

Plant Variety Rights Act 1987 review: Options Paper

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General comments

As an initial point, we would like to comment on the 'social contract' aspect of PVRs. The options paper implies that the social contract involves a monopoly being granted in exchange for immediate access to plant material. This is not the bargain that applies to other IP rights such as patents or designs. For those IP rights, the inventor is given a limited monopoly period in exchange for making the *information* about their invention or design public. The availability of that information allows others to build on that knowledge and develop further innovations. When the monopoly period is over, the invention or design becomes available for general use. When a PVR is granted, IPONZ publishes a variety description providing information about the innovative features of the plant. The breeder's exemption allows other parties to use this information to develop new varieties. We submit that this fulfils the social contract for PVRs and the PVR owner is not required to give the public immediate access to plant material.

The options paper also seems to be underpinned by an expectation that the owner of a PVR can enter into a licence agreement or other contract that is exempt from certain competition law provisions. For example, that a PVR owner is free to include provisions restricting the use of harvested material. However, MBIE has proposed amending the Commerce Act to remove the IP exception provisions, see <https://www.mbie.govt.nz/have-your-say/review-of-section-36-of-the-commerce-act-and-other-matters/>. Australia has recently repealed their equivalent provisions and it is likely that New Zealand will follow suit. Therefore, it is inaccurate to assess the proposed options on the basis that contracts between parties will be a suitable alternative to legislative provisions.

Responses to questions in the Options Paper

Treaty of Waitangi compliance

We support the comments made by Lynell Tuffery Huria in her independent analysis of MBIE's approach to Treaty of Waitangi compliance.

Definitions – general

We agree with using the terms “uniform” and “propagating material” in the revised Act.

UPOV 78 vs UPOV 91

There is an assumption in the options paper that, if we do not accede to UPOV 91, New Zealand will continue as a UPOV 78 country. This assumption seems to be based on the view that UPOV 78 provides considerable flexibility to members. However, the proposals in the options paper would take New Zealand's PVR regime considerably outside the scope of UPOV 78. Has it been confirmed that UPOV will be happy for New Zealand to remain a signatory to UPOV 78 in these circumstances? It is important that New Zealand remain a signatory to at least UPOV 78 so that applicants can rely on e.g. the ability to claim priority, or controls relating to exports/imports from other countries. In most countries, domestic PVR legislation refers to “convention countries”, so if we were no longer a member of UPOV then those provisions would no longer apply. Also, if New Zealand fell outside of UPOV, would it still be compliant with the TRIPS agreement, or with the CPTPP?

According to the options paper UPOV 78 does not require parties to extend protection to all species, see page 28. If taonga species are excluded from protection in New Zealand, how would this affect the ability of New Zealanders to make use of other provisions of UPOV 78 for those species? For example, claiming convention priority overseas. The new provisions relating to taonga species in the New Zealand PVR Act should not limit the ability of Māori to protect taonga species overseas.

Essentially derived varieties

We do not agree that option 2 is the best option as it would not incentivise innovation nor provide certainty. We submit that option 1 would be a better alternative.

Incentivise innovation

EDV provisions are appropriate to acknowledge the foundation work of original breeders. Option 2 is too narrow and does not adequately recognise the contribution of the original breeder. While breeding to produce a new variety is to be encouraged, an improved version of an existing variety can often be produced more quickly and for significantly less cost. If the market shifts to the new variety, e.g. because it has better disease resistance, the market for the parent variety can disappear before the original breeder has had the ability to recover their investment.

We note that none of the submissions received on the issues paper were in favour of removing the breeder's exemption. We agree with this position. But strong EDV provisions are the

counterpart to providing the public with an unlimited ability to develop new varieties from protected varieties. The breeder's exemption applies from day one, i.e. there is no exclusive period for the PVR holder. Therefore, an EDV could be on the market quite quickly. For example, many EDVs are mutants developed from successful parent varieties. Often, not much discovery and development work is required, and there is a short process of evaluation. The mutation takes the benefit of the already-known variety and is easy to launch.

We understand that MBIE is concerned that broad EDV provisions may provide an unfair advantage to established breeders as they already hold the rights to varieties. We do not believe that new breeders would be significantly disadvantaged. There are a large number of public domain varieties available for new breeders to use. There are also a number of ways to breed plants that would not invoke the EDV provisions. New breeders would also likely benefit from broad EDV provisions once they have developed their first variety. Broad EDV provisions would make it more likely that they would capture a significant portion of the benefits that result from the new variety, rather than having another party quickly develop a further improvement of their variety.

Also, we note that any arrangement regarding licensing the parent PVR would be limited by the life of the PVR. After the PVR has expired, the breeder of the EDV would be free to commercialise their variety.

