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Dear Sir/Madam,

**Proposed changes to Explanatory Notes on Essentially Derived Varieties under the UPOV Convention**

1. The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (**IPC**) thanks IP Australia for the opportunity to respond to its Consultation Paper concerning the proposed changes to the *Explanatory Notes on Essentially Derived Varieties under the UPOV Convention* (**Explanatory Notes**).

***Response to Specific Questions***

***Q1. What is your view on the proposed changes to the Explanatory Notes?***

2. The IPC is uncertain as to the desirability of the proposed changes to the Explanatory Notes, for a number of reasons. First, it is not clear whether the proposed changes would in fact have any effect on how an Australian court would interpret the essentially derived variety (**EDV**) provisions of the Australian PBR legislation, the *Plant Breeder's Rights Act 1994* (Cth) (**PBR Act**). Secondly, it is not clear whether the proposed changes would enhance or detract from the objective of plant breeder's rights legislation. Thirdly, it is clear that a number of the current inconsistencies between the PBR Act and the UPOV Convention will remain, whether or not the proposed changes are adopted.

*Effect of proposed changes on interpretation of the PBR legislation*

3. The IPC expects that the proposed changes to the Explanatory Notes would have an effect on how PBR legislation is interpreted in various countries other than Australia, especially the civil law jurisdictions of Europe. This is because, unlike under Australian law, international treaties and associated arrangements are directly applicable in civil law countries without the need for the enactment of statutes to implement the treaty. Some Australian plant breeders operate in foreign markets, and some of them hold PBRs for their varieties in countries beyond Australia, including in

Europe. It is of relevance to those breeders how the PBR legislation is interpreted in the countries in which they operate, whether or not they hold PBRs in them.

4. It is not clear, however, that the proposed changes to the Explanatory Notes would have an effect on how the domestic PBR legislation is interpreted in Australia. Section 15AB of the *Acts Interpretation Act 1901 (Cth) (AI Act)* sets out what, when and how material not forming part of an Act (extrinsic material) may be used in interpreting domestic legislation. By virtue of s. 15AB(2)(d), the extrinsic material that may be considered for these purposes includes any treaty or other international agreement that is referred to in the legislation being interpreted. It is clear that the UPOV Convention is extrinsic material of the type referred to in s. 15AB(2)(d), as it is an international treaty that is referred to in the PBR legislation (in various definitions in s. 3(1), in s. 3(1A), in s. 10, and in s. 43(10)). It is not clear, however, that the Explanatory Notes is extrinsic material of the type referred to in s. 15AB(2)(d). The Explanatory Notes themselves are not an international treaty, and it is doubtful they constitute an international agreement. However, s. 15AB(2) expressly states that it does not limit the generality of subsection (1). Thus, whether or not the Explanatory Notes are extrinsic material of the type referred to in s. 15AB(2)(d), they are extrinsic material and so consideration may be given to them if s. 15AB(1) permits.
5. According to s. 15AB(1) of the AI Act, consideration may be given to extrinsic material either to confirm that the meaning of a provision is its ordinary meaning or to determine the meaning of a provision that is ambiguous or obscure or the ordinary meaning of which is manifestly absurd or unreasonable. It is not clear that any of the EDV provisions of the PBR Act are ambiguous or obscure, and there is no reason to think that any of them are manifestly absurd or unreasonable. In any event, given the various inconsistencies in the EDV provisions of the PBR Act and the UPOV Convention (explained below in response to Q2), it is not clear that the Explanatory Notes satisfy the s. 15AB(1) condition of being “capable of assisting in the ascertainment of the meaning of” the EDV provisions of the PBR Act.
6. Finally, s. 15AB(1) permits reference to extrinsic materials when they would assist the Court in understanding the intention of parliament had when making the relevant statute. It is difficult to see how a post-enactment change to extrinsic materials could assist the Court in understanding what was the intention of parliament at the time of enactment, unless parliament expressly said that the proposed law was to adopt any changes made to such extrinsic materials in the future.
7. Accordingly, it is far from certain that an Australian court would take any account of the Explanatory Notes when interpreting the PBR Act. Indeed, it seems unlikely. Given that, it appears that the Registrar should not take account of them when interpreting the Australian legislation without first obtaining clear legal advice (or a court ruling) that it is permissible to do so.

