

## COMMISSION DECISION

of 13 December 1985

relating to a proceeding under Article 85 of the EEC Treaty  
(IV/30.017 – Breeders' rights: roses)

(Only the French text is authentic)

(85/561/EEC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation No 17 of 6 February 1962, First Regulation implementing Articles 85 and 86 of the Treaty <sup>(1)</sup>, as last amended by the Act of Accession of Greece, and in particular Articles 2, 3, and 4 thereof,

Having regard to the complaint lodged with the Commission pursuant to Article 3 (1) of Regulation No 17 on 31 January 1980 by Mr René Royon,

Having regard to the Commission Decision of 9 December 1983 to initiate proceedings in this case,

Having regard to the application for negative clearance and the notification filed on 27 April 1985 by Mr Alain Meilland pursuant to Article 4 of Regulation No 17,

Having given the undertakings concerned the opportunity to make known their views on the objections raised by the Commission, pursuant to Article 19 (1) of Regulation No 17 and to Commission Regulation No 99/63/EEC of 25 July 1963 on the hearings provided for in Article 19 (1) and (2) of Council Regulation No 17 <sup>(2)</sup>,

After consulting the Advisory Committee on Restrictive Practices and Dominant Positions,

Whereas:

## I. FACTS

## A. The parties

1. The parties to this case are active mainly in the ornamental plant sector; they specialize in roses, which constitute a specific market.
2. The general partnership Meilland et Cie, Antibes, exploits throughout the world varieties of rose bushes which are produced and distributed under the name Selection Meilland.

The partners are:

- Mr Alain Meilland,
- Mrs Marie-Louise Paolino, widow of Francis Meilland,
- Mr Raymond Richardier.

The activities of this undertaking include the breeding of new varieties of rose bush, the production of plants, the exploitation of such plants (so-called 'garden' exploitation) or of the flowers ('cut flower' exploitation) and their distribution both wholesale and retail through an international network of licensees and sub-licensees.

The private company Universal Plants, Le Cannet des Maures, specializes more particularly in the production of rose bushes. It is also the breeder of a number of varieties or holder of the rights in their exploitation. The partners are:

- Mr Alain Meilland,
- Mr Raymond Richardier, and
- Mrs Marie-Louise Paolino, referred to above, is the manager.

These two undertakings trade under the name Universal Rose Selection-Meilland (URS-M, hereinafter called 'Meilland').

Owing to the economic importance, from both the qualitative and quantitative points of view, of its varieties, which are sold in numerous countries, including the two biggest markets for ornamental plants, North America and Europe, Meilland has for the past 30 years been one of the world's leading breeders and producers of roses. Its current turnover is approximately 12 million ECU, two-thirds of which is from sales in the Community. This figure includes both earnings from its own production and the royalties charged for the exploitation of its varieties by third parties.

3. In France, Meilland has granted a licence for the commercial exploitation of its varieties to Mr and Mrs Francisque Richardier (hereinafter called 'Richardier'), who are related to Mr Raymond Richardier. They are exclusively authorized, under an agreement they concluded with Meilland on 30 September 1968, to produce and sell, or cause to be produced and sold, in that country rose bushes and cut flowers of the Selection Meilland varieties. They

<sup>(1)</sup> OJ No 13, 21. 2. 1962, p. 204/62.

<sup>(2)</sup> OJ No 127, 20. 8. 1963, p. 2268/63.

trade on this basis under the name Universal Rose Selection-France (URS-F), at Tassin La Demi-Lune, in the capacity of general licensee, and grant sub-licences to French nurserymen and horticulturists wishing to exploit those varieties.

4. While he was employed by Meilland as Director entrusted with administrative and managerial functions and responsible for the international distribution of the Selection Meilland varieties, Mr R. Royon himself became in 1971, at the same time and on an independent basis and with Meilland's consent, one of Richardier's sub-licensees. In this capacity, he produced under glass, at his nursery 'Les Roses du Capitou' at Antibes, cut flowers from rose bushes of the Selection Meilland varieties, including the variety Sonia. In 1983, Mr Royon closed his business and sold his equipment.

#### B. The products and their distribution

5. The products in question which are the subject of the contract covered by this proceeding, are rose bushes and cut roses of the varieties Sweet Promise-Sonia Meilland and Pitica/Kyria, which are Selection Meilland varieties, the second being a natural mutation of the first, discovered in Mr Royon's glasshouses in 1971. Selection Meilland varieties are as a rule intended either for professional horticulturists specializing in the production of cut flowers sold as such to the consumer, or for amateur gardeners seeking rose bushes. Almost all these varieties are protected, usually by a plant breeder certificate, which is the case in all the Member States – except Greece and Luxembourg – and in certain non-Community countries, but sometimes by a patent; moreover, each one is distributed under a fancy name which has formed the subject matter of an international filing. In January 1980, the date of the complaint, about 150 Selection Meilland varieties were exploited with a production in excess of 1 000 or 2 000 plants. Of those varieties, 24, including Sonia, were distributed throughout the Community and in 25 non-member countries for sale as cut flowers. At the same time, a large number of other varieties are used to a limited extent by Meilland as selection material.

