

SOUTH AFRICA / JUDGMENT

**Colors Fruit (South Africa) (Pty) Ltd v
Voor-Groenberg Nurseries/Kwekerye
CC and Others (14891/2011) [2011]
ZAWCHC 453 (16 September 2011)
[2011] ZAWCHC 453**

COURT

Western Cape High Court, Cape Town

BEFORE

Davis

CASE / FILE NUMBER

14891/2011

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IN THE HIGH COURT OF SOUTH AFRICA

(WESTERN CAPE HIGH COURT, CAPE TOWN)

CASE NO: 14891/2011

In the matter between:

COLORS FRUIT (SOUTH AFRICA) (PROPRIETARY)

LIMITEDApplicant

And

VOOR-GROENBERG NURSERIES/KWEKERYE CCFirst

RespondentOLYVENBOOM BOEDERY (EDMS) BEPERKSecond Respondent

SHEEHAN GENETICS LLCThird Respondent

SPECIAL NEW FRUIT LICENSING LIMITEDFourth Respondent

16 September 2011

JUDGMENT:**Introduction**

- [1] This is an application in which the applicant seeks to interdict the first respondent from transferring possession or control of, or from disposing of or otherwise dealing with the any of the vegetative materials which are set out in an annexure to the notice of motion otherwise than in accordance with applicant's prior written instruction or prior written consent. Applicant further seeks to interdict second respondent from similarly dealing with the vegetative materials as set out in the annexure.

The factual background

- [2] On 10 May 1998 third respondent, a company incorporated in terms of the laws of the State of California, United States of America and AMC Grupo Alimentacion SA ('AMC'), a company incorporated under the laws of Spain entered into an exclusive license agreement ('the head license') in terms of which AMC was granted rights to develop plant varieties bred by third respondent in various countries, including South Africa.

- [3] On 10 March 2003 third respondent, AMC and the applicant entered into an agreement ('the sub license agreement') in terms of which applicant was granted the right to exploit the so called Sheehan varieties in South Africa and Namibia by way of testing, development, marketing and sales. The relevant clause of the agreement read thus:

"1. Sheehan Genetics and AMC hereby grants to Colors - a) the exclusive right (to the exclusion of both AMC and any third party) to obtain from AMC, and AMC undertakes to supply to Colors, within the Planting and Cultivation Territory, as defined in clause 2 all the propagating samples of all Vegetative Material bred and/or developed by Sheehan Genetics and received by AMC from time to time, so that Colors may-

- (i) test, plant and cultivate them, (ii) obtain their products (the "Products "), and (Hi) secure their statutory protection in form of plant breeders' rights ...".

- [4] In the terms of the third Schedule to this agreement, applicant was appointed as third respondent's South African agent in connection

with matters relating to plant breeders rights which are governed by the Plant Breeders Rights Act 15 of 1976 (The Act').

- [5] It appears that during the existence of the agreement, AMC provided the applicant with propagated samples of the Sheehan varieties as bred and/or developed by third respondent. According to applicant, approximately 41 hectares of Sheehan varieties had, up until the end of 2010, been established in South Africa by producers from material which stems from the propagating samples provided to applicant. Viewed within this context and for the purposes of this application, it is necessary to examine the particular relationship between applicant and first respondent.

- [6] Applicant enjoyed a commercial relationship with the first respondent. First respondent is described by applicant as 'intermediary nursery men', a role it performs in respect of agreements which applicant has entered into with producers (farmers) in relation to the growing of table grapes and in respect of which the farmers are obliged to pay applicant certain fees and charges.
- [7] Applicant avers that it is contractually committed to provide these producers with vines of the Sheehan variety. Almost half of the total number of the vines which are under the control of first respondent (approximately 100 000 vines) are subject to these commitments. Significantly, the relationship between applicant and first respondent was never reduced to writing. However in 2007, the applicant avers that the parties concluded an arrangement in terms of which the respondent would provide services to applicant in connection with the establishment of foundation blocks for the Sheehan varieties and the propagation or multiplication of the plant material in question.
- [8] Briefly stated, first respondent acted as applicant's agent/contractor in order to grow vines to applicant's order. According to applicant, first respondent acted as a contractor which relationship was based solely on the rights which applicant enjoyed by virtue of the agreements with third respondent and AMC, to which I have already made reference.
- [9] It appears that the process, which was envisaged in terms of the arrangement between applicant and first respondent, commenced with the establishment of a foundation block consisting of a nucleus block, tunnel plants and vines grown in soil which was derived from a small amount of propagating samples which originally had been procured from third respondent. This foundation block would be cultivated and managed by first respondent. It would take place on land which was owned by second respondent. As consideration for the use of its land, an agreement was reached between applicant and second respondent, in terms of which applicant would pay second respondent a rental based upon the sum which second respondent would have derived had it produced wine grapes on the area now occupied by the foundation block.

