SPC Guiding Case No. 86: Tianjin Tianlong Seed Technology Co., Ltd. v. Jiangsu Xunong Seed Technology Co., Ltd. (Infringement of New Plant Variety Rights Dispute)

Dan Young Business Consultancy — www.danyoungcpa.com

Unofficial English translation prepared for reference only. The official Chinese text prevails.

Discussed and adopted by the Judicial Committee of the Supreme People's Court; issued on March 6, 2017.

Keywords

Civil / infringement of new plant variety rights / mutual authorization and licensing

Holding

Where two parties respectively holding the male parent and female parent of a new plant variety cannot reach a mutual authorization and licensing agreement, causing the new plant variety to be unable to continue production, harming the respective interests of both parties and failing to conform to the purpose of cooperative breeding, the people's court may, in order to safeguard the public interest, ensure national food security, promote the transformation and implementation of new plant varieties, and ensure the continued production of a new variety that has already been widely planted, directly order the two parties to mutually authorize and license each other and mutually exempt the corresponding licensing fees, on the basis of weighing the fact that the male parent and female parent have substantially the same value for the production of the new plant variety.

Basic Facts

Tianjin Tianlong Seed Technology Co., Ltd. ("Tianlong Company") and Jiangsu Xunong Seed Technology Co., Ltd. ("Xunong Company"), with each other as defendant, respectively filed two new plant variety infringement lawsuits with the court.

The three-line hybrid japonica rice variety 9 You 418, jointly bred by the Northern Hybrid Japonica Rice Engineering Technology Center (which shares the same institution and two signboards with the Liaoning Provincial Rice Research Institute) and the Xuzhou Agricultural Science Institute, passed the national crop variety approval on November 10, 2000. The 9 You 418 rice variety was derived from the female parent 9201A and the male parent C418. On December 30, 2003, the Liaoning Provincial Rice Research Institute applied to the Ministry of Agriculture for the new plant variety right for the C418 rice variety, obtained authorization on May 1, 2007, and licensed Tianlong Company to exclusively exploit the C418 new plant variety right. On September 25, 2003, the Xuzhou Agricultural Science Institute applied to the Ministry of Agriculture for protection of the new plant variety right for the Xu 9201A rice variety it had bred, and obtained authorization on January 1, 2007. On January 3, 2008, the Xuzhou Agricultural Science Institute licensed Xunong Company to exclusively exploit the Xu 9201A new plant variety right. Upon trial, it was found that Xunong Company and Tianlong Company used exactly the same combination in producing 9 You 418, both using the male parent C418 and the female parent Xu 9201A.

On November 14, 2010, the first-instance court, upon Tianlong Company's application, entrusted the Hefei Testing Center of the Ministry of Agriculture to conduct DNA identification of whether there was a parent-child relationship between the alleged infringing variety notarially preserved by Tianlong Company and the authorized variety C418. The test conclusion: using the 48 rice SSR markers in national standard GB/T 20396-2006, marker analysis was conducted on the DNA of 9 You 418 and C418, and the results showed that, among all the markers tested, 9 You 418 completely inherited the band pattern of C418, so it could be determined that 9 You 418 and C418 have a parent-child relationship.

Source: https://www.danyoungcpa.com/spc-guiding-case-86-china/

On August 5, 2010, the first-instance court, upon Xunong Company's application, entrusted the Hefei Testing Center of the Ministry of Agriculture to identify whether the alleged infringing variety notarially preserved by Xunong Company had a parent-child relationship with C418 and Xu 9201A. The test conclusion: using the 48 rice SSR markers in national standard GB/T 20396-2006, marker analysis was conducted on the DNA of the alleged infringing variety and C418 and Xu 9201A, and the results showed that, among all the markers tested, the alleged infringing variety completely inherited the band patterns of C418 and Xu 9201A, so it could be determined that the alleged infringing variety had a parent-child relationship with C418 and Xu 9201A.