6. (a) The number of rose bushes sold to amateur gardeners each year in Europe is put at 150 million; approximately 20 million are derived from protected varieties, representing retail sales worth about 30 million ECU; two-thirds of these are 'supplied by four major breeders – the German breeders Kordes and Tantau, and the French breeders Meilland and Delbard – or their licensees in the various countries of the Community.
- (b) As to the cut flower trade, 90 % of which is in protected varieties, it is estimated that 200 million rose bushes are exploited by rose growers world-wide, two-thirds of whom are in Europe where they own 3 000 hectares of glasshouses, and

where 20 million such bushes worth about 25 million ECU are renewed on average each year: including imports from non-Community countries, close on 5 thousand million cut roses are sold each year to private individuals in the Community, approximately half of which are of varieties protected in the name of four major breeders – Meilland and Kordes, who remain on an equal footing from one year to the next, followed by the American breeder Hill, and the Dutch breeder de Ruiter.

7. As a rule, the varieties exploited are 'creations' in that they are obtained by trial and error from at least two existing varieties, being produced by more or less systematic cross-breeding using creative selection methods. In the breeders' establishments, as in nature, the 'choices' of crossing may also be made empirically by natural factors such as the wind or insects. However, certain varieties are the result of mutations. A distinction is drawn between natural mutations, which appear spontaneously, and mutations brought about artificially by applying more or less arbitrary scientific processes.

The mutation takes the form of a growth, commonly known as a 'mutation' or 'sport', appearing on a plant of an existing variety known as the 'parent variety'. Cuttings taken from this first growth enable it to be reproduced by grafting *ad infinitum* while retaining its characteristics. A natural mutation with sales potential is a relatively rare phenomenon which can, moreover, as a rule be observed knowingly only by the trained eye of a connoisseur. To qualify for protection as a 'new variety of plant', in France and in those countries which have introduced a system of protection derived from the International Convention for the Protection of New Varieties of Plants (Paris, 2 December 1961), the mutation must, like any new variety, first be examined to determine whether it has the features required by law. Both mutations and varieties resulting from selection work must undergo a series of examinations extending over several growth cycles, a lengthy process the outcome of which is uncertain; deciding whether or not to incur the necessary expense therefore calls for good judgment, which presupposes experience and knowledge, notably of the potential market.

8. Where, as in the case of the variety Pitica/Kyria, a natural mutation is discovered by a third party on a plant of a parent variety already protected in the name of an original breeder, the problem arises of determining the extent of the respective rights of each party – third party discoverer and original breeder – under the law, in the new variety resulting from that mutation. In the field of plant species, this question of principle is of considerable economic importance, particularly in the horticultural and floral sphere where any new variety – whether it be a mutation or a creation – can become a best-seller overnight and capture a market share as large as that held, for example, by Baccara in its day or Sonia at the present time.

Relations between the breeder of the parent variety which mutated naturally or of the variety which was used as the initial source of variation and the third party who discovered or created the new variety resulting from the original variety are governed by the following provisions of the French Plant Protection Law (Loi relative à la protection des obtentions végétales) (No 70 – 489) of 11 June 1970:

(a) Article 1 (1):

‘For the purposes of this law, new variety of plant means a new variety of plant that has been either created or discovered.’

(b) Article 3 (1):

‘Any new variety of plant may be covered by a “plant breeders’ certificate”, which confers on its holder an exclusive right to produce, import into the territory where this law is applicable, sell and offer for sale the whole or part of the plant or any reproduction or vegetative propagation material of the variety concerned and of the varieties which are obtained from it by hybridization where their reproduction requires the repeated use of the original variety.’

(c) Article 23 (2)

‘Subject to the provisions of Article 3, use of the protected variety as a source of initial variation with a view to obtaining a new variety shall not constitute an infringement of the rights of the holder of a breeders’ certificate.’

The French law is itself derived from the Paris Convention referred to above, of which, among other provisions, Article 5 (3) stipulates that:

‘Authorization by the breeder shall not be required either for the utilization of the new variety as an initial source of variation for the purpose of creating other new varieties or for the marketing of such varieties’

and that such authorization is required only

‘when the repeated use of the new variety is necessary for the commercial production of another variety’.

For the purposes of this case, suffice it to say that Article 1 (1) of the French law makes no distinction according to whether or not the parent variety on which a mutation was discovered was itself already protected in the name of an original breeder. The breeders’ right in respect of the new variety Pitica/Kyria discovered by Mr Royon therefore belonged to him if not exclusively, then at least to a large extent within the framework of an *ex lege* sharing of the rights attached to that new variety. On the basis of these provisions, Meilland claimed *ex lege*, in the course of the proceedings, not an exclusive right but a solution of the ‘joint proprietorship’ type concerning the variety Pitica/Kyria.