[10] The arrangement between first respondent and applicant envisaged a scheme of payment which can be illustrated thus:

Assume the farmer paid a R10 for an established vine of a certain variety. First respondent would provide the rootstock, the Sheehan buds provided by applicant and obtained from the foundation block which was located on second respondents ground. The buds would then be crafted onto the rootstock. The R10 which would ultimately be charged to the farmer, would be made up as follows:

R5 for the root stock supplied by first respondent.

R3.65 for the service provided by first respondent.

35c for the bud provided by applicant

R1 recoupment of costs incurred by applicant.

[11] According to applicant, it would inform first respondent that a particular farmer, with whom applicant had concluded a contract,

would require a certain number of vines. These vines would then be handed over by first respondent to the farmer who would then be invoiced for R10 by first respondent. The farmer would pay R10 to first respondent, which sum would be distributed in terms of the illustration set out above.

[12] During 2008, Mr Sheehan who was the driving force behind third respondent, died. On 3 December 2010, AMC served notice on third

respondent that the head licence agreement would be terminated on the grounds that the continuing personal involvement of Mr Sheehan had been crucial and that his death amounted to an irrevocable breach of the agreement. On 20 January 2011, AMC wrote to the then Chief Executive Officer of applicant to inform him that the sub licence agreement had also automatically terminated, with effect from 3 March 2010, as a result of the cancellation of the head licence agreement. On 3 March 2011, applicant's attorneys wrote to AMC informing the latter that the cancellation was unlawful and unjustified and that applicant would 'not terminate any of its production or cultivation programs' and further that it would not surrender any of its rights.

[13] On 9 May 2011, third respondent wrote to applicant and made it clear that fourth respondent had been appointed as the new South African agent in place of applicant, that a licence agreement between third respondent and first respondent had purportedly been concluded and that the sub license agreement with applicant had been validly and finally terminated.

Applicant's claim

[14] By the time the application was argued before this court, applicant's case had distilled to the following: it acknowledged that the plant materials originally belonged to third respondent. It claimed that it became the owner thereof by acquiring ownership from third respondent, pursuant to the sublicense agreement in order to multiply and to sell the plant materials as contemplated in the agreement. It contends further that there is no factual basis by which to conclude that the third or fourth respondent currently own these plant materials. Further, it is not necessary in order for the applicant to justify the relief sought to show that the sublicense agreement was not validly terminated. In short, as Mr Sholto-Douglas, who appeared together with Mr Le Grange and Mr Cilliers on behalf of the applicants, put it, the key question was who was the owner of the materials as set out in annexure A to the notice of motion.

[15] An alternative argument, which was raised by the applicants, turned on the Act, to the effect that applicant was entitled to possess and exploit plant materials in terms of and to the extent allowed by clause 8(3) of the sublicense agreement read in conjunction with Section 23(6) of the Act.

Ownership

[16] I turn to deal firstly with the question of ownership. Mr Sholto-Douglas referred to the terms of the sublicense agreement

which, in his view, justified applicant's contention regarding ownership and, in particular, clause 1(a) which provides for:

"An exclusive right to be enjoyed by applicant 'to obtain from AMC and AMC undertakes to supply to Colors within the Planting and Cultivation

Territory ... all the propagating samples of all the vegetative material, bred and/or developed by Sheehan Genetics and received by AMC from time to time so that Colors may-

"(i) test, plant and cultivate them;

(ii) obtain their products (the "Products"), and

(iii) secure their statutory protection in the form of plant breeders' rights, for which purpose AMC and Sheehan Genetics' undertake to provide their co-operation and assistance insofar as it may be required by the law and to execute such documents as may be necessary for that purpose, including the document attached hereto as Schedule 3."

[17] In terms of clause 5 of the contract, the price agreed by the parties for the planting and cultivation rights consisted of:

"A fixed price of \$20, 000 per year, subject thereto that,

(a) if during any year of this Agreement no new Vegetative Material is made available to Colors by AMC for any reason whatsoever, then the aforesaid fixed price will not be payable in respect of that particular year."

Mr Sholto-Douglas also laid emphasis on clause 7.3, dealing with termination, which provides:

"The Termination of this Agreement, for whatever reason, will not affect the rights of a party which may have accrued as at the date of termination and will further not affect any rights which specifically or by their nature survive the termination of this Agreement."

[18] On the strength of these contractual provisions, Mr Sholto-Douglas submitted that, if there was a reasonable termination of the license agreement, it was clear that applicant would not be entitled to use any new products nor be obliged to make any further payments. However, this conclusion clearly did not apply to the stock which already had been paid for and, for which applicant in terms of the agreement would have exclusive use. In other words, it was

applicant's case that the vegetative materials which had been acquired pursuant to the provisions to which I have already made reference, were acquired without a reservation of ownership. The contract made clear that material for which there had been payment had now acquired by applicant.