According to the application for the C418 variety right submitted by Tianlong Company, the description included: C418 was bred by the Northern Hybrid Japonica Rice Center through the internationally pioneering "indica-japonica bridging" restorer-line technology, and by using indica-japonica intermediate materials to build an indica-japonica favorable gene group, a japonica restorer line with indica-leaning morphology and specific compatibility was bred. C418 has good specific compatibility, a property of the restorer line bred through the "indica-japonica bridging" method, reflected in the first hybrid generation's better coordination of the ecological and genetic differences between the indica and japonica genomes, thereby better solving such obstacles as the low seed-setting rate, poor grain filling, temperature sensitivity, and premature senescence commonly present in indica-japonica hybrids. C418 has the comprehensive excellent traits of indica and japonica, and the hybrid combinations prepared with it generally show a higher seed-setting rate and a certain degree of cold tolerance.

According to the joint letter sent by Xunong Company and the Xuzhou Agricultural Science Institute to the Tianjin Seed Management Station, the medium japonica sterile line Xu 9201A that they independently bred passed approval in 1996; before approval it was named "9201A," abbreviated "9A," and at approval it was named "Xu 9201A." Using Xu 9201A as the female parent, they successively bred the three-line hybrid japonica combinations 9 You 138, 9 You 418, and 9 You 24. When filling in the national crop variety approval application in 2000, the content concerning the parents still used the variety source 9201A × C418 from the 1995 combination. Xu 9201A applied to the Ministry of Agriculture for new variety right protection in July 2003, and the variety description in the application for the variety right had noted that Xu 9201A was combined to breed the hybrid combinations 9 You 138, 9 You 418, 9 You 24, 9 You 686, and 9 You 88. Xu 9201A and 9201A are the same medium japonica sterile line. Tianlong Company's infringing use of 9201A is infringing use of Xu 9201A.

Judgment

In the case of Tianlong Company suing Xunong Company, on August 31, 2011, the Intermediate People's Court of Nanjing City, Jiangsu Province, rendered Civil Judgment (2009) Ning Min San Chu Zi No. 63: (1) Xunong Company shall immediately cease selling the hybrid japonica rice seeds of 9 You 418, and shall not, without the permission of the right holder, repeatedly use the seeds of the new plant variety C418 in producing the hybrid japonica rice seeds of 9 You 418; (2) Xunong Company shall, within fifteen days after the judgment takes effect, compensate Tianlong Company for economic losses of 500,000 yuan; and (3) the other claims of Tianlong Company were dismissed. The first-instance case acceptance fee of 15,294 yuan was borne by Xunong Company.

In the case of Xunong Company suing Tianlong Company, on September 8, 2011, the Intermediate People's Court of Nanjing City, Jiangsu Province, rendered Civil Judgment (2010) Ning Zhi Min Chu Zi No. 069: (1) Tianlong Company shall, immediately after the judgment takes effect, cease the infringement of Xunong Company's exclusive exploitation right in the Xu 9201A new plant variety right in issue; (2) Tianlong Company shall, within ten days after the judgment takes effect, compensate Xunong Company for economic losses of 2 million yuan; and (3) the other claims of Xunong Company were dismissed.

Xunong Company and Tianlong Company were dissatisfied with the first-instance judgments and respectively appealed in the two cases. On December 29, 2013, the Higher People's Court of Jiangsu

Source: https://www.danyoungcpa.com/spc-guiding-case-86-china/

Province, in consolidated Civil Judgment (2011) Su Zhi Min Zhong Zi No. 0194 and (2012) Su Zhi Min Zhong Zi No. 0055: (1) Civil Judgment (2009) Ning Min San Chu Zi No. 63 and Civil Judgment (2010) Ning Zhi Min Chu Zi No. 069 of the Intermediate People's Court of Nanjing City, Jiangsu Province, were revoked; (2) Tianlong Company shall, within fifteen days after this judgment takes effect, compensate Xunong Company 500,000 yuan; and (3) the other claims of Tianlong Company and Xunong Company were dismissed.

