In short, ACIP considered that a use right was not desirable<sup>677</sup> and that a purchase right was appropriate.<sup>678</sup> The purchase right recommended would only apply to taxa declared by the *Plant Breeder’s Rights Regulation 1994* (Cth) (an opt in system) and that ‘harvested material’ that was also ‘propagating material’ being considered as ‘propagating material’ *per se*.<sup>679</sup> A purchase right would address the specific concern of the grains industry about transactions that are currently problematic including direct users of harvested grains such as on-farm

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<sup>669</sup> Ibid., pp. 35 and 40-41; UPOV 1991, Article 14.4.

<sup>670</sup> Ibid., p. 36.

<sup>671</sup> Ibid., p. 39. *Patents Act 1990* (Cth) ss 3 and 13(1). Notably, ‘exploit, in relation to an invention, includes: (a) where the invention is a product – make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things’: sch 1.

<sup>672</sup> Ibid., p. 39. See also UPOV Publication No. 346(E), above n. 30, [785]-[856] and [859]-[882].

<sup>673</sup> ACIP Review of Enforcement, *ibid.*, p. 40.

<sup>674</sup> Ibid., p. 42.

<sup>675</sup> Ibid., p. 42.

<sup>676</sup> See *ibid.*, p. 77.

<sup>677</sup> See *ibid.*, pp. 39-40.

<sup>678</sup> See *ibid.*, pp. 40-42 and 77.

<sup>679</sup> See *ibid.*, p. 42.

storage by growers, feeding livestock on farm, processing plants, feed lots, millers, maltsters and ethanol producers,<sup>680</sup> and the specific concerns of the ornamental and horticulture sectors about transactions that are currently problematic including the sale of pot plants, cut flowers and fruit.<sup>681</sup> The Australian Government response to the ACIP's recommendation was '[n]ot accepted at this stage' because it might disturb the current balance of the *Plant Breeder's Rights Act 1994* (Cth) and that existing contractual measures were suitable for the specific needs of different sectors.<sup>682</sup> This was, however, tempered by recognizing that the issue needed to be monitored and reviewed.<sup>683</sup> At this stage it is not clear how significant this problem remains, specifically for the grains and ornamental and horticulture sectors. This might be mediated by a clear exhaustion doctrine (see §5.4) and other policy measures like information notice schemes that might allow PBR owners to obtain information relating to potentially infringing materials. The problem remains, however, that the specific mischief a purchase right is intended to address is unclear, although anecdotally there are claims that it is essential for some kinds of varieties.

#### **Recommendation 11**

The Australian Government should amend the *Plant Breeder's Rights Act 1994* (Cth) s 11 to include a 'purchase right' among the 'exclusive rights' of a PBR and this should only apply to taxa declared by the *Plant Breeder's Rights Regulation 1994* (Cth).

#### **Recommendation 12**

IP Australia should implement as information and education awareness programs to clarify the place of consent to the production and reproduction of PBR'ed plant varieties used in farming activities (like farmer saved seeds) or where exhaustion has been limited and the produced and reproduced plants are then sold into a market.

**Problem:** The policy problem is whether the 'exclusive rights' that apply to the new embodiments of the PBR'ed variety are appropriate where the PBR owner passing on the PBR'ed variety (G0) is a step or many steps removed from the propagated or reproduced PBR'ed variety entering the market (especially G2+)?

**Preferred solution:** This matter was raised in many of our consultations or discussions and particularly by the grains sector. As such, there is an imperative to consider change. A new 'purchase right' would address the specific concern of the grains industry about transactions that are currently problematic including direct users of harvested grains such as on-farm storage by growers, feeding livestock on farm, processing plants, feed lots, millers, maltsters and ethanol producers, and the specific concerns of the ornamental and horticulture sectors about transactions that are currently problematic including the sale of pot plants, cut flowers and fruit. A 'purchase right' should be effected through an amendment to the *Plant Breeder's Rights Act 1994* (Cth) 'exclusive rights' as recommended by ACIP as 'purchase the material' together with an amendment that limits this to only taxa declared by the *Plant Breeder's Rights Regulation 1994* (Cth).<sup>684</sup> This latter point is important because the case for a 'purchase right' remains anecdotal and the declaration of taxa by the *Plant Breeder's Rights Regulation 1994* (Cth) would require a convincing case to be made to the Australian Government by the

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<sup>680</sup> Ibid., pp. 33-34.

<sup>681</sup> Ibid., p. 35.

<sup>682</sup> Australian Government, Government Response – Enforcement, above n. 240.

<sup>683</sup> Ibid.

<sup>684</sup> ACIP Review of Enforcement, above n. 69, p. 42.

affected sectors justifying the declaration and subject to a regulatory impact assessment examining costs and benefits. If an amendment is made then IP Australia should also prepare explanatory materials to assist the PBR stakeholders in understanding the practical effects of this policy issue. This might be explanatory materials, case studies, information sheets, and so on.

**Benefits:** The benefits are increased royalty collections for PBR owners, particularly the grains and ornamental and horticulture sectors that are majority private businesses and dependent on royalties for their breeding operations.