[19] In an answering affidavit deposed to by Mr Wiese, on behalf of first respondent, the averment was made that:

"The agreement in relation between Colors and Voor-Groenberg appears from the draft agreement ... between us. They were never signed and related correspondence."

[20] Significantly, in that draft agreement, which was attached to the papers, applicant was referred to as 'the licensor' and propagating

material was defined 'as any plant material that can be used for the propagation for the varieties including the plants. Propagation was defined to mean 'the production, reproduction or multiplication of the variety of any of its components for purposes of producing the plants ...'. Furthermore, the draft agreement provides that the licensor, being applicant, 'hereby appoints and grants to the Nursery to undertake the following in relation to the Propagating Material during the term... supply only to Producers in accordance with the Sale Agreement provided to the Nursery from time to time. The 'Nursery' was clearly intended to be first respondent.

[21] That third respondent was aware of the concept of reservation of ownership as contended for by applicant is to be seen in an agreement entered into between it and first respondent. This agreement provided that 'all Sheehan Cultivars and Planting Material shall at all times remain the property of the licensor.' Accordingly, Mr Sholto-Douglas submitted that the fact that the relevant sublicense agreement contained no reservation of ownership in favour of third respondent was indicative that the latter had appreciated that, in order for applicant to enjoy rights to exploit the plant materials, there would be no other option but to effect the transfer of ownership in the plant materials from third respondent to applicant.

The respondents' case

[22] Mr Eloff, who appeared together with Mr van Eeden on behalf of respondents, submitted that the starting point to enquire into the question of ownership of the propagating samples, was to examine the contract and, in particular the payment of the annual price to be paid to applicant to third respondent. In terms of clause 5(1) of this agreement, applicant was obligated to pay a fixed annual price of \$20 000 for the planting and cultivation rights, notwithstanding the quantity of propagating samples which was given to it. In Mr Eloff's view therefore, the sublicense did not constitute or embody an agreement of sale of any product but rather represented a grant of a right to perform specified acts with one or more samples given to it. It was therefore not necessary for the sublicense to include any express provisions in regard to ownership of the samples. In addition, referring to an uncontested portion of the answering affidavit, Mr Eloff submitted that, on the basis of existing industry norms, the buds remained the property of third respondent, which norm itself had been

incorporated into section 14(3)(b) of the Act in respect of a situation where a protective direction had been issued.

[23] Mr Eloff submitted that the process, which implemented the relationship between applicant and first respondent, involved first

respondent grafting buds that have gone through the prescribed process onto rootstock belonging to it. First respondent had paid the applicant for the buds on the basis of invoices issued to applicant. The principle component of the transaction was the rootstock which, by virtue of the fact that first respondent had recast applicant's buds onto the rootstock, created a new species. As a result, first applicant had become the owner thereof and thus it could not be contended that applicant was the owner.

Evaluation

[24] In an answering affidavit deposed to by Mr Macintyre, on behalf of third respondent, a concession was made that 'the procurement of the relevant propagating material of Sheehan variety was legitimate but (even assuming that Section 23(6) is applicable) there is no legal basis for the extrapolation of the specific

(and restricted) rights given by Section 23(6)(a) to (f) as contended by Colors, particularly not the exclusive right which Mr Van Wyk alleges'. Whatever the interpretation of Section 23(6), it is significant that there is a concession by respondents that the

acquisition of the propagating material was legitimate.

[25] This concession has significant implications for the present dispute. As Kroon AJA held in *Mathenjwa NA v Magudu Game Company (Pty) Ltd* 2010 (2)SA 26 SCA at para 25:

"A valid underlying transaction... is not a requirement for the valid transfer of ownership. Provided that the agreement to transfer ownership... is valid, ownership will pass in pursuance and on implementation thereof, notwithstanding that the causa may be defective. In other words, all that is required is delivery (actual or constructive) coupled with an intention to pass and receive ownership."

[26] At the very least section 23(6) of the Act draws a distinction between the 'propagating material of a variety' and the plant

breeders right in respect of that variety. This distinction is also to be found in the International Convention for the Protection of New Varieties of Plants (March 1991) which, in article 15, refers to exceptions to the breeders rights and provides that each Contracting State may, within reasonable limits, and subject to the safeguarding of the legitimate interest of the breeder, restrict the breeders rights in relation to any variety in order to permit farmers the use for propagating purposes, on their own holdings, the product of the harvest which they have obtained by planting on their own holdings, the protective variety or variety covered by article 14.