#### *Effect of proposed changes on the objective of PBR legislation*

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

9. The proposed changes to the Explanatory Notes have the general effect of expanding the range of subsequent new varieties that will fall within the definition of an EDV – and, therefore, within the scope of rights held by the owner of PBR in the variety (the initial variety) from which the EDV was derived. While this has the effect of strengthening the incentive to breed for breeders of initial varieties, it also has the effect of weakening the incentive to breed for breeders of subsequent varieties likely to be found to be EDVs. The changes may result, on the one hand, in a greater number of new initial varieties but, on the other hand, in a lesser number of new subsequent varieties. It is therefore not clear to the IPC whether the proposed changes would enhance or detract from the objective of encouraging the development of new varieties of plants.

**Q2. Do you view the Australian approach to EDVs as inconsistent with the approach set out in the proposed changes to the Explanatory Notes?**

10. The IPC considers that the Australian approach to EDVs is inconsistent with the approach set out in the proposed changes to the Explanatory Notes. However, this is also the case with respect to the approach in the current Explanatory Notes. While the proposed changes may remove one inconsistency of significance, other inconsistencies of significance will remain.

*Current inconsistencies between PBR Act and UPOV Convention*

11. The EDV provisions in the PBR Act are not consistent with the EDV provisions of the UPOV Convention. In particular, the definition of an EDV contained in s. 4 of the PBR Act differs from the EDV deeming provision contained in art. 14(5)(b) of the UPOV Convention in at least the following respects:
- (a) art. 14(5)(b)(ii) requires the subsequent variety to be “clearly distinguishable from” the initial variety, whereas s. 4 does not so require;
  - (b) art. 14(5)(b)(iii) requires that the subsequent variety “conform to” the initial variety in the expression of the initial variety’s essential characteristics, whereas s. 4 does not so require;
  - (c) art. 14(5)(b)(iii) contains the proviso “except for differences which result from the act of derivation” in relation to the “conform to” requirement, whereas s. 4 has no such proviso; and
  - (d) s. 4(c) requires that the subsequent variety “does not exhibit any important (as distinct from cosmetic) features” that differentiate it from the initial variety, whereas art. 14(5)(b) has no such requirement.
12. Inconsistency (a) appears not to be significant. We note that the Registrar cannot make a declaration that a subsequent variety is an EDV unless it is either a registered variety (s. 40) or a registrable variety (s. 41D(2)(a)(ii)). For a variety to be registrable, s. 43 requires, among other things, that a variety be “distinct”, in the sense of “clearly distinguishable from any other variety”. Thus, while the s. 4 definition of an EDV does not require the subsequent variety to be clearly distinguishable from the initial variety, an application seeking to have a subsequent variety declared to be an EDV will not succeed unless the subsequent variety is clearly distinguishable from the initial variety. Accordingly, this inconsistency appears to be of no practical consequence.

13. Inconsistency (b) appears to be significant. Section 4(b) of the PBR Act requires that the subsequent variety “retains” the essential characteristics of the initial variety. While this is arguably consistent with the wording of art. 14(5)(b)(i) of the UPOV Convention, it appears to be a different requirement from the art. 14(5)(b)(iii) requirement that the subsequent variety “conforms to” the initial variety’s expression of its essential characteristics. The s. 4(b) requirement of “retains” seems to require that the expression of the essential characteristics of the initial variety be present in the subsequent variety, whether or not the subsequent variety expresses other essential characteristics in addition. In contrast, the art. 15(5)(b)(iii) requirement of “conforms to” seems to require that the subsequent variety differ in no or only in “a very limited number of characteristics” (according to current Explanatory Note 11), except where the differences result from the act of derivation.
14. Inconsistency (c) appears to be significant. Where a subsequent variety expresses additional characteristics which result from the act of derivation, under art. 14(5)(b)(iii) of the UPOV Convention those additional characteristics are not taken into account for the purpose of determining if the subsequent variety is an EDV. Under s. 4(c) of the PBR Act, however, those characteristics will be taken into account where they are “important”.
15. Inconsistency (d) appears to be significant, at least for ornamental varieties. A difference between the initial variety and the subsequent variety in appearance – e.g. in leaf colour – should be of significance where the variety is an ornamental plant. Because s. 4 of the PBR Act apparently treats a “cosmetic” feature as being distinct from an “important” feature, this difference would not take the subsequent variety outside the definition of EDV. However, because this difference is “important from the perspective of the ... buyer, recipient or user” it is likely to be considered an essential characteristic (according to current Explanatory Note 6(ii)), meaning the subsequent variety does not constitute an EDV.

