

Explanatory Notes

Regulation for the Arbitration of Disputes concerning Essential Derivation (RED)

Introduction

For the implementation of the notion of essential derivation or essentially derived variety (EDV), ISF adopted its position paper *ISF View on Intellectual Property* in 2003, which provides the outlines for the assessment of essential derivation and recommends the use of an arbitration procedure in the case of an EDV dispute. Furthermore, the ISF paper advocates the drafting and adoption of a crop specific code of conduct, which contains a molecular threshold for the possible reversal of the burden of proof for the breeder or operator of the putative EDV (PEDV). Except for phenotypic and genetic similarity, which can be tested by the claimant, it must in a concrete case be proved that the putative EDV has been predominantly derived from the Initial Variety (INV) of the claimant. As this requirement is difficult or impossible to assess by the owner of the INV, it seems fair and reasonable in the case of a variety that is very similar to the INV to shift the burden to proof, that the disputed variety has not been essentially derived from the INV, to the owner or operator of the similar variety. This paper and the accompanying set of arbitration rules, constituted within the framework of the existing ISF *Arbitration Procedure Rules* (APR) and the ISF rules set for *Mediation, Conciliation and Arbitration for Disputes between Professionals concerning the Management of Intellectual Property Rights in the field of Plant Breeding* (MCA), have been drafted as a *Lex specialis* of these APR and MCA, with the aim to regulate the process of proving whether a disputed variety is an EDV or not, taking into account the aforementioned ISF recommendations.

Once the position of the variety has been established as being an EDV, the parties concerned may further negotiate possible licensing conditions, or in the case where the EDV is already being exploited the INV breeder may claim damages.

The parties can agree in advance on arbitration by agreement or an arbitration clause in the general terms of delivery (sales conditions), or mutually later when a case emerges by an arbitration clause. The final award is legally enforceable in the countries adhering to the Geneva Convention of 1927 and/or the New York Convention of 1958 concerning recognition of arbitration and enforceability of awards. Only in case of procedural faults or if the subject matter is not suitable for arbitration etc., the award can be challenged for a national court.

Aim of the Regulation

This set of arbitration rules may serve two goals:

1. In case of a dispute between 2 parties concerning EDV issues, these rules, tailored to the specific (technical) aspects of such a case, provide a basis for a balanced procedure
2. The rules will have a radiating effect on the behaviour of the breeders, even on those breeders that do not sign an agreement for arbitration. This procedure, if accepted, may have its (harmonising) influence on possible civil court procedures as well.

Arbitration has several advantages over litigation before a civil court, e.g.:

1. Arbitration is more informal, confidential and may be quicker and cheaper than civil litigation
2. Both parties in an EDV conflict can count on a decision by independent and impartial people who will or may also have an understanding of the subject matter and the technical aspects of the case

Moreover, arbitration is legally binding. Although procedural mistakes or inaccuracies can be contested, the contents of an arbitration award cannot be disputed before a civil court.

These specific EDV arbitration rules contain the following main elements:

- a. An EDV threshold that forms the trigger point for the reversal of the burden of proof. This EDV threshold¹ may be defined in a crop specific code of conduct or guideline or other formal (ISF) paper, in which it is determined that the breeder or operator of the PEDV, whose variety conforms with the initial variety such that it is above the EDV threshold, has to prove that his variety has not predominantly been derived from the INV in question.
- b. The rules do not include the use of a molecular database for all existing and new varieties. This is optional for the breeders themselves. For some crops such a database has already been proposed. For other crops breeders may choose to rely on their own data and the phenotypic results from the official testing. A breeder can always, on his own initiative, perform a molecular test to check a suspicious variety
- c. The provisions to perform during the arbitral procedure additional tests and to appoint experts on behalf of and by the Arbitral Tribunal.

Explanatory Notes per Issue

General

This Regulation is especially tailored for the handling of a conflict concerning the decision whether a particular variety has been essentially derived from another particular variety. The position paper *ISF View on Intellectual Property*, the existing *ISF Arbitration Procedure Rules (APR)*, the rules set for *Mediation, Conciliation and Arbitration for Disputes between Professionals concerning the Management of Intellectual Property Rights in the field of Plant Breeding (MCA)* and the international Conventions of Geneva and New York form the basis for this Regulation. In cases and for the subjects where this Regulation applies, the APR/MCA will be overruled. For other cases and subjects whether or not a reference is made to the APR/MCA, the APR/MCA applies or, depending of the case, the Arbitral Tribunal may decide by its own discretion. The terms agreed between the parties in a contract or code of conduct before the application for arbitration is filed, will overrule similar provisions in RED.