Reasoning

The court's effective judgment held that, under ordinary circumstances, a new plant variety right, as an important intellectual property right, should be respected and protected. Article 6 of the Regulations on the Protection of New Varieties of Plants expressly provides: "The unit or individual that has completed the breeding shall enjoy an exclusive right over its authorized variety. No unit or individual may, without the permission of the holder of the variety right, produce or sell, for commercial purposes, the propagating material of the authorized variety, or repeatedly use, for commercial purposes, the propagating material of the authorized variety in producing the propagating material of another variety." However, it should be pointed out that this provision does not apply to the circumstances of this case. First, the cooperative breeding of 9 You 418 originated from the great nationwide cooperative scientific research on hybrid rice in the 1990s and was itself a free-of-charge combination. The 9 You 418 variety has excellent traits and is widely planted in Jiangsu, Anhui, Henan, and other places, is universally welcomed by the vast majority of farmers, and has become the leading variety of medium japonica hybrid rice. The fact that the two parties accused each other of infringement is itself sufficient to show that the 9 You 418 variety has relatively high economic value and market prospects, involving the significant economic interests of the cooperating parties, the Liaoning Rice Research Institute and the Xuzhou Agricultural Science Institute, and of the two parties in this case. During the second instance, the court did a great deal of mediation work, hoping that the two parties would mutually authorize and license each other so that the excellent variety 9 You 418 could continue to be produced, and both parties agreed to mutually authorize and license the variety rights in issue. However, only because the first instance ordered Tianlong Company to compensate Xunong Company 2 million yuan and Xunong Company to compensate Tianlong Company 500,000 yuan, the two parties could not reach a compromise on the difference of 1.5 million yuan in compensation, and therefore mediation failed. The failure of Tianlong Company and Xunong Company to reach a compromise, causing the 9 You 418 variety to be unable to continue production, cannot be regarded as concerning only the interests of the two parties; it has actually harmed the implementation of the national food security strategy and the public interest, and does not conform to the fundamental purpose of the original cooperative breeding by the Liaoning Rice Research Institute and the Xuzhou Agricultural Science Institute, nor does it conform to the fundamental requirement of promoting the transformation and implementation of new plant varieties. On the surface, the acts of the two parties were to protect their respective intellectual property rights, but the actual result was to harm the application of intellectual property and the transformation of scientific and technological achievements. In view of the fact that the two cases already concern the public interest such as national food production security and affect the promotion of the excellent variety 9 You 418, both parties should be restricted in the exercise of their exclusive exploitation licensing rights in the new plant varieties in issue; that is, when producing the 9 You 418 rice variety, both parties should be allowed to use each other's parent propagating material. This result is clearly beneficial to the common interests of the cooperating parties, the Liaoning Rice Research Institute and the Xuzhou Agricultural Science Institute, and of the two parties in this case, and also beneficial to the interests of the vast majority of farmers. Therefore, the first instance's order that the two parties in the two cases mutually cease infringement and compensate each other's losses was improper and should be corrected. Second, 9 You 418 is a three-line hybrid combination, synthesizing the excellent traits of both parents with significant heterosis, in which the female parent sterile line plays an important role, while the breeding of the male parent C418 also successfully solved the major problem of the matching of the three-line hybrid japonica rice, and the male parent and female parent have the same status and role in the combination of 9 You 418. The court held that the

Source: https://www.danyoungcpa.com/spc-guiding-case-86-china/

cooperating parties of the 9 You 418 rice variety, the Xuzhou Agricultural Science Institute and the Liaoning Provincial Rice Research Institute, and the parties in this case, Xunong Company and Tianlong Company, all have the right to use the parent propagating material for which the other party has obtained authorization, and shall mutually exempt the licensing fees, but this is limited to the production and sale of the 9 You 418 rice variety and shall not be used for other commercial purposes. Because Xunong Company made many commercial efforts and carried out planting technology research for the promotion of the 9 You 418 variety, while Tianlong Company entered this production field after the 9 You 418 variety had already gained wide market recognition and clearly reduced the market cost of promoting the variety, in order to reflect fairness and reasonableness, the court simultaneously ordered Tianlong Company to give Xunong Company economic compensation of 500,000 yuan. Finally, in view of the fact that the two parties each produce 9 You 418 and there in fact exists a certain market competition and conflict of interest between them, the court admonished the two parties to comply with the relevant provisions of the Anti-Unfair Competition Law of our country, operate honestly, compete in an orderly manner, ensure quality, and in particular clearly mark their respective commercial signs, to prevent new disputes and conflicts and jointly safeguard the good reputation of the 9 You 418 variety.

Relevant Legal Provisions

Article 5 of the Contract Law of the People’s Republic of China.

Articles 2, 6, and 39 of the Regulations of the People’s Republic of China on the Protection of New Varieties of Plants.

Disclaimer: This translation is provided for reference and informational purposes only. In the event of any discrepancy, the official Chinese text issued by the Supreme People’s Court shall prevail. This translation does not constitute legal advice.