We point out that derivative inventions are also a feature of the patents system. Under the Patents Act there is an experimental use exemption that allows third parties to use an invention to create improvements to a patented product (similar to the breeder's exemption). However, while a third party can patent their improvement, they still need a licence from the original patentee to commercialise the improved product if it contains all of the features of the original invention. We do not see why PVR owners should be treated differently to patent owners.

Providing certainty

We do not agree that option 2 would provide more certainty to parties than options 1 or 3 because it still requires subjective assessment of:

- (a) whether there has been a "genuine improvement", and
- (b) what features of the plant are commercially valuable.

While the UPOV 91 provisions may lack some precision at the edges, the terms "predominantly derived" and "essential features" will be clear in many cases, for example when a variety is produced using a single parent plant. Furthermore, UPOV has developed guidelines to help parties to interpret the EDV provisions. Also, there are more likely to be EDV cases overseas in bigger markets. Adopting the UPOV wording would also allow New Zealand based parties to draw on international case law to interpret the UPOV 91 wording.

We also understand that MBIE is concerned that broad EDV provisions would be difficult to enforce. Firstly, we point out that difficulty of enforcement is not one of the criteria against which options are being assessed. Secondly, we consider that there are a number of ways that a PVR owner could enforce EDV provisions.

In many other jurisdictions, the party applying for a PVR is required to supply information about the origin and/or breeding programme that produced the new variety. For example, the following information is taken from the public records for Australian PBR 'CHR130888-4'

Origin and Breeding

Spontaneous mutation: 'CHR130888-4' was discovered with a narrow margin zone of yellow on a predominately mauve petal from a lateral branch of a yellow and mauve flowering non-commercial variety named 'CHR130888-3', that had an even amount of each colour separated at the mid-section of the petal from the breeding stock held by Cor Slykerman in June 2016. The mutation was selected due to flower colour and was propagated to produce 24 plants. Further selection took place after identifying other favourable characteristics necessary for a commercially viable cut flower Chrysanthemum with further cuttings taken from the previous generation to create a 200 plant trial. All work was carried out by, or under the supervision of Cor Slykerman at his breeding facility in Skye, Victoria.

Requiring applicants to provide this information would help existing rights holders identify EDVs. Even without this information being supplied to IPONZ, where the breeder of an EDV has applied for protection in other jurisdictions, the owners of parent PVRs have access to this information through e.g. the USPTO or IP Australia register.

Currently, applicants are required to identify if the variety is a sport, and the parent variety is included as a comparator in the DUS trial. This requirement could be expanded to require applicants to notify the PVR owner of the parent variety. Alternatively, IPONZ could notify the original breeder, or the online system could be used to send an automatic notification (similar to the patents system when a divisional application is filed out of a parent application).

Another option could be to require applicants to make a positive statement that the variety is not an EDV or that they have notified the rights holder of the parent variety, with a corresponding penalty for making a false declaration. The ongoing work relating to a disclosure of origin regime could also help parties to identify EDVs.

Public benefit

The public would also benefit from broad EDV provisions. Broad provisions will encourage breeders to invest in highly innovative new varieties with long breeding times, secure in the knowledge that an EDV won't quickly appear to take their market share. We therefore disagree with the conclusion in paragraph 250, and consider it likely that an EDV will likely take substantial market share from a parent variety if it contains a commercially useful improvement.

For the sake of completeness, we note that we do not support option 4.

Rights over harvested material

We submit that the revised Act should include more than the minimum rights over harvested material required by UPOV 91. We support option 2 at a minimum, i.e. rights should be extended to harvested material that results from unauthorised propagation.

In paragraph 272 it is noted that submitters on the issues paper considered that the contractual arrangements available to them were sufficient to allow PVR owners to maintain control over harvested material. However, since those submissions were made, MBIE has proposed to repeal the IP exception provisions from the Commerce Act. It is likely that this proposal would alter the submitters views. It is also unclear whether the original submitters appreciated the impact the proposed compulsory licence provisions would have on their contracts.

Contracts are unlikely to be sufficient to protect harvested material. Those contracts may not be enforceable under the revised Commerce Act, and there is the possibility that such a contract would expose the PVR owner to the risk of a compulsory licence being granted for their PVR. Given these circumstances, the PVR owner has no way to control harvested material. In the absence of a strong contract option, the PVR Act should provide for increased rights over harvested material.

In paragraph 285, the options paper notes that option 2 would place an onus on retailers to not infringe PVRs. We point out that the same burden exists for retailers with other IP rights, e.g. patents and copyright. Retailers manage this risk via their contractual arrangements with suppliers. They do not routinely check for IP infringement. Accordingly, there is unlikely to be an additional burden on retailers if PVR rights are extended to harvested material. Instead, the burden will remain with the PVR owner to detect infringement. But, like patents, often the first time you can detect use of an infringing method is when the resulting product is offered for sale. While it is possible to sue a retailer, usually the rights holder merely wants the unauthorised product to be withdrawn and to find out the name of the supplier. This would allow the rights holder to identify the source of the unauthorised propagating material, and deal with the primary infringer.