¹ There exists in maize an agreement to work with 2 thresholds and three zones, green, orange and red. A variety in the orange zone triggers a dispute between parties and a variety in the red zone is regarded as an EDV without further procedures.

Definitions

For practical reasons the Regulation strictly follows the UPOV definition of essential derivation. The derivation must have been predominantly performed from the particular INV. There is for instance legally no case of essential derivation if the putative EDV has been bred from the same parents as another, older variety and its genetic distance to that older variety is small by chance. The status of an EDV is independent from protection. For the sake of derivation it does not matter whether an EDV or its INV are protected or not. The definition of the INV takes the possibility into account that an INV itself may be derived from another, older and possibly non-protected variety of common knowledge. The breeder of an INV may expect the counter-challenge that his INV is also an EDV. The definition of 'variety of common knowledge' is similar to the UPOV conception regarding this subject. The breeder, for the purpose of this Regulation, is defined as the person or legal entity that possesses the title of protection of the variety. The operator is the person or legal entity that exploits the variety as the EDV may not necessarily be protected or be exploited by the original breeder. However, the INV must during the procedure be protected, at least in one given territory by a Plant Breeder's Right's/Plant Variety Protection law containing an EDV provision, as otherwise there will be no case.

Application for Arbitration, the Deposit requirement and the Nomination of the Arbitral Tribunal

The procedure for the nomination of Arbitral Tribunal is substantially ruled by the APR. A list of international arbitrators is posted on the ISF website. This Regulation (RED) does not envisage special requirements for the arbitrators, although it could be argued that some basic knowledge of the subject matter might be demanded from the arbitrator. ISF will therefore provide a list of international arbitrators who will have the appropriate knowledge for handling an EDV case. The choice of arbitrators is however considered as a matter to the discretion of the parties. Furthermore this Regulation provides ample room for expertise.

The arbitration procedure may be preceded by negotiations or mediation between parties as advised by ISF, possibly according to the MCA rules. But a party may start an arbitration procedure at any time he wishes, without the need for a preceding decision or other triggering fact. Therefore the time limit as mentioned in Article 3 MCA does not apply here. The applicant must provide sufficient phenotypic and molecular data to show evidence of his suspicion that the PEDV has been essentially derived from his INV. The breeder or operator of the PEDV may claim that the INV of his PEDV is also an EDV, in which case the scope of the breeder's right is not extended to varieties essentially derived from the protected variety. If before the application for arbitration he was not aware that his variety was considered as an EDV, the breeder or operator of the PEDV has one year to collect molecular and phenotypic evidence of his claim. However in order to avoid unnecessary extension of the procedure, the time period that he clearly knew the fact that his variety was considered as an EDV, for instance by a registered letter from the breeder of the INV, may be reduced from this one year, to be decided by the Tribunal. It may happen that it is necessary for a breeder to defend himself against the suspicion from another breeder that his variety is an EDV from the protected variety of that other breeder. He has then the opportunity to start an arbitration procedure against that other breeder. Although the rules do not provide for the situation that the other party refuses to take part in such procedure, it can be imagined that the position of that party with regard to his allegation will significantly be weakened.

The decision whether a case is receivable is to the discretion of the Tribunal. The breeder of the INV may claim damages at the time of application, if the EDV is already being exploited.

The Arbitration Procedure

The procedure offers in addition to the provisions of the APR and MCA more detailed administrative and technical tools in order to find the best possible decision in this complicated technical matter. For example:

- the molecular threshold, if agreed upon, will play a role in the burden of proof
- both parties will have the opportunity to comment at least once on the statements of the opponent. The Arbitral Tribunal may allow another cycle(s) of statements and comments if that is necessary and useful for the case.
- both parties have the opportunity to provide safely the requested information, even if it is confidential, to the Tribunal in writing and in a hearing
- the Tribunal can appoint experts, who can only one time be challenged by each party, and the Tribunal may visit the relevant trials by themselves.
- all relevant information will be reported in writing
- the Tribunal will decide on the basis of all information collected.