*Effect of proposed changes on current inconsistencies*

16. The proposed changes to the Explanatory Notes may remove inconsistency 2. Proposed Explanatory Note 13 states that art. 14(5)(b)(iii) “does not set a limit as to the number of differences which may exist where a variety is still considered to be essentially derived”, and that “[t]he differences may also include essential characteristics”. This appears to have the effect of interpreting “conforms to” to mean the same as “retains”. However, the proposed changes do not appear to remove inconsistencies 3 or 4.

**Q3. Do you support Australia adopting the approach set out in the proposed changes**

17. The IPC does not support Australia adopting the approach of the proposed changes. This is because it is not clear that the changes would better achieve the objective of the plant breeder’s rights legislation, and there is no additional justification for implementing them (such as resolving current inconsistencies between the PBR Act and the UPOV Convention).
18. The approach of the proposed changes is to expand the range of subsequent varieties that will fall within the definition of an EDV. As a general rule, some scepticism towards the expansion of IP rights is warranted. Being an exception to free competition, IP rights should be expanded only when it is clear that doing so will better

achieve the objective of the particular regime. As explained in response to Q1, it is not clear that the proposed changes will advance the objectives of plant breeder's rights law. Furthermore, as explained in response to Q2, the proposed changes will not remove a number of the inconsistencies that currently exist between the PBR Act and the UPOV Convention. In such circumstances, the IPC considers that the *status quo* should be maintained, pending a review of the entire PBR Act (discussed below under the heading 'Other Observations').

**Q4. Can you give examples of how the new approach would affect plant variety protection?**

19. While the IPC does not have the expertise required to give examples on how the new approach would affect the protection of particular plant varieties, it is able to identify the consequential effects that the proposed changes would have on provisions of the PBR Act in addition to s. 4.
20. Self-evidently, the proposed changes would have consequential effect on the provision of the PBR Act relating to declaration of essential derivation (ss 40-41F) and revocation of such a declaration (ss 50-51).
21. Since the effect of the proposed changes would be to expand the range of varieties considered to be an EDV, and since the consequence of a variety being declared to be an EDV is to extend the rights of the initial variety to the subsequent variety, the proposed changes would have a consequential effect on all provisions in the PBR Act relating to the exclusive rights comprising PBR (ss 11-12, 14-18), dealings in those rights (ss 20-21), exhaustion of those rights (s. 23), and infringement of those rights (ss 53-57D).
22. Another effect of the proposed changes would be to alter the concept of an "essential characteristic". The proposed changes would, therefore, have a consequential effect on s. 3 of the PBR Act, which defines "essential characteristics".
23. Finally, the issue of transition needs to be considered. If the proposed changes were to impact on how an Australian court or the Registrar interpreted the PBR Act, from what point in time would they have that effect? From the date of adoption? From some future date? Or, will they be considered to have always applied (i.e. retroactively)?

**Other Observations**

***Comparison with patent law***

24. While there are many differences in detail, there are some fundamental similarities between the PBR regime and the patents regime. Both regimes are registration systems, in which an examination is undertaken to assess differences between the subject matter for which rights are sought and pre-existing subject matter. The PBR registrability requirement that the applied-for variety be "distinct", in the sense of being "clearly distinguishable from any other variety whose existence is a matter of common knowledge" performs, at a high level of generality, a similar role to that performed by the patentability requirements of novelty and inventive step. Both systems grant time-limited exclusive rights the infringement of which is not avoided by independent creation of the protected subject matter. That is to say, "copying" (in the sense of causal derivation) of the protected subject matter is not a requirement for infringement.

25. Given the fundamental similarities between the two regimes, it is instructive to consider how the patent system deals with the conceptual equivalent of EDVs. The patent law equivalent of an EDV is an “improvement invention” – that is, an invention (a subsequent invention) that contains the features of an earlier invention (an initial invention) and adds to them.