We disagree with the position in the options paper that expanding rights over harvested material would see PVR owners choosing when to enforce their rights. If a PVR owner was aware of an infringing use of propagating material, their preference would be to shut down the grower. There would also be a strong preference to maintain relationships with retailers, and avoid the harm associated with material being sold to consumers that has not been through the PVR owner's usual quality control process.

Farm saved seed

Broadly, we support option 2 (ii), which allows for an exception for farm saved seed with limitations on the exception imposed in the regulations. One of the limitations should be that a royalty payment must be made for farm saved seed. We do not support the Australian model that is discussed in the options paper as part of option 2(ii).

We are surprised that the preferred option does not expressly provide for a royalty payment. Even Federated Farmers agree that the benefits of a royalty scheme outweigh the potential costs. The only open issue relates to how to implement the royalty scheme. It is clear from the submissions (and the discussions at the Wellington Hui) that both breeders and farmers want to have the flexibility to decide whether seed point or end point royalties are used. There is no reason why the Act needs to prescribe how a royalty for farm saved seed is collected. Instead, the Act (or Regulations) could provide the framework, i.e. royalties are payable, and industry will work out the rest.

The options paper again refers to using contracts to resolve the issue of royalties instead of legislation. But, as discussed above, there is the risk that the contract would count against the breeder for the purposes of a compulsory licence. If the legislation required the payment of royalties, then this risk would be mitigated. Furthermore, if the default position is that royalties are payable, it would encourage the industry to set-up a central system for reporting seed information and collecting royalties. A system would reduce the administrative burden for breeders and farmers and would provide certainty for both parties. As noted in the options paper, a more transparent royalty regime would benefit all parties.

We agree that the legislation should make it clear that the farm saved seed exception is for varieties where it is currently common practice to save seed. We do not support extending this exception to other varieties or to other types of propagating material.

We do not agree with the Australian model discussed in the options paper. We note that no orders for an exemption have been made under the Australian scheme. Given the small size of the New Zealand industry and the likely time and costs involved in making an application for an exemption, it is unlikely that these provisions would be used.

We also note that in other jurisdictions there is a move towards providing for royalties for farm saved seed, e.g. Europe and Canada. There is value in having consistency with overseas markets, especially ones that are part of the CPTPP, such as Canada.

Compulsory licences

We strongly disagree with the proposed option for compulsory licences.

Compulsory licences generally

Compulsory licence provisions have a purpose when the market is not being supplied with harvested material, or where a PVR owner essentially has a monopoly on one plant type. To provide for those circumstances, we support the introduction of a public interest consideration. This would allow the Commissioner to consider all of the surrounding circumstances. For example, we refer to the recent European case where a third party sought access to the blackcurrant variety “Ben Starav”, see Decision nr NCL 001, 16 March 2018 relating to CPVR application No 2009/1980. In that case, the compulsory licence application was unsuccessful partly because there were other blackcurrant varieties available. A public interest provision would be consistent with both UPOV 91 (which refers to compulsory licences being granted in the “public interest”) and our major trading partners.

We also point out in terms of compulsory licencing, that UPOV 91 moved away from the “widespread distribution” test in UPOV 78 to a public interest test. See Article 9 UPOV 78 vs Article 17 UPOV 91. If we are required to align our PVR Act with UPOV 91 as much as possible, then this change should be reflected in the legislation.

Section 21(3)

We support the removal of section 21(3). The intent of compulsory licences, i.e. preventing an abuse of a monopoly position, can be met without section 21(3). General competition law rules will also apply if a PVR owner is abusing their market position.

The situation where a PVR owner manages both the growing of plants and the harvested material can be considered a “closed loop” system. Closed loop systems are a commercially successful way of supplying plant material and related products. It allows for a co-ordinated approach to marketing, assures product quality, and helps to prevent a “boom and bust” situation for growers (e.g. as was seen with Braeburn apples). Zespri uses this model and is regularly recognised for its business and innovation successes. Another key benefit of the closed loop system is that by controlling the harvested material, the breeder can better prevent the variety from being exported without authorisation.

Section 21(3) unfairly and unnecessarily targets closed loop systems.

As discussed above, there are several policy areas where the preferred option is to not include anything in the Act or Regulations, and instead allow the parties to use contracts to manage their relationship. However, when it comes to compulsory licensing, the Act proposes to ignore the sale of any material under those contracts. This places the PVR owner in an impossible position. If they use contracts to fill the gaps in the PVR legislation e.g. in relation to harvested material, they risk having their use of the variety disregarded for the purposes of assessing whether a compulsory licence should be granted.