The hybrid variety offers a special case. There is no predominant derivation possible from the hybrid itself but from its parent lines instead. These parent lines are in many cases not publicly accessible. Therefore, the Tribunal may decide on the basis of data from the hybrid produced with the PEDV parent line and data from an accessible parent line of such hybrid to have the PEDV parent line tested in comparison with the initial parent line.

The possible actions by the Tribunal as listed in Articles 6 to 9 of RED are not exhaustive. The Tribunal may of course at its own discretion add steps within the framework of these articles.

Withdrawal, Settlement or Award

These subjects are being ruled appropriately by the APR. The additional provisions of Articles 11 and 12 of RED are more or less superfluous, but have been drafted to avoid any doubt. The time span in Article 11 of the APR to deliver the award after 3 months of the date of the first hearing is considered too short as the possible technical testing and expertise will require more time. Article 12 of RED provides to reach a decision after a maximum period of 3 months from the date of the last session of the Tribunal with both parties.

If no arbitral decision has been made because of withdrawal of the case, it is clear that neither the putative EDV, nor the INV will be or become legally an EDV, even not by agreement between the parties. The parties may of course make their contracts and conditions as they wish.

The Tribunal may, if appropriate, decide upon the damage claims as have been filed by the applicant of the case, but the compensation must not exceed a period of 5 years from the date of application for arbitration. It is considered that the breeder of the INV has sufficient time to act against an EDV within 5 years from the moment that the EDV is commercially exploited. Depending on the circumstances however the Tribunal may decide to grant a longer period than 5 years, but such a decision must clearly be motivated.

Appeal

The requirements for the appeal procedure are described in Articles 12 and 13 APR. A financial security as determined by Article 12 paragraph 2 APR may be requested by the breeder of the INV if the EDV is already being exploited in the relevant territories and the award in first instance has declared the breeder or operator of the EDV in default. The financial security is obligatory if the award of first instance has allocated damages to the INV breeder. RED is only partly similarly applicable in the appeal procedure. In order to avoid a lengthy replication of tests, the appeal procedure is limited to additional hearings and reports on the basis of the technical information collected in the first instance. This existing technical information is regarded as sufficient because both parties have had ample opportunity to provide data and to comment on the results of the trials performed before and during the arbitration process in the first instance. As no further information needs to be collected, the appeal period of one month is considered as appropriate.

Entering into Force of the Award

This chapter rules the implementation of the contents of the award. The implementation is possible, when there is no further opportunity for appeal against the award. According to the Conventions of Geneva and New York, the Arbitral awards will be legally recognised and declared enforceable if the award concurs to some basic formal requirements. Dependent on national laws, the party declared in default may request annulment of the Arbitral award within a certain time limit, on the basis of these formal grounds. The reasons for annulment or refusing enforcement or setting aside of the award are mainly defaults in the arbitral procedure (insufficient time of announcements, composition of the Tribunal), the invalidity of the arbitral agreement, or the decision being beyond the arbitral scope. These grounds will be rarely applicable if the rules of this Regulation have been properly applied. According to Article 18 APR, the refusal of fulfilling the obligations by the party declared in default will be widely communicated to all members of ISF.

The implementation implies the co-operation of the breeder or operator of the declared EDV, to respect the Plant Breeder's Rights of the INV in all applicable territories. Both parties must take care to inform other directly interested parties. As the decision of the case may be important for other unknown parties, ISF will publish the decision that variety 'PEDV' is essentially derived from variety 'INV' by mentioning the right denominations of the varieties.

Arbitration costs

The provisions concerning the financial aspects are mainly ruled by the relevant articles of the APR. The issue not covered by the APR is the costs arising from the technical expertise hired or ordered by the tribunal. Parties may agree in advance about the distribution of these costs or the Tribunal will decide.

Agreement and liability

The rules of this Regulation are regarded as being fully understood and accepted by the parties that agreed to start the arbitration. No one who has given his co-operation to the process governed by these rules may risk any responsibility or claims for any negative consequences for the parties concerned. During the whole procedure parties shall not send any information to other persons or organisations (e.g. warning letters that variety X is likely an EDV) that may harm the interests of the other party. The sending of information to licensees may for instance be exempted from this rule as they have a direct interest in such a case. Article 16 paragraph 3 RED refers to the liability of the party that breaks this rule of respecting innocence before guilt is proved.