9. For the purposes of the exploitation of the Selection Meilland varieties in France, in respect of which he has been granted a licence, Richardier supplies freely to all horticulturists and nurserymen who so request three types of non-exclusive sub-licences, simultaneously if necessary, for each variety they wish to exploit:

- (a) the so-called ‘cut flower’ agreement, granting a sub-licence to produce only cut flowers and to sell them wholesale and retail;
- (b) the so-called ‘nurseryman cut flower’ agreement, granting a sub-licence to produce and sell only rose bushes, themselves intended to be sold wholesale to cut flower producing horticulturists (holders of a ‘cut flower’ agreement);
- (c) the so-called ‘garden agreement’, granting a sub-licence to produce only rose bushes and to sell them retail and wholesale to amateur gardeners.

As a result of the expansion of the Meilland network, and at a rate of one agreement per licensed variety, thousands of such similarly worded agreements have been concluded in France with about 900 of Richardier sub-licensees.

### C. The agreements

10. The agreement to which this proceeding relates is the ‘cut flower’ sub-licensing agreement concluded between URS-F Richardier and Mr R. Royon on 28 October 1971 containing the following clause concerning mutations:

Article X: ‘The user undertakes to inform the distributor or his authorized agent, within 15 days, of the appearance of any mutation in the rose bushes of the variety referred to in this agreement, which he exploits for cutting. Such mutation shall remain the property of Universal Rose Selection-Meilland and shall be surrendered to it by the user in order that it might examine the mutation and judge whether it can be marketed. If it can be marketed, Universal Rose Selection-Meilland will remunerate the user according to the qualities exhibited by the new variety’.

As from 1974, this clause was replaced by the following:

New Article XII: ‘Mutations: the user undertakes to inform the distributor or his authorized agent within 15 days of the appearance of any mutation in the rose bushes of the variety referred to in Article 17, which he exploits for cutting. Such mutation shall be surrendered by the user to the distributor alone in order that he might examine it and judge whether it can be covered by a plant breeders’ certificate and be marketed.

The distributor shall inform the user of his decision within three years from the date of such surrender.

During that period, the user shall refrain from propagating the variety for commercial purposes.

If he decides to produce the mutation, the distributor shall so notify the user. Unless the parties agree otherwise, the user shall be paid at 15 % of the gross royalties collected throughout the period of exploitation of the new variety. All experimentation, protection and distribution costs shall be borne by the distributor. If the distributor does not announce his decision within a period of three years, he shall be deemed to have waived his rights over the mutation and shall return it to the user'.

An Article VIII entitled Guarantee was also added to the agreement as from 1974, worded as follows:

Article VIII: Guarantee: 'The distributor guarantees only the material existence of the patent, the application for a plant breeders' certificate or the plant breeders' certificate. The user undertakes not to challenge the validity of those documents.

If the application for a breeders' certificate is refused, or if the patent or breeders' certificate issued is invalidated at the request of a third party, the agreement shall be terminated as from the day on which those decisions become final, without any compensation being due to either party. The royalties paid to the distributor shall not be refundable and the royalties falling due up to the date of the final decision must be paid. No more royalties shall be payable by the user after that date.'

11. The provisions of the agreement in question concerning mutations were originally agreed between Richardier and Mr Royon along the lines of a basic licensing agreement drawn up on 30 September 1968 between URS-M (Meilland) and URS-F (Richardier), which itself contained the following clause:

Article IV-(5): 'Mr and Mrs Richardier shall inform URS-Meilland of the appearance of any new mutations of rose varieties which appear either on the rose bushes exploited by them or on those exploited by their licensees. Such mutations shall remain the property of URS-Meilland, which shall determine without appeal whether or not it is appropriate to market them'.

However, this agreement of 30 September 1968 was amended on 30 October 1972, the above wording being replaced by the following new wording:

New Article IV-(5): 'Mr and Mrs Richardier shall inform URS-Meilland of the appearance of any new mutations of rose varieties which appear either on the rose bushes exploited by them or on the rose bushes exploited by their licensees'.

This amendment to the basic licensing agreement did not give rise, in regard to mutations, to a corresponding amendment of the agreement concluded between Richardier and Mr Royon on 28 October 1971.

12. In the other Member States, Selection Meilland varieties are exploited either by exclusive licensees or by Meilland agents, who grant sub-licences to nearly 2 000 sub-licensees. Except in Germany, the latter are obliged not to challenge the breeder's property rights and to transfer to him the ownership in mutations. In the case of Germany, the following new provision concerning mutations has been incorporated in all agreements concluded by Meilland and its German licensee Strobel & Co. with sub-licensees since 1972:

'1) If, in the course of the vegetative propagation of the varieties to which this agreement relates, the licensee discovers mutations (sports), he shall inform the agent thereof. The latter or an authorized representative may come to take note of the mutation on the licensee's premises and examine it, without, however, being able to have any influence on the future use of the mutation.