If section 21(3) remains, it will effectively limit the term of a PVR to three years for breeders that operate a closed loop system. This is not long enough for breeders to recover their investment in new varieties.

We are aware that MBIE's considers that the application process will be sufficiently onerous and that this will provide a level of protection to PVR owners. In particular, there is a view that the term "reasonable" in section 21(3) will place a burden on applicants for licences and allow the Commissioner to take the individual circumstances of a variety into account.

We strongly disagree with this position. If a variety is sold under a closed loop system there will be no need for the Commissioner to consider if "reasonable" quantities have been provided, as the Act will deem that NO material has been provided. Accordingly, there will be no burden placed on the applicant at all. In these circumstances, this reasonableness test will provide no protection to PVR owners. If the Act deems that zero material has been provided to the public, it is difficult to see how the Commissioner could do anything except grant the licence, even if the public are well supplied with e.g. the harvested material. This system is therefore open to abuse by competitors and other third parties.

We are aware that MBIE considers that this provision has been in the Act for years and has not been abused, and therefore thinks it does not need to be amended. Again, we disagree. This topic was discussed at the Hui, where several current users of the PVR Act admitted there was a level of ignorance about this provision until relatively recently. The PVR Act review, and the associated commentaries published online, has drawn attention to this provision and increased the risk it will be used by third parties. There has also been a level of fear that has prevented New Zealand based users from using the compulsory licence system. That is, the belief that if they seek a compulsory licence, that the PVR owner may retaliate by seeking licences for their varieties. Overseas based parties are unlikely to feel limited in this way. Especially as, while compulsory licence provisions are a feature of IP systems worldwide, we are not aware of any other jurisdiction having an equivalent to section 21(3). This limitation is potentially inconsistent with International Treaty obligations and the protections provided by major trading partners.

Other comments

We agree with amending the compulsory licence provisions to reflect the process set out in the Patents Act 2013. In particular:

- the applicant for a compulsory licence should have to show they have made reasonable efforts to obtain a voluntary licence,
- the PVR owner should have the opportunity to be heard before a decision is made, and

- there should be provisions allowing for a compulsory licence to be terminated if the circumstances that led to the grant of the licence change.
- a compulsory licence should exclude the ability to export plant material.

Applicants for a compulsory licence should also be required to show that they can make the variety available in reasonable quantities if granted a licence.

The Act should require that any party granted a compulsory licence must be subject to the same conditions as other voluntary licences, for example that harvested material must be provided to approved retailers, and must meet the same quality standards. It would not be fair for a licence to tarnish the reputation of particular variety (and ultimately the PVR owner's business) by not abiding by the same standards as other licensees.

Grace periods/restoration provisions

We support adopting the Patents Act approach to restorations/grace periods and the payment of renewal fees.

We understand the current process when rights holders choose not to renew their PVR (and instead let it passively lapse) is onerous for the PVR office. Following the system used in patents would remove this burden from the office.

Cancellation and nullification of the breeder's right

We submit that a pre-grant opposition process should be introduced for PVR, modelled on the process used for patents. We note that the introduction of an opposition process was recommended in the independent analysis paper prepared for MBIE by Lynell Tuffery Huria.

Transitional provisions

We submit that option 2 would provide the best balance of certainty and practicality. However, while the new rights and registrability requirements should only apply to new applications, we submit that procedural rules, e.g. restoration provisions, should apply to all existing PVRs and applications.

Administrative/process issues

We understand that work to review the administrative and procedural issues relating to the PVR process is underway.

We strongly support the introduction of formal processes relating to the supply of plant material for DUS testing. Currently IPONZ specifies which comparator plants must be used in testing, but it is up to the PVR applicant to obtain those plants, often from their competitors. Understandably, competitors can be reluctant to provide material, especially if the requested variety is not itself the subject of a granted PVR. The process should include rules regarding how that material can be used, i.e. that it can't be kept past the end of trial and can't be used for breeding. There should also be provisions relating to costs, for example, that the applicant bears any the costs associated with providing the material.

The status of plant material provided by the PVR applicant to IPONZ should also be clarified. For example, it should be clear what happens to the applicant's plant material after a trial, or when an application is withdrawn before grant.

The Act or Regulations should also allow for exclusive licensees to take infringement actions. A similar provision already exists for patents.

The scope of the right granted under the PVR Act

In the current Act it is not clear how the scope of a PVR is defined. For example, is the right defined by the written description produced by IPONZ? By any photos that accompany the application? By the plants produced from e.g. the seed supplied with the application or any reference plants maintained by IPONZ? If the scope of the monopoly is to be defined by plant material, then the Act or Regulations should provide for third parties to have access to that plant material for the purposes of assessing infringement.