**Costs:** The costs of a 'purchase right' is that a range of those using PBR'ed varieties will be required to pay a royalty for that use where previously they did not, particularly the grains and ornamental and horticulture sectors, and this will be an increased costs for those users, and perhaps the costs passed on to final consumers of plant materials and services.

## Part 6: Final words

Exhaustion by and under the *Plant Breeder's Rights Act 1994* (Cth) happens at the termination (surrender) of PBR arrangements, the revocation of PBRs, the expiry of PBRs and at the exhaustion of the PBR on sale. These are important moments as a PBR is a restriction on competition and should be minimized to deliver on their purpose of a suitable incentive to invest in breeding new plant varieties. The recent High Court decision in *Calidad Pty Ltd v Seiko Epson Corporation* marks a significant change from the complicated and confusing implied licence doctrine to the more simple and robust exhaustion doctrine. As this report shows, the exhaustion doctrine has a variety of effects on the interactions between basic PBR 'exclusive right' that are extended for 'harvested material' and products of 'harvested material', exempted for 'farming activities' and then exhausted on sale. The *Calidad Pty Ltd v Seiko Epson Corporation* should, however, clarify many of the presently uncertain interactions between these basic rights, extensions and exemptions. The result should be clear and more certain dealings with PBR'ed varieties.

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*Club de Variedades Vegetales Protegidas v Adolfo Juan Martínez Sanchís*, Opinion of the Advocate General (2019) Case C-176/18 (H. Saugmandsgaard Øe).

*Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens* (2011) C-140/10 (A. Tizzano, M. Safjan, M. Ilešič, E. Levits and J.-J. Kasel).

*Greenstar-Kanzi Europe NV v Jean Hustin and Jo Goossens*, Opinion of the Advocate General (2011) C-140/10 (Niilo Jääskinen).

#### **United States**

*Bobbs-Merrill Co. v Straus*, 210 U.S. 339, 350 (1908).

*Boston Store of Chicago v American Graphophone Co* (1918) 246 U.S. 8.

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## **Legislation**

### **International**

*International Convention for the Protection of New Varieties of Plants* done at Geneva on 19 March 1991 [2000] ATS 6 (UPOV 1991).

*Marrakesh Agreement Establishing the World Trade Organization* [1995] ATS 8, Annex 1C (*Agreement on Trade-Related Aspects of Intellectual Property Rights*) (TRIPS Agreement).

### **Australia**

*Administrative Appeals Tribunal Act 1975* (Cth).

*Intellectual Property Laws Amendment (Fee Amounts and Other Measures) Regulations 2020* (Cth)

*Patents Act 1990* (Cth)

*Plant Variety Rights Act 1987* (Cth)

*Plant Breeder's Rights Act 1994* (Cth)

*Plant Breeder's Rights Amendment Act 2002* (Cth)

*Patents Regulations 1991* (Cth)

*Plant Breeder's Right Regulations 1994* (Cth)

Explanatory Memorandum to the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018* (Cth)

Explanatory Memorandum to the *Plant Breeder's Rights Bill 1994* (Cth)

Explanatory Memorandum to the *Plant Breeder's Rights Amendment Bill 2002* (Cth)

House of Representatives, *Hansard*, 24 August 1994, p. 157 (Minister for Administrative Services).

House of Representatives, *Hansard*, 12 December 2002, p. 10592 (Minister for Agriculture, Fisheries and Forestry).

Senate, *Hansard*, 24 March 1994, p. 2305 (Senator John Faulkner).

Senate, *Hansard*, 13 March 2002, p. 605 (Senator Kay Patterson).

### **European**

*Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights,*

## Attachment 1

Community plant variety right under the *Council Regulation (EC) No 2100/94 of 27 July 1994 on community plant variety rights* (Regulation 2100/94):

### Article 5(3):

['Variety constituents' means a] plant grouping consists of entire plants or parts of plants as far as such parts are capable of producing entire plants ...

### Article 13:

1. A community plant variety right shall have the effect that the holder or holders of the community plant variety right, hereinafter referred to as 'the holder', shall be entitled to effect the acts set out in paragraph 2.
2. Without prejudice to the provisions of Articles 15 and 16, the following acts in respect of variety constituents, or harvested material of the protected variety, both referred to hereinafter as 'material', shall require the authorization of the holder:
  - (a) production or reproduction (multiplication);
  - (b) conditioning for the purpose of propagation;
  - (c) offering for sale;
  - (d) selling or other marketing;
  - (e) exporting from the Community;
  - (f) importing to the Community;
  - (g) stocking for any of the purposes mentioned in (a) to (f).The holder may make his authorization subject to conditions and limitations.
3. The provisions of paragraph 2 shall apply in respect of harvested material only if this was obtained through the unauthorized use of variety constituents of the protected variety, and unless the holder has had reasonable opportunity to exercise his right in relation to the said variety constituents.

### Article 16

The community plant variety right shall not extend to acts concerning any material of the protected variety ... which has been disposed of to others by the holder or with his consent, in any part of the Community, or any material derived from the said material, unless such acts:

- (b) involve further propagation of the variety in question, except where such propagation was intended when the material was disposed of; or
- (c) involve an export of variety constituents into a third country which does not protect varieties of the plant genus or species to which the variety belongs, except where the exported material is for final consumption purposes.