

Commercial Transfer Agreements of New Plant Varieties and Materials Thereof

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The Protection of Plant Varieties and Farmers' Rights Act 2001 of India has been aptly put in place. It takes care of new as well as extant plant varieties. It benefits equally the farmer as also the researcher. Keeping in view its manpower and infrastructure strength in plant research, it is strongly believed that in India in very near future new and improved plant varieties will be developed and legally protected. In case these varieties are really good and find research and/or commercial advantage over the similar varieties existing in the market, need may arise to transfer these varieties from laboratories to the land of their end users, may it be of a researcher or a progressive farmer. To transfer such varieties to generate business and yet retain the rights over the protected varieties, there is a need to sign a plant or material transfer agreement by the inventors of these new plant varieties with their customers. To facilitate negotiation of such agreements, author describes some of the essential clauses that need to be included in such licence agreements.

In the post GATT scenario, protection of intellectual property has assumed considerable significance. In very near future, economic status of a country will be determined by factors such as the: (i) intellectual capital that it has in store, (ii) capacity and ability to generate, acquire and sell intellectual property, (iii) quality of boundaries that it has created to protect its intellectual property, (iv) IPR awareness and measures taken to protect its indigenous intellectual property, (v) digitalizing the heaps of knowledge that is embedded in the traditional knowledge of the country so as to prevent non-original patents, and (vi) ability to amend the laws governing the intellectual

property of the country to suit to its best interests. After becoming a member of the WTO, India was obliged to have its laws suitably made to ensure the protection of new plant varieties, either through patents or under the International Union for the Protection of Plant Varieties (UPOV 1991), or by a *sui generis* system developed independently as per its own requirements.

Under UPOV,¹ a plant variety is eligible for protection if it is novel, distinct, uniform and stable and its denominations (generic name) comply with the prescribed requirements. The term of plant protection in this case varies according to the type of plant for which

protection is sought and this ranges from 20-25 years. Only owner has the right to exploit, sell and produce the plant variety that has been protected. However, the experimental use or its non-commercial trials do not fall within the ambit of protection.

The UPOV for protecting the prescribed types of plants has been beneficial for countries like US in the following ways²:

- Increase in the investment by the private companies in plant breeding sector because of the companies entering into formal licensing agreements with the inventors for taking the exclusive rights of the protected varieties, which had significant commercial advantage over the existing varieties.
- Improved varieties that are commercially viable are mostly patented or registered on the basis of improved crop yields or of any of its characteristics (novelty/distinctiveness criterion). Therefore, more returns by way of increased crop yields or products thereof, by using seeds/plant material of the improved and protected varieties.
- Funding to public research institutes is now mainly dependent on the royalties that decreased the burden on government for funding such institutes^{2,3}.
- Progressive breeder has on-line access to the information about the legally protected new varieties. Breeders/farmers, therefore, has a

choice to select the variety required by him on international level.

- Investment by private companies and cooperatives in plant breeding sector rose steeply to 60% in 1993 and it is estimated to be presently in the range of 80-90%.

Protection of Plant Varieties and Farmers' Rights Act 2001

So far as protection of plant variety is concerned, article 27(3)b of TRIPS Agreement states "Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof". As India had ratified the WTO agreement, it was obligatory under the TRIPS for India to enact new laws and amend the Patents Act, 1970 to suit the international agreement for harmonizing the patent laws. Accordingly, the process of amendment started in 1995. The first amendment was made in 1999 through an ordinance while the second amendment was passed by the Parliament in 2002. The Protection of Plant Varieties and Farmers' Rights Bill was put before the Lok Sabha where it was passed on 16th August 2001 and was enacted by the Parliament on 15th November 2001 as an Act No. 53 of 2001: "An Act to provide for the establishment of an effective system for protection of plant varieties, the rights of farmers and plant breeders and to encourage the development of new plant varieties⁴".

The Act is unique, as keeping in view the need of the country it has taken into consideration most of the points of the UPOV system. Essentially it took into

consideration the: (i) importance of research workers in developing the new varieties, (ii) farmers who are continuously generating better varieties by natural selection, and (iii) fact that 80% of seed produced in the country comes from traditional farmers which is reverse of what is happening in US.

Additionally, in order to encourage the farmers, a concept of national gene fund has been put in place that will be used to reward the farmers for conserving biodiversity and developing new varieties, and for sustainable use of genetic resources. The proposed legislation contains provisions to facilitate equitable sharing of benefits arising out of new plant varieties that may accrue to a breeder or researcher by way of sale, resale, share or disposal of such variety.

