Respecting Intellectual Property, Some Advice for Professional Propagators©

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INTRODUCTION

We all know that new varieties are the lifeblood of the nursery business. For many propagators, the difference between success and failure is determined by how skillful they are in getting access to new materials and then putting them into meaningful production as quickly as possible. The use of plant patents or trademarks (brands) is on the increase and their use constitutes an important way for breeders and marketers to get a return on the investment of cultivar (here after referred to as variety) development and promotion. However, the very likelihood of a propagator getting access to new varieties depends only in part on his or her technical knowledge. It also depends on how well that propagator has handled other varieties or trademarks in the past. The understanding of how patents and trademarks (collectively, intellectual property or IP) function in horticulture is, therefore, of increasing importance for propagators, in particular for those whose sole business is propagation.

This presentation is intended to briefly introduce these concepts to the new propagator, or in the case of the experienced propagator, to review them. In reviewing the rules and established practices, some potential IP pitfalls will be discussed, and finally some ideas offered that may be useful in avoiding them. Although this presentation is aimed at propagators, it is hoped that licensors of IP may find some benefit also.

WHY DO WE NEED A PRESENTATION ABOUT INTELLECTUAL PROPERTY ISSUES IN PROPAGATION?

These days there are many good reasons to think about, or even re-read, your license or testing agreements carefully. This is particularly true for companies whose sole business is propagation. Some of these reasons include:

Like It or Not, We All Know That We Live in an Increasingly Litigious World. When mistakes or misappropriation of IP occur, the costs can be great. Many breeders and most licensors earn their primary living from royalty income and these kind of occurrences take money directly out of their pockets. In the worst case, if a selection's eligibility to be patented is lost by inadvertent or willful mishandling of a new selection, the income lost could be in the millions of dollars. Propagators must endeavor to avoid exposure to liability and punitive damages in cases like these by keeping a close eye on the materials they have in their possession and strictly adhere to the terms of their licenses or testing agreements.

There Is No "Standard" Format for Licenses or Testing Agreements, and One Size Does Not Fit All. The significance of this is that the terms of any particular agreement (a legally binding contract) do not have to conform to any kind of "boilerplate" language. Therefore you should not assume that the next one you sign

will be the same as the last one. It is important to read each one, every time, as the terms contained therein are up to the whims or desires of the licensor or breeder and their attorney who wrote it. These contracts, therefore, tend to be written on terms that are slightly, or substantially, more favorable to the licensor. Carefully read and understand the license before signing, consult with a qualified attorney if need be. You may need to negotiate with the licensor to change those terms with which you don't agree or to which you or your business will have trouble adhering. All licensors are interested in the success of your relationship with them and many would be willing to make exceptions to their standard agreements in order to accomodate special circumstances, within reason of course. It is worth remembering that the most important function of any contract is to set forth guidelines and procedures to resolve disputes or problems, should they arise down the line. Hopefully neither party will ever have to look at the contract again after signing, but if something does come up, then the terms in the agreement that was signed will have the largest influence on any resolution.

Most Licenses Are Written With Finished Stock Producers in Mind, Not Liner Producers. There are differences between propagators who work independently (i.e., those who sell young plants or liners and not finished stock) as opposed to those who work in propagation departments that feed the larger production nursery. Most open licenses are written with the finished stock grower in mind. This is important because a licensee is usually obligated by the license agreement to affix to each patented plant a label (or patent tag) that states clearly its generic (genus) and specific names (where applicable) the cultivar name (stated in single quotes) and the plant patent number (or PPAF or PAF or patent pending, if applicable) as well as some language indicating that asexual propagation of this variety is prohibited without permission (i.e., a license). Example 1 shows an example of a properly written label for a patented plant.

Example 1. An example of a properly written label for a patented plant.
blue Shadow witch alder
Fothergilla major 'Blue Shadow' PP15,490
Asexual propagation of this patented plant prohibited without license

In the case of trademark licenses, there is usually a requirement for the licensee to label each plant of that particular variety (cultivar) for which the trademark usage is licensed. In these cases, the cultivar name along with the species name must be listed on the label with the trademark. Example 2 shows a properly written label for a licensed trademark.