As inventor of the mutation, the licensee may reserve the right to the new variety resulting from that sport save where the courts decide otherwise pursuant to paragraph 12 (2) of the law on plant breeder certificates. Where the licensee intends to sell the right in the sport accruing to him under paragraphs 1 and 2, or if he wishes to have the mutation licensed, the agent shall retain an option right.'

13. The thousands of similar contracts to the agreements in question concluded either by Meilland or by the other plant breeders in the EEC provide the economic context in which the present agreement may be considered.
14. The version as amended in 1974 of the 'cut flower' standard form agreement signed by Mr Royon (new Article XII concerning mutations, referred to above, and Article VIII entitled 'Guarantee' concerning the no-challenge clause, also referred to above) was notified by Meilland together with an application for negative clearance on 27 April 1985, that is to say more than nine months after the oral hearing of 4 July 1984.

#### D. The application in the case of Pitica/Kyria of Article X of the agreement between URS - F (Richardier) and R. Royon

15. Outstripping Baccara, which fell into the public domain in 1974 after having provided 25 million plants, Sonia is the rose which has been the biggest commercial success in the world (with about 40 million plants sold in 15 countries) since it was created in 1960, in front of Visa - about 15 million plants - and far ahead of all the others. In 1984, some 40 Selection Meilland varieties were exploited for cutting. In addition to the abovementioned varieties, 10 provided a total of between 1 and 5 million plants throughout the period of their exploitation, and the others less than 1 million, amongst which the variety

Pitica/Kyria was moderately successful with about 500 000 plants. These varieties had at that time, including Pitica, six natural mutations discovered by third parties at their own places of business, representing altogether nearly four million plants used for cutting in about 10 countries.

16. In 1971, Mr Royon reported the discovery of several natural mutations of the variety Sonia at his 'Les Roses du Capitou' nursery at Antibes. As stipulated in the abovementioned Article 10 of the agreement he concluded on 28 October 1971 with Richardier, he immediately sent grafts to Meilland for examination of the mutations. Since he had still not received any reply by the end of 1973, on 10 December 1973 he filed, by way of precaution, an application for a breeders' certificate in respect of one of them under the varietal name Pitica and informed Meilland of his action; in a letter dated 7 March 1974, he again stressed the importance he attached to this new variety. Meilland then announced its intention of exercising its rights over it, as can be seen from the following extract from a letter to Mr Royon dated 10 April 1974:

'This mutation, which you refer to as 'RR7', having been discovered in your plantations of 'Sweet Promise/Sonia Meilland' forming the subject matter of licensing agreement No 1442-2 signed on 28 October 1971 between Universal Rose Selection-France (Mr Francisque Richardier) and yourself, we are willing to agree as follows:

1. In the event of our reaching, before 31 March 1975, a favourable decision regarding production of the variety:
    - you will assign to us the claim to protection you have already considered necessary to file as a precaution;
    - we shall pay you, before 31 December of each year, 15 % of the gross royalties collected throughout the period of exploitation of the said variety in all countries and territories,
    - all expenses in connection with experimentation, protection (including those you have already incurred) and distribution will be borne by us.
  2. In the event of our reaching, before 31 March 1975, an unfavourable decision regarding production of the variety, we shall waive our rights over the mutation.'
17. A period of bargaining followed, during which Mr Royon expressed his dissatisfaction with Meilland's offer and his wish to protect and exploit Pitica himself in all countries in which Meilland decided to renounce its rights over it. On 18 November 1974, i. e. less than a month before the expiry of the one-year period, which started to run with the application for a certificate filed on 10 December 1973, for commencing the protection formalities in other countries, Meilland formally announced its intention:

- to protect the variety in all countries in which that was possible,
- to seek protection in those countries both for 'cut flower' exploitation and for 'garden' exploitation,
- not to increase the rate of remuneration payable to the discoverer under the sub-licensing agreement of 28 October 1971, as amended in 1974.

On this basis, a deed of assignment was drawn up on 23 November 1974, the main provisions of which were as follows:

- (a) by a separate instrument, Mr Royon assigns to Meilland (in the case in point, to Universal Plants Sarl) his application for a breeders' certificate in France, No 00730, concerning the variety Pitica, and his priority rights in other countries, and in general all his rights in the invention;
  - (b) Meilland reimburses all the expenses incurred by Mr Royon in registering Pitica and takes steps to obtain protection in all countries where that is possible (notably: the common market countries, Spain, the United States, Sweden, Morocco and Hungary) (Article 2, 3 and 4); any property rights subsequently relinquished by Meilland would then be reassigned free of charge to Mr Royon (Article 5); Meilland will give Pitica a commercial designation protected in all countries as a trademark, which Mr Royon may use freely (Article 6); in return for the assignment by Mr Royon of all his rights, he will receive a royalty of 15 % of the gross amount, before deduction of any discounts, of the royalties paid by licensees in respect of Pitica (Article 7); Mr Royon remains free to produce cut flowers of the variety Pitica at his nursery 'Les Roses du Capitou', and the propagation licences already granted by him to horticulturists will be confirmed; however, any other exploitation will be reserved exclusively for Meilland (Articles 8, 9 and 10); Meilland undertakes to distribute Pitica as widely as possible, but will alone be entitled to take decisions concerning its marketing; it undertakes also to offer this variety for sale in the same way as the other varieties in respect of which Universal Plants holds the exclusive production and distribution rights (Articles 11 and 12); Meilland undertakes to carry out all the necessary tests to determine Pitica's suitability for 'garden' exploitation, to inform Mr Royon of the results, and, if appropriate, to apply the provisions of this contract to 'garden' exploitation (Article 13).
18. In July 1977, Pitica was declared by Meilland, on the basis of tests carried out both by itself and by its agents or licensees in the Netherlands, Germany, the United States and Israel, to be unsuitable for 'garden' rose

bush exploitation. In August 1977, the protective rights over the variety in Hungary and Morocco were reassigned free of charge to Mr Royon, and protection was purely and simply abandoned for lack of interest in Sweden and Denmark. It was first marketed for cutting in 1978, when it was given the name Kyria, which formed the subject matter of an international filing in Meilland's name. At that time, there were 50 000 Pitica/Kyria plants in three countries. By the end of 1980, there was a total of 265 000 plants in several countries (France, Japan, the United States, Latin America and a few in new plantations in Italy and Switzerland). Having reached the 500 000 mark in 1984, it ranks 20th in importance compared with the 60 other Meilland varieties that have been cultivated for cutting since that company was formed.

The other mutations discovered by third parties have been produced in a number of countries ranging from five (Privé) to four (Carinella) and three (Carlita), and have each produced a total of between 500 000 and 1 million plants depending on how well they have been received, firstly by the licensees, and secondly by the public. Generally speaking, the number and relative importance of the factors militating in favour of or against the success of a variety on a market are highly unpredictable and are not always directly dependent on the decisions taken or the resources employed by the breeder and his agents. Moreover, the exploitation of each variety within a collection of varieties is necessarily subject to the requirements of the exploitation of the collection as a whole. This is especially true in the case of Pitica, whose pale pink colour places it in the same colour scale as its parent variety Sonia, which is also a pink shade.

#### E. Mr Royon's complaint and the arguments raised by Meilland

19. Mr Royon lodged his complaint on 28 January 1980 against Article 10 of his agreement of 28 October 1971 with Richardier for infringement of the competition rules set out in the Treaty. He considers that the above clause obliged him to assign to Meilland his rights in the variety Pitica by the agreement of 23 November 1974, the underlying principle and terms of which, notably as regards payment, were dictated to him without any scope for discussion. He feels that, despite its worldwide production and distribution network, Meilland did not do all in its power to make the variety a commercial success. He believes that Article X, incorporated as it is in all the agreements with sub-licensees who use Selection Meilland roses, prevents those sub-licensees from setting up as international distributors of the new roses discovered by them, in such a way as to affect competition within the common market within the meaning of Article 85 (1).

The procedure which was opened on 9 December 1983 in response to this complaint was extended by

the Commission to include the no-challenge clause contained in the same standard form licensing agreement of URS-F Richardier (see above, point 10 at the end: Article VIII entitled 'Guarantee') which prohibits the sub-licensee from challenging the validity of the breeders' rights conferred on Meilland.

#### 20. Meilland has advanced the following main arguments in its defence:

- (a) The Article X referred to in the complaint was not applied to Mr Royon since it was in his capacity as Director with Meilland until February 1972 that he surrendered to his then employer the Sonia mutations discovered in 1971. Moreover, for the same reason, he was not at that time free to carry on business as a plant breeder. Lastly, he himself stepped outside the bounds of the agreement he complains of, first of all by signing on 10 December 1973 an application for a plant breeders' certificate in respect of a variety which Meilland had not considered worthwhile adopting, then by not invoking expressly himself Article X of his agreement in the course of subsequent bargaining. Meilland had, moreover, never invoked Article X against its licensees or sub-licensees. Furthermore, since 1974, the new Article X of its agreements recognizes the discoverer's rights over mutations and confers on Meilland only a right of pre-emption, which it considers perfectly legitimate. In this respect, Meilland feels that the granting of a plant breeders' certificate for a mutation discovered on a bush of a parent variety already protected in the name of an original breeder differs fundamentally from the granting of a patent for the improvement of a protected industrial invention: the improvement patent implies an 'exploitation' of the main patent, itself involving an inventive 'effort' which is completely lacking in the case of the unexpected discovery of a mutation. In the present case, there are no grounds for granting Mr Royon, as it were, an improvement patent. Firstly, the 'power of mutation' is already intrinsically present in the genetic make-up of the parent variety, the credit for which belongs exclusively to the latter's creator. Secondly, the growth which represents the natural mutation of a rose, a non-sexually reproducing species, is already in itself a new variety which fulfils the conditions for protection owing to the fact that its characteristics are determined from the outset by nature in such a way as to satisfy the requirements of distinctiveness, uniformity and stability provided for by law without owing anything to the discoverer's intervention.