Over the years excellent scientific manpower and facilities have been created in India. It has been able to effect two, green and white, revolutions to the advantage of the country. It is felt that in future scientists will develop and protect new and improved varieties that will give commercial advantage to the breeder. Once new plant varieties having definite edge over the existing varieties are legally protected, there would be increase in agricultural research and/or commercial institutions would become interested in transfer of these varieties. Thus, these new and improved varieties will help in developing business. The individuals/institutions, which are the actual inventors (the licensors), should but release these new varieties under specific plant or material transfer

agreements because of the following reasons to: (i) retain the intellectual property associated with the invention, (ii) restrict the licensee from horizontally transferring the material without the knowledge of the actual inventor, (iii) remain informed about the new varieties being developed in other R&D organizations using transferred variety, and (iv) recover the costs of developing the new plant variety; earn royalties by transferring the material to different parties against some considerations³.

Intellectual Fee and Intellectual Property

Though it is not so easy to calculate or equate the intellectual fee (the monetary value) for the intellectual investment made in the development of a new plant variety, the feel of the market value of the variety developed is obvious by the demand it generates after due publicity. In order to arrive at the negotiable value, one might take into consideration one or more than one following factors: (i) investment made in creating the intellectual property, (ii) opportunity offered by the market conditions, (iii) name, fame and size of the licensee (party), (iv) proposed annual production of the party using the intellectual property in question, (v) geographical area of licensing, and (vi) number of parties interested in the variety (exclusive/non-exclusive).

While transferring or on releasing the plant variety / material, one has to be very vigilant in transferring the rights involved in it. There has to be a legal instrument of agreement in place, called the licensing

agreement for plant variety or part thereof, signed by competent authority or authorized signatory of both the parties. This shall be a very important document, which will remain in the custody of both the parties signing the agreement. This agreement should clearly define the responsibilities of the parties, financial terms and other requirements involved in the agreement.

While writing a material transfer licensing agreement, one should try to avoid being vague and convey doubtful or wrongful meanings. Use of ambiguous terms to be misunderstood shall make both the parties unnecessarily dependent on their attorneys to draw the desired meaning of the sentences. If the intentions are clear between the two gentlemen or parties, agreement or no agreement; matters will proceed, even adjustments will be accommodated. But for keeping a record in place, one must reach to and draw a mutually agreed agreement. Appropriately drawn into various components, recording views with accuracy and keeping provision for unforeseen circumstances usually make good agreements. A plant variety transfer agreement or material transfer agreement should, in addition, have the following components duly explained:

The Preamble

The first clause in the agreement should start by giving the details of parties involved in the agreement called the Preamble. The first party that is the licensor should be described with complete address of its head office or the office wherefrom it operates, and the Act

under which the organization is registered. We may also denote the name of the party as a short notation or abbreviation in capital letters so as to be subsequently used in the body of the agreement. Similarly, the second party or the licensee's name and address should also be given in detail along with its registered office and a short abbreviated name to be used in the text of the agreement thereafter. One should also write the Act under which the organization has registered itself.

It is usually followed by a 'whereas' clause which describes the need of the agreement. It describes the competence of the licensor, the availability of the plant material suitable to be released to the party and shows the willingness on the part of the licensor to license the variety to the licensee or the second party. In continuation of this clause in the second para the agreement will describe, in short but in clear terms, the business interests of the 2nd party and its reason to approach to the 1st party for the transfer of a particular plant variety.

Next point to be described in the agreement forms a very important issue on the part of the 1st party or licensor. It describes the botanical or chemical aspects of the plant material for which 2nd party is interested in taking the material. One may describe the variety by botanical characteristics, such as taxonomical and physical features, and by chemical characteristics such as oil percentage or percentage of marker compounds. But if need be the hplc/glc studies may be mentioned and attached as annexure. In case the molecular biology

of the plant has been studied, appending such data would irrefutably and strictly define the planting material in question. The licensor should specify whether the rights of the licensee are being granted on exclusive or non-exclusive terms and also mention, if need be, the geographical regions for which the rights are being offered. Decision on such points should be taken much earlier and appropriately entered in the agreement because these will have a lot of bearing in deciding the licence value/fees.

Financial Considerations

For licensor it is very difficult to arrive at a total fee of licensing the material, yet as described earlier one has to arrive at a figure to be quoted to the customer. This should be many a time more than even the expectations of the licensor himself. This margin one should keep for negotiations. Once negotiations are complete and licence fee is arrived at, the mode of payment of the installments should be carefully designed. The agreement should clearly specify the stages at which installments of fee are to be paid. Of course, the first installment should be asked on signing the agreement and this should form more than 50% of the total payment. Further installments are paid at regular intervals but certainly at the marked milestones of the project. Milestones have to be identified in such a manner so that the licensee cannot proceed any further without consulting the licensor, hence ensures payment. In case such an arrangement is not possible, licensee should be asked to produce a bank guarantee of the amount equivalent

to the money due to licensor after signing the agreement.