Example 2. An example of a properly written label for plant with an associated trademark.
Beijing Gold® Peking lilac
Syringa reticulata subsp. *pekinensis* 'Zhang Zhiming'

It is easy to comply with these labeling requirements if your products are finished materials to be sold to retail outlets, such as containerized, B&B, or bare root items. It is quite another matter if your customer is a wholesale grower and product being sold is flats of rooted cuttings or tubs of microplantlets!

Consider that another commonality of license agreements is that they usually require the propagator to report her/his sales of the licensed products and to pay a royalty on each unit sold or transferred. Most finished stock growers simply build the royalty amount into the price of the plants they sell as it usually represents less than 15% of the price, sometimes a lot less. On the other hand, for young plants or liners the royalty rate can be equal to or even higher than the unit price of the plants themselves! Obviously this represents a large up-front cost that the propagator's customers are often (and understandably so) not inclined to pay. Now, when the propagator's customer is also a licensee for the protected variety in question, common practice is to transfer the plants, but not collect the royalty. Later, the propagator simply reports such sales on the licensor's royalty report form. It is surprising, though, that the majority of royalty reports do not have a space for propagators to report their "non-royalty-bearing" sales, so you'll often have to write outside of the blanks on the reports in order to properly report your sales, but not end up overpaying the royalty. This can be annoying from the administrative end of things.

As noted before, most license agreements are written with finished stock growers in mind. Whereas the royalty reports have no provision for transfers of protected varieties to other licensees, more often than not, the license agreements themselves do not have them either. In these cases, I always like to negotiate with the licensors, before signing the agreement, to add in a couple of lines to address these situations. This kind of language can often be written in by hand and can read something to the effect of: "sales or transfers of [variety (cultivar) name here] to other licensees shall be reported, but no royalty collected and the unit labeling requirement in these cases shall not apply" or some other such language. Remember, in the event that it is agreed to "write-in" this type of modification, it is important that both parties to the agreement place their initials next to the written-in or struck-out parts of the agreement.

In the case of sales or transfers of protected materials to unlicensed customers, the royalty component is clear, the numbers sold are reported and appropriate royalty is to be paid (Remember, you are obligated to pay the royalty for each unit sold, whether or not you actually collect the royalty). However, this still leaves us with the problem of labeling. Standard industry practice is to ship labels separately from the plants, especially when the plants are too small to accept a label, as is the case with most liners. If you think about it, though, many years can elapse before the small rooted cutting you shipped becomes a 2-inch-caliper shade tree ready for sale (and for its patent tag). Will the tags you shipped so long ago along with the liners be diligently attached to those finished trees or did they end up in the round file? I've actually had customers tell me that they have no intention to attach the labels we supplied, as they have their own style to use instead. How can we be sure that 3 years from now, when the crop is ready, that the labels ultimately used contain the proper information as outlined above? This may not seem like the propagator's problem, and technically it is not, but it could still become one for you down the line. Imagine the following scenario: You have an exclusive license for a new variety, so effectively no one else can propagate it. Therefore, all of the plants you're likely to encounter in the marketplace surely began their life at your place. Everything is good so far, right? But then you get a phone call a few years down the road from the licensor or owner of this variety and they're not happy as they have recently discovered a grower selling their plant,

improperly labeled, and there may even be evidence of some "extra propagation" going on. Of course, the first thing the licensor told the grower is to "cease and desist" and maybe even to pay a fine, but you can be assured that the next question to that grower was "Where did you get your starter materials?" and of course that's where an issue may arise for you as the obvious supplier of said starter material. Although this scenario would not be a common event, it could happen and it is a case where evidence of clear communication with your customer would come in very handy. At North American Plants, LLC, we came up with a possible solution to the labeling problems with an agreement that we have all new customers sign. The agreement is shown in Example 3 and is explained in the next section.

Example 3. A sample agreement that propagators can use to communicate proper usage of intellectual property to their customers.