Meilland considers that the question of rights over the mutation is not expressly dealt with in the abovementioned French Plant Protection law and

that it is only natural, since the law is silent on this matter, that the parties to a licensing agreement relating to a new plant variety should settle it by common accord. On the whole, Meilland believes it has made the same sales promotion effort for the variety Pitica as for the others, bearing in mind all the requirements inherent in the management of the group, even if in 1971 a preliminary examination had in fact overlooked the intrinsic qualities of the new variety. At all events, the licensee-discoverer generally has neither the means nor the inclination to launch out into the exploitation of a mutation, preferring by far to surrender it – sometimes spontaneously – to Meilland, if only to take advantage of the latter's worldwide distribution capability.

- (b) As regards the clause prohibiting the licensee from challenging the breeders' rights held by Meilland, the latter points out first of all that no-one is obliged to contract; on the other hand, once they are agreed to, all the clauses of a contract must be complied with in good faith by both parties where they have freely given their consent; and a licensee must not be able both to reap the benefits of a licence based on an intellectual property right and to reserve the right to challenge that right as such. In the first place, under a licensing agreement, especially in the case of a man – Mr Royon – who is a former employee and therefore has inside knowledge both of the group and of its products and methods, the licensee possesses information which puts him in a particularly favourable position to create or exploit situations in which a challenge is possible. In the second place, and as a general rule, deletion of the clause would be a bonus to the bad payer, who could then lawfully continue to use the licence while refraining from paying royalties for the simple reason that he has initiated a challenge procedure, hence with, as it were, the support of the courts. Lastly, from a pragmatic point of view, settlements in actions for infringement would become impossible because they are based in most cases on the undertaking by the infringer to withdraw any petition for nullity of the complainant's rights, which clearly implies that he will no longer file such a petition.

Everything which would deprive the licensor of the benefits, thus detailed, of the clause would inevitably discourage in the long run an open licensing policy such as that pursued by Meilland. This would ultimately undermine the macro-economic advantages of such a policy, including the advantages from the point of view of competition.

- (c) The notification made on 27 April 1985 by Meilland contains nothing new in relation to the arguments and information already submitted in the course of the procedure, and at the oral hearing held on 4 July 1984.

## II. LEGAL ASSESSMENT

### A. Article 85 (1)

21. Article 85 (1) of the EEC Treaty prohibits as incompatible with the common market all agreements between undertakings and decisions by associations of undertakings which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market.
22. The parties concerned are undertakings within the meaning of Article 85, carrying on at the time of the facts their main activity in the economic sector of ornamental flowers, and the agreements in question are agreements between undertakings within the meaning of that Article.
23. The following two provisions of those agreements have as their object and effect the restriction of competition within the common market:
  - (a) Article X of the agreement concluded on 28 October 1971 between URS-F (Richardier) and the sub-licensee Mr Royon obliging the latter to surrender to Meilland any mutations he might discover on rose bushes of the licensed variety Sonia:
    - The restrictive nature of this first provision lies in the fact that it obliges the licensee to relinquish completely rights he is justified in claiming in his discovery under the French law referred to above. Consequently, the agreement which deprives Mr Royon of all rights over mutations and reduces him to collecting a royalty has the effect of completely eliminating the licensee as a potential supplier of varieties resulting from mutations, both at the national level and on the markets of the other Member States. By and large, the restrictive effect of this obligation was not substantially modified by the changes made in this respect in 1974 to the standard form agreements in question (new Article XII), limiting to three years the period within which Meilland may require compliance with the said obligation by all its licensees or sub-licensees. In the present case, the letter sent on 10 April 1974 to Mr Royon by Meilland referred expressly to the latter's rights over the mutation Pitica, which occurred in 1971, and it is therefore on the basis of this prior contractual obligation that the agreement of 28 October 1971, the purpose of which was to lay down detailed rules for the assignment by Mr Royon of his own rights, was drawn up between Universal Plant Sarl and Mr Royon.