Royalty

The licensor offers the licence for using the plant material released to the licensee in order to make certain profits and for increasing his sales year by year. Under this agreement if the material works well, the licensee is supposed to increase his profit every year. He should not hesitate to pay some percentage of the sales as royalty to the licensor. This component of payment called 'royalty' should be decided at the time of signing of the agreement. Royalty should always be calculated on sales rather than profits, because there can always be a tendency to manipulate and show less profits. In order to be sure that the customer does not stall the technology/material in his cupboard, provision for minimum royalty payments per year should be included in the agreement.

Confidentiality

Unless otherwise stated, in most of the cases it should be agreed that 2nd party shall not release the seed/plant material or cultivable part thereof to any other party without the written permission of the licensor. The party shall provide the licensor all the information about the seed production and shall keep its ledgers open so that profits are calculated for payment of royalties, at least twice a year.

The decision to sublicense and intellectual fee of this planting material to be released for further sale to any other 3rd party shall be mutually decided between the two parties on signing the

agreement. It shall also be clearly mentioned that licensor shall not be responsible if the cultivation practices are not followed as per the prescribed direction for which adequate training shall be provided by the licensor. The failure to manage crop production by the licensee, after initial successful demonstration by the licensor shall not be taken as a failure of technology and the same shall be entered in the agreement in clearly guarded words.

Licensor or the licensee shall not stop the sharing of the plant variety with any organization involved in R & D work. But it is obligatory on the part of R & D organization to inform the licensor the details of the project in which the material is being used, and the same it shall duly acknowledge in the publications and the patents arising out of such work. In future the R&D organization shall share the benefits accruing to it by selling a product developed by the use of the plant material shared with the first party.

Plant Material Description

In order to avoid future problems, the licensor shall clearly certify: (i) the original source of the material (does the licensor have the real right on the material being transferred), (ii) physical and chemical characteristics, for irrefutably identifying the plant material, (iii) the advantages associated with the plant material over the similar varieties available, (iv) chemical and molecular markers of the variety, (v) whether there are any adverse effects to the environment or toxicity to animals

associated with the plant material, that needs special consideration? and (v) whether this material is available from any other sources, if so, who are the other agencies?

Certification

The licensee will: (i) declare whether he will be using the material for commercial production or for modifying and developing new varieties? (ii) see if any further progeny is derived out of the plant material being transferred, the licensee shall appropriately inform the Ist party from time to time, (iii) ensure any publication or intellectual property derived by using this material shall be duly acknowledged, writing clearly the source of the original material, (iv) ensure the material is being used for research or commercial projects, (v) ensure in case of commercial exploitation, the present plant material is being used alone or in conjunction with other materials? if yes, specify the varieties in detail with chemical and physical markers, and (vi) ensure that the licensee shall not sell the seed/ plant material to any other organization under the same brand name as sold earlier by the licensor.

In addition to some of the clauses discussed above, one needs to write down some following other important clauses also, which are normally used for other agreements⁵:

- Force Majeure clause, in which licensee shall not be held responsible for the calamities of nature or the acts of God.
- Arbitration clause, which shall include the description of an arbitrator in case

- any dispute arises between the parties, signatories to the agreement, during the period of agreement.
- Duration, this clause shall specify clearly the period for which the agreement is valid, the duration of the agreement cannot be left open ended.
 - Amendment and termination clauses of the agreements shall indicate in writing the authority and the reasons under which the agreement can be extended or terminated.
 - The agreement shall stand in a good stead in case the criteria of a successful demonstration and the scope of the agreement are also detailed separately in the agreement.

Conclusion

The scientific community and their organizations invest in terms of effort and money through sustained research to develop new varieties for the furtherance of science and for the benefit of common man. Though mostly these organizations cannot exploit these varieties commercially, they can license them to the commercial cultivators/ farmers. The farmer shall make additional profits by cultivating new and improved varieties. He can have no objection in sharing part

of this money with the inventors provided he is ensured a better variety. In order to transfer the variety, farmer is required to enter into a plant and material licensing agreement with the inventors to safe guard the interest of the scientists. Organizations and the scientists shall also be benefited and compensated for the efforts they put in developing new varieties. In order to generate an appropriate licensing agreement, author in this paper has discussed various clauses to be included in such an agreement.

References

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