CUSTOMER LABEL AND NON-PROPAGATION AGREEMENT (THE "AGREEMENT")

Whereas: PROPAGATOR'S COMPANY NAME HERE (the "Propagator") is a licensed propagator of certain plant varieties which are subject to applications or grants of U.S. Plant Patents and/or U.S. Registered Trademarks (the "Protected Variety(ies)");

Whereas: YOUR CUSTOMER'S NAME HERE (the "Customer") desires to purchase and receive from Propagator propagated material of Protected Variety(ies), including transplants, starts, plugs, or liners, which material shall be later supplied by Customer to third parties;

Whereas: In order to prevent infringement upon patent or trademark rights of the owners of Protected Varieties, each plant of such materials must be marked, at Customer's point of sale, with a tag or label that indicates the patent and/or trademark status of Protected Variety(ies) as noticed by Propagator to the Customer from time to time (the "Proper Label");

By signing below, Customer hereby agrees that:

1) Customer shall affix, to each plant sold or transferred by Customer to third parties, a Proper Label which sets out the patent and/or trademark status of the Protected Variety(ies) in the same manner that such Protected Variety(ies) is/are listed in Propagator's catalog or as otherwise advised by Propagator. Additionally, any advertisements or other publications by Customer that list such Protected Variety(ies) shall also include the same information and notices that are contained on the Proper Label.
2) Any and all orders or requests from the Customer to the Propagator for the supply of plants of a Protected Variety are given by the Customer and received by the Propagator on the express condition of acceptance by Customer of this Agreement. Upon notice from Propagator that an order or request from Customer includes any Protected Varieties, the terms and conditions of this Agreement shall apply.

3) The requirement for Customer to affix Proper Labels to each plant of a Protected Variety may be satisfied by use of Proper Labels supplied by Propagator or by use of Proper Labels procured or produced by Customer (Please indicate preference by marking one of the boxes below). Any shipment of Protected Varieties will contain at least one example Proper Label supplied by Propagator, and other notification under separate cover, which notification shall set forth the information needed for Proper Labels and other printed matter. Customer agrees to direct all inquiries regarding the proper application of this Agreement to Propagator in the first instance.
4) Customer shall not engage in the propagation of any Protected Variety(ies) supplied by Propagator to Customer unless and until such time that Customer becomes a licensed grower of such Protected Variety(ies), or has some other right to take such action.
5) Customer shall not sell or transfer any Protected Variety(ies) outside of the United States of America.
6) On certain Protected Varieties, additional conditions may apply, which conditions will be noted on the invoice or acknowledgement.

On behalf of: ENTER THE FULL NAME OF YOUR CUSTOMER HERE (Customer)

(Signed)

(Print name and title)

(Date)

Check here if you would like us to supply you Proper Labels. (A charge of $*PRICE* per label will be added to your invoice)

-or-

Check here if you agree to supply your own Proper Labels.

Please send a signed original of this agreement to us and keep a copy for your records.

North American Plants, LLC (NAP), developed this agreement, with some good input from PlantHaven, Inc., to improve the communication about labeling and other requirements for the plants they purchased and for which they were not licensed. The agreement, and the example label lists that accompany it, provide these unlicensed third parties with the information needed to produce and use proper labels and proper advertising copy. In addition, it also explains that all plants sold need to have the proper labels attached, that propagation is prohibited without license, and that sales outside of the U.S.A. are prohibited. North American Plants, LLC, applies this label agreement to all sales of patented plants or products sold under licensed trademarks to unlicensed third parties.

This benefits the licensors by adding an additional layer of notification to grower customers on how to properly handle their IP. It benefits the customers by giving clear instructions on their rights and obligations with respect to the IP they purchased as well as clarification of such things as proper spelling of the plant names. And finally, it benefits the propagator because each signed agreement proves that

the customer in question was duly informed about the proper usage of the IP in question, which could come in handy should any problem arise down the line.