- The arguments put forward by Meilland in order to deny Mr Royon any property rights in the mutation of the parent variety Sonia cannot be accepted. Firstly, in so far as several mutations were discovered in Mr Royon's glasshouses in the context of the exploitation which he carried on under the production and selling licence granted by Richardier, all those discoveries must be considered to be independent of work done by Mr Royon directly connected with administrative responsibilities exercised by him in the management of the Meilland group. It is not contested between the parties, and it is borne out by the existence of the licensing agreement forming the subject matter of this procedure, that, despite his functions as Director within the Meilland group, Mr Royon at the same time and with Meilland's consent ran his business 'Les Roses du Capitou' on an independent basis. The fact, raised, moreover, by Meilland, that the rose is a non-sexually reproducing species and that its mutations are determined from the outset by nature with the qualities of varietal uniformity and stability required for protection itself tends to rule out breeding activities or work by Mr Royon incompatible with his obligations towards his then employer. Moreover, the very fact that there came into being a 'new variety' (the variety Pitica) within the meaning of the law in itself implies an inventive activity given tangible form in that new variety, which is incontestable both in its existence and in the degree of invention it expresses. Irrespective of the lack, if any, of an inventive 'effort', which Meilland also points to, an inventive 'activity' is not in itself, where it is involuntary or unexpected, sufficient to exclude the granting of property rights. Both the French law (in particular its Article 1 (1), referred to above) and the laws of the other Member States, and the International Convention for the Protection of New Varieties of Plants (referred to above), from which the former are derived, provide expressly that the discovery of a mutation may give rise to the grant of a plant breeders' certificate in the same way as the creation of a variety in the course of selection work. Moreover, Mr Royon's aptitude for correct observation of the existence and qualities of a natural mutation itself proceeded from an at least implicit prior inventive effort, and this is particularly attested to in the present case by the fact that an unfavourable preliminary examination of the same mutation by Meilland was subsequently to be proved wrong.
  - (b) The obligation on the licensee, contained in the same agreement in Article VIII entitled 'Guarantee', not to challenge the validity of the rights in the licensed variety:
    - The restrictive nature of this second provision lies in the fact that it denied the licensee the opportunity, open to any third party, of removing an obstacle to his economic activity by means of a petition for revocation. The importance of the restriction remains despite the prior examinations and official tests which precede the grant of a plant breeders' certificate for a new variety of plant, since those examinations do not entirely exclude the possibility of a wrongly conferred right or imply that firms must forgo in advance any opposition or action for infringement in which they might have an interest. Generally speaking, even where a licensee is able to challenge an intellectual property right only on the strength of information received from the licensor himself, the maintenance of free competition and, where appropriate, the revocation of an exclusive right which was conferred wrongly are in the public interest, and this overrides any consideration concerning the privileged relations between the parties to a licensing agreement.
24. The restrictions resulting from these two provisions are appreciable.
- (a) These restrictions have an appreciable effect on the market in the products in question in the EEC in view of the importance, both qualitative and quantitative, on that market of the rose varieties known as 'Selection Meilland'. This is all the more true as a single variety, possibly a mutation discovered by a licensee, may acquire a leading, or even dominant, position on the market. According to the case law of the Court of Justice of the European Communities of 12 December 1967 in Case 23/67 *Brasserie de Haecht*<sup>(1)</sup>, the appreciable nature of the restrictions established in the present case stems *inter alia* from the cumulative effect due to the existence in France and in the other Member States of thousands of similar contracts obliging, in the case of each variety, licensees and sub-licensees to surrender to the licensor any mutations that are discovered and not to challenge the validity of the licensed rights, which confers on the restrictions taken as a whole even greater economic importance. The restrictions have the effect of concentrating in the licensor's hands alone all the varieties discovered by hundreds of licensees.
  - (b) The restrictions also appreciably affect trade between Member States in view notably of the cumulative effect described above. Firstly, the obligation on Mr Royon not to challenge the

<sup>(1)</sup> (1967) ECR 407.

validity of the licensed rights is imposed on all licensees and sub-licensees throughout the Community, and applies also to Meilland's rights in the other Member States. It thus enhances Meilland's position *vis-à-vis* its competitors throughout the common market. Secondly, the obligation on Mr Royon to relinquish all his rights in mutations is also imposed on all licensees and sub-licensees in the Community with the exception of Germany, and affects Mr Royon's rights not only in his own country but also in the other Member States. It thus eliminates him, and in general all other Meilland licensees, as an independent international supplier of this type of new variety throughout the world and, in particular, throughout the Community.

25. The conditions for the application of Article 85 (1) of the Treaty are therefore satisfied.

#### B. Article 85 (3)

26. Under Article 85 (3), the provisions of Article 85 (1) may be declared inapplicable in the case of any agreement between undertakings which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

- (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
- (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

27. As regards the obligation on the licensee to waive completely his rights in future mutations:

- In the present case, this obligation imposed on Mr Royon did not concern his activities in respect of the production, propagation or distribution of the licensed variety Sonia or of the cut flowers which are the end product thereof. It was, on the contrary, extraneous to the conditions proper under which that product is produced or distributed, and to any concern for the promotion of technical or economic progress or to any such effect, even indirect,
- The only connection which can be established in the present context between the aforementioned obligation on the licensee and production, distribution or the promotion of technical or

economic progress is a negative connection in that the clause in question has had the effect of purely and simply depriving Mr Royon in advance of the new variety Pitica in respect of which he could have endeavoured to bring about such improvements. The only practical result of the clause is that, by thus completely eliminating this possibility, it also at the same time diminishes the licensee's interest in the qualities of the mutations he might observe.