#### *Infringement by an improvement invention*

26. Where the initial invention is patented, the exclusive rights of the patentee will be infringed by making, using, selling, etc. a subsequent invention that contains all of the essential integers claimed in respect of the early invention. This is so whether or not the subsequent invention is itself patented. The subsequent invention can be patented where its additional features provide novelty and an inventive step over the initial invention. However, the incorporation of additional features into the subsequent invention will not avoid infringement of the patent for the initial invention where the subsequent invention embodies all of the essential integers of a valid claim to the initial invention.
27. The conceptual approach of patent law to improvement inventions is the same as the PBR law approach to EDVs. Patent law determines what is an infringing improvement invention by considering if the subsequent invention contains all of the essential integers of the claim. PBR law determines what is an EDV by considering if the subsequent variety retains and conforms to the expression of the essential characteristics of the initial variety.
28. The approach of the proposed changes is to expand the range of subsequent varieties that will fall within the definition of an EDV. This is the equivalent in patent law of construing the claims of the initial invention more widely. UK courts in recent times have moved to construing claims more widely, in accordance with the approach mandated in the 2017 decision of the UK Supreme Court in *Actavis UK Limited v Eli Lilly and Company* [2017] UKSC 48. That approach is controversial, both within and outside the UK. The Singapore Court of the Appeal in *Lee Tat Cheng v Maka GPS Technologies Pte Ltd* [2018] SGCA 18 has determined that the *Actavis* approach does not form part of Singapore patent law. While it appears that no Australian court has yet expressly considered the issue, there is nothing in existing Australian jurisprudence that suggests the *Actavis* approach will be adopted here.

#### *Compulsory licensing of initial invention*

29. It can be seen that the practical effect of the patent law approach to improvement inventions is the same as the PBR law approach to EDVs. In both regimes, the developer of the subsequent invention/variety may (or may not) hold exclusive rights to the invention/variety, but any exercise of those rights will be an infringement of the exclusive rights of the developer of the initial invention/variety. This means that the holder of exclusive rights to the subsequent invention/variety will only be able to commercialise those rights if it obtains the consent to do so (i.e. a licence) from the holder of exclusive rights to the initial invention/variety.
30. It is not certain that, in any particular case, the holder of exclusive rights to the initial invention/variety will grant a licence to the holder of rights in the subsequent invention/variety. Where no licence is granted, the subsequent invention/variety will not be able to be commercialized. This represents a potential welfare loss to invention/plant variety users.

31. Compulsory licensing is a mechanism by which both patent law (*Patents Act* 1990 (Cth), s. 132) and PBR law (PBR Act, s. 19(3)) can address welfare loss caused by non-availability of inventions/varieties. Although the matter is not certain, it seems likely that the power of the Registrar to grant a licence under s. 19(3) to ensure reasonable public access to a variety in principle extends to doing so in respect of an EDV that cannot be commercialized due to the holder of rights in the initial variety refusing to grant a licence to commercialise the subsequent variety. Ideally, however, the matter would be put beyond doubt by legislative amendment. However, the fact that the compulsory licensing scheme under the *Patents Act* 1990 has barely been used must give one pause to consider whether that type of scheme actually works to the benefit of the public.

### **Review of entire PBR Act**

32. The IPC notes that there are currently 34 items relating to PBRs on the IP Australia Policy Register in addition to the item 144 (which is the item under consideration in the Consultation Paper). Of those 34 other items, the priority status is 'high' for 12 and 'medium' for four. A number of these items have an inter-relationship with other items – e.g. item 144 (definition of EDV) is inter-related with item 51 (definition of “propagating material”) and item 53 (clarification of exhaustion of rights). Furthermore, as explained in response to Q4, any change in interpretation of what is an EDV will have a consequential effect on numerous other provisions in the PBR Act.

33. For these reasons, the IPC is of the view that it is appropriate and timely to undertake a review of the entire PBR Act. Such a review would allow the issues raised by the Consultation Paper to be addressed coherently with the provisions consequentially effected by the proposed changes as well as with the high and medium priority issues on the Policy Register.

### **Conclusion and further contact**

34. The IPC would be pleased to discuss any aspect of this submission.

35. Please contact the chair of the Committee, Matthew Swinn at [matthew.swinn@au.kwm.com](mailto:matthew.swinn@au.kwm.com) or on 03 9643 4389 if you would like to do so.

Yours faithfully



**Greg Rodgers**  
**Chair, Business Law Section**