It is important to point out that the non-propagation clause, in particular, only applies to those varieties that are either patented or sold in conjunction with a trademark and for which the customer does not have a license. This agreement does not apply to public-domain (free) varieties, nor would it apply to any proprietary materials for which the customer already has a license. It is worth pointing this out to customers who may be uneasy about signing such an agreement as it is clearly not the intention to make a customer think that the goal is to prevent them from propagating any of the plants they purchase. Also, in the event that a license for such a proprietary variety is later obtained by the customer, then the agreement would no longer apply to that particular variety. It is also worth remembering that this agreement need only be executed (signed) once by the customer, so it is not too onerous for either party. Although the agreement is of indefinite duration, it is recommendable to send a list of proper label examples of every variety purchased by these customers (both past and present varieties) each and every time an invoice that includes at least one of them is sent out to that customer. An example of this "Proper Label List" that NAP uses is shown in Example 4.

Example 4. Examples of information needed for proper labels and advertisement listing for proprietary varieties INSERT YOUR FULL CUSTOMER NAME HERE has received.

- Beijing Gold® Peking lilac
  Syringa reticulata subsp. *pekinensis* 'Zhang Zhiming'
- blue Shadow witch alder
  Fothergilla major 'Blue Shadow' PP15,490
  Asexual or sexual propagation of this patented variety prohibited without license.
- Firefall™ Freeman maple
  Acer ×*freemanii* AF 1 PP15,593
- Greenspire® littleleaf linden
  Tilia cordata PNI 6025
- hearts of gold redbud
  Cersis canadensis 'Hearts of Gold' PPAF
  Asexual or sexual propagation of this patented variety prohibited without license.
- Heritage® river birch
  Betula nigra 'Cully'
- Heritage® lacebark elm
  Ulmus parvifolia 'Zettler' PP10,846
  Asexual or sexual propagation of this patented variety prohibited without license.
- Orange Meadowbrite™ coneflower
  Echinacea 'Art's Pride' PP15,090
  Asexual or sexual propagation of this patented variety prohibited without license.

These are examples of proper use of registered ® and common law trademarks ™ as well as varieties that have been granted patents (PP followed by a number) or that have plant patents applied for (PPAF). Of course the list sent to each customer will contain only those varieties that are subject to the terms of this agreement that you have provided to them. It is recommendable to send the entire list of applicable materials purchased historically to serve as reminders of proper usage.

HOW TO PROTECT EXPERIMENTAL VARIETIES AND ADVANCED SELECTIONS FROM BREEDING PROGRAMS

The foregoing discussion covers the most common issues confronted by a propagator with respect to regular trademark or patent licenses. There are other IP issues that may come up that are worth addressing briefly here. A good propagator always hopes to get in on the ground floor with a new variety, they being the lifeblood of our business. Sometimes this takes the form of a breeder or licensor wanting the propagator to bulk up a variety in anticipation of its commercial release. Of course with some plants this can take some time and most breeders know this. They may, in these cases, give you a variety or even advanced selection early so that you may begin the process of number increase. Remember that there is a 1-year grace period given between the first publication, first offering for sale, or first sale of a new plant and when a patent application must be filed. Unfortunately in this day and age, there are a few unscrupulous individuals who may take advantage of this fact and challenge the validity of a breeder's patent under certain circumstances. One way that a variety could be lost is through outright theft. Another, more subtle way, is if someone later challenged its validity by claiming that they had been offered the plant for sale, or knew of an offer for sale, more than a year before its application was filed. There are steps that can be taken to prevent either of these from happening to varieties or advanced selections in your care:

1) Do not show or talk about such experimental selections with visitors to your facility.
2) It is best, to the extent possible, to keep any such selections hidden from view of visitors, even the stock plants.
3) You may already have a sign-in book for visitors. You may consider putting some language on the pages that your visitors sign that states something to the effect that any knowledge they may gain about any new or experimental varieties while visiting your operation may not be disclosed and cannot be construed as an offering for sale. It is important that anything you have visitors sign also be dated.
4) These steps may seem draconian to many, but you just never know, and in these cases an ounce of prevention goes a very long way to lower your exposure to risk and to protect the IP of others.