- Nor can it be maintained that the improvement effects listed in Article 85 (3) will be automatically assured because the said obligation transfers responsibility for any action in relation to the production and distribution of the new variety Pitica to the Meilland group, which has greater resources at its disposal than Mr Royon, the licensee. The exploitation both of the licensed parent variety and of its mutation has in that case to take place within the overall framework of the management requirements peculiar to Meilland and its collection of varieties and must therefore bend to those requirements. As a result, the mutation does not receive the undivided attention it would have been given by Mr Royon, who could have devoted his entire resources, his efforts and his detailed knowledge of the international market to making it a success. This assessment is borne out by the fact that, despite Mr Royon's exhortations, five years elapsed (1971 to 1976) between the discovery of the new variety Pitica and the time when Meilland started to market it.

It is therefore not an obligation capable of fulfilling the first condition of Article 85 (3). This rules out any benefit to consumers within the meaning of that Article. Lastly, this obligation on Mr Royon was not indispensable to the satisfactory exploitation of the variety Sonia which had been licensed to him.

28. As regards the obligation on the licensee not to challenge the validity of the rights licensed to him:

- The obligation not to challenge a breeder's right prevents both the licensee and any third parties interested in exploiting the same variety under licence from acting freely in the sphere of the descriptions and claims relating thereto, which constitutes an obstacle to technical progress.
- In the event of a breeder's right being conferred wrongly on Meilland, its licensee would nevertheless be obliged to pay royalties or purchase rose bushes in order to exploit the variety concerned and would therefore likewise not be free to sell that variety wherever he wished, not even in other countries where it would not be protected.

Consequently, this obligation, too, is not capable of fulfilling the first condition of Article 85 (3). This in itself also rules out both any benefit to consumers and the need for an examination in the light of the last two conditions laid down in that Article.

29. For the reasons set out above, the agreement in question does not satisfy all the conditions which must be met in order to qualify for exemption under Article 85 (3). Thus, it is not necessary to examine if the late notification, which arrived on 27 April 1983, could cover the contract in question, which expired in 1983, or if this contract falls in the categories exempted from the obligation of notification by Article 4 (2) of Regulation No 17.

### III. ARTICLE 3 OF REGULATION No 17

30. Where the Commission finds that there is infringement of Articles 85 or 86 of the EEC Treaty, it may, under Article 3 of Regulation No 17, require the undertakings concerned to bring such infringement to an end. However, in the present case there is no longer any need to require the parties to bring the infringements established to an end since the agreement in question, which Mr Royon concluded with Richardier on 28 October 1971, was terminated when the former closed his business and sold the equipment of 'Les Roses du Capitou' in 1983.

There are nevertheless reasons for finding that infringements were committed in the past. The Commission's position, notably in the light of Article 85 (3), on all the agreements concerned or on similar agreements should be clarified for the benefit of the public. Moreover, the complainant has a manifest interest in the outcome,

HAS ADOPTED THIS DECISION:

#### *Article 1*

The following provisions of the licensing agreement concluded on 28 October 1971 and modified in 1974 between URS-F (Richardier) and Mr R. Royon for the exploitation of the rose bush variety Sonia Meilland ('cut flower' agreement) constituted infringements of Article 85 (1) of the EEC Treaty:

1. The obligation imposed on the licensee, Mr R. Royon, by Article X of the agreement to surrender to Meilland all mutations discovered on rose bushes of the licensed variety so that such mutations might remain the exclusive property of Meilland and so that the latter might decide unilaterally whether to exploit them commercially.
2. The obligation imposed in this respect on the licensee by the new version of the agreement, after the amendment incorporated in 1974 (new Article XII), which allows the plant breeder Meilland a period of three years from the date of surrender of a mutation by the licensee within which to impose its unilateral decision concerning the commercial exploitation of the mutation.
- 3.. The obligation imposed on the licensee in the new version of the agreement drawn up in 1974 (new Article VIII entitled 'Guarantee') not to challenge the validity of applications for plant breeders' certificates or of the plant breeders' certificates which are assigned to him under licence.

#### *Article 2*

The application for exemption under Article 85 (3) of the EEC Treaty for the provisions referred to in Article 1 is hereby refused.

#### *Article 3*

This Decision is addressed to:

1. SNC Meilland & Cie, 134 boulevard Francis Meilland, F-06600 Antibes;
2. Universal Plant Sarl, 134 boulevard Francis Meilland, F-06600 Antibes;
3. Universal Rose Sélection-France (Mr and Mrs Francisque Richardier), F-69160 Tassin-la-Demi-Lune;
4. Mr René Royon, 128, Les Bois de Font Merle, F-06250 Mougins.

Done at Brussels, 13 December 1985.

*For the Commission*

Peter SUTHERLAND

*Member of the Commission*