Protecting Breeder's Intellectual Property Outside of the U.S.A. Besides protecting ourselves and the breeder's varieties within the license territory (normally the U.S.A. or the U.S.A. and Canada) we must also be concerned with protecting the breeder's opportunities in other countries, both with new varieties or with experimental materials. Again, though we must take steps against outright

theft of our inventory a rare (but not unheard-of) occurrence, it is also necessary to avoid those more subtle ways in which a variety's eligibility for plant breeders rights could be jeopardized. Most licenses prohibit any sale of either experimental or patented (and even trademarked) materials outside the license territory. This really also includes knowingly selling such varieties to domestic customers who intend to ship these materials outside the territory. So when you receive an overseas inquiry for any proprietary variety you grow, very simply, check with your licensor before acknowledging (or shipping) the order. It would be sad indeed if one quick sale on your part resulted in thousands of dollars in lost potential income to the breeder. This is not just a problem with newly patented or experimental varieties, it may also be a concern for plants that have been protected for many years in that the licensor may have a licensed agent in the foreign territory. Your sale into that foreign territory may well infringe on that other person's rights. It is for these reasons that most license agreements stipulate that you may only sell plants within a defined territory, this usually being limited to the country where you operate your business.

A further step to help head-off territory problems is to include a simple disclosure in your catalog or price list something to the effect of: "This catalog and its contents are intended for use within the United States and its territories. Whereas we welcome business from companies outside of this area, nothing in this catalog can be construed as an offer for sale. Please contact us for further details."

ILLEGAL PROPAGATION AND INFRINGEMENT

Although it goes without saying to this audience, any discussion of this topic would not be complete if mention were not made about illegal propagation or trademark infringement. Very simply, do not engage in this kind of activity. It is never worth it and it is illegal and prosecutable. I think most readers would agree wholeheartedly with this, but one must also take care to avoid infringement by accident. In this age of the Internet it is very easy to be informed about the plants you are growing by doing a simple search. If you find that you have made an honest mistake, undertake to contact the rightful owner of the patented plant or the trademark. Most people are reasonable and will appreciate a proactive approach on your part.

In addition, always report any suspected infringement or illegal propagation to your licensor. It is not only in the licensor's best interest, but yours as well as an illegal propagator who is not paying royalties is placing you at a competitive disadvantage.

CONCLUSION AND DISCLAIMER

As IP becomes an increasingly important part of our business we must from time to time take a look at how we handle other people's intellectual property in order to ensure that we're protecting everyone's interests (including our own). I hope that the information covered here is useful in your business. I firmly believe that both your customers and your licensors will appreciate your efforts in better protecting their new varieties and valuable trademarks that, in the end, help advance all of our business both here and around the world.

Please note that neither the author nor the International Plant Propagators' Society nor North American Plants, LLC, nor PlantHaven, Inc., nor anyone else named in this paper is qualified or permitted to give any legal advice. Nothing in this article is intended to be relied upon as definitive in any particular situation. It is

therefore advised that if a reader has any specific questions about matters relating to plant patents, licenses, or trademarks, that they direct their inquiry to an attorney competent in this field of law.

For more information, please see the following useful websites:

In the United States:

- United States Patent and Trademark Office: <www.uspto.gov>
- Intellectual Property Owner's Association: <www.ipo.org>
- PlantPatent.com: <www.plantpatent.com>
- National Association of Plant Patent Owners: <www.anla.org/industry/patents/plantpatent.htm>

International:

- International Union for the Protection of New Varieties of Plants: <www.upov.int>
- International Community of Breeders of Asexually Reproduced Ornamental and Fruit-Tree Varieties: <www.ciopora.org>

For Variety Management:

- PlantHaven, Inc.: <www.planthaven.com>
- Royalty Administration International: <www.rai-worldwide.com>

For Legal Advice about Plant IP Questions:

For legal advice about Plant IP questions in the Pacific NW: <www.Stratton Ballew.net>, <www.graybeal.com>, and <www.klarquist.com>.

Outside of the Pacific NW, check with your state's bar referral service.