[27] Article 16 of the Convention provides that the breeders rights shall not extend to any acts concerning material of the protective variety or of a variety covered by the provisions of article 14(5) which had been sold, or otherwise marketed by the breeder or with his consent in the territory of the Contracting Party concerned or any material derived from the said material unless such acts (i) involve further propagation of the variety in question. In short, a distinction is drawn between the underlying intellectual property right and the right to use the propagating material.

[28] Clause 8(3) of the sublicense, to which I have already made reference, echoes this distinction in that it provides that the

termination of the agreement 'will not affect the rights of a party which may have accrued as at the date of termination'. Furthermore,

the draft agreement between first respondent and applicant, which first respondent conceded formed the basis of their legal relationship supports the contention that, between the parties, it was acknowledged that applicant was the owner of the propagating material.

The nature of the relief

[29] There was some debate between counsel as to whether relief could be ordered in terms of the first paragraph of the notice of motion dealing with the delivery to applicant of the vegetative materials. This relief is, in effect, couched in the form of a *rei vindicatio*. It is trite law that an owner, in instituting such an action, need do no more than allege or prove that it is the owner and that defendant is holding the res. The onus then shift to the defendant to allege and establish any right to continue to hold against the owner. *Chetty v Naidoo* 1974

(3) SA 13 (A) at 20 C - D. If the applicant concedes that the respondent had an existing right to hold, for example, by conceding the existence of a lease which has not been lawfully terminated, then applicant has not disclosed sufficient cause of action.

[30] There has been no concession by applicant which requires this court to canvass this component of the test for a *rei vindicatio*. First respondent contended that it had a right to possession based on the termination of the head lease, that the owner of the propagating

materials was third respondent and, in the alternative, first respondent was the owner by virtue of accession. First respondent

contends that on the one hand, it is the owner of the rootstock and that, on the other, it 'has accepted that the ownership of the resulting vines to be sold growers is Sheehan. Certainly Colors does not own them.' (Answering affidavit of Mr Wiese at para 2.10.5)

[31] Respondent appeared to contend that, as applicants had relied upon the draft agreement between applicant and first respondent, clause 4 thereof supported its case as made it clear that first respondent had to be in possession of the propagating material in order to supply the various farmers pursuant to the relationship between itself and applicant. This argument was never raised directly in the answering affidavits but appears to represent the

thrust of a submission made by Mr Eloff in argument, to the effect that there is a concession made by applicant to first respondent based upon the draft agreement, that the latter has a right of possession. However, this argument was never canvassed in the answering affidavit and did not form the basis of the defence to the invocation by applicant of the *rei vindicatio*.

- [33] At the very least, it would have been expected, if respondents that they deal properly with this issue in their papers, rather than raising it as an afterthought, in circumstances where for much of their argument the validity of a draft agreement, which clearly supports applicants' remaining contentions relating to ownership in relation to first respondent, was rejected, notwithstanding the concession in the answering affidavit. The manner in which clause 4 might operate to secure possession for first respondent needed to have been set out in an answering affidavit so as to enable this court to determine whether the allegation made had been properly proved by the respondent. The wording alone does not sustain the argument that first respondent enjoys a right of possession

sufficient to rebut applicant's relief. See in this connection Amler's Precedents and Pleadings at 351.

Conclusion

- [34] In summary, the propagating materials, as set out in the annexure to the notice of motion and as acquired in terms of clause 1 read together with clause 8.3, were owned by applicant. To the extent that there was any doubt, this was settled in terms of the draft agreement which, it is common cause, reflected the relationship between applicant and first respondent. In view of this conclusion regarding applicant's ownership of the materials, it is unnecessary to deal with arguments predicated upon section 23(6) of the Act; that is the argument in terms of which applicant claims that it enjoyed the rights to the materials as provided in this section of the Act read together with clause 8(3).

- [32] For the reasons which I have set out, the following order is made:

1. First respondent is ordered to deliver to applicant forthwith the vegetative materials set out on and described in annexure A to this order.
2. Second respondent is interdicted and restrained from transferring possession of control of / or from disposing of or otherwise dealing with any of the vegetative materials set out and described in Annexure A to this order.
3. First and second respondent are jointly and severally, the one paying the other to be absolved, to pay the costs of this application,

including the cost of two counsel.

DAVIS J

ANNEXURE A Denominations of Sheehan grape varieties: Sheegene 2; Sheegene 3 (nicknamed "Mageneta"); Sheegene 4 (nicknamed "Luisco"); Sheegene 5 (nicknamed "Early Globe");

Sheegene 6 (nicknamed "Cloie"); Sheegene 9 (nicknamed "Melanie"); Sheegene 12 (nicknamed "Krissy");

Sheegene 13 (nicknamed Timco");

Sheegene 20 (nicknamed "Allison"); and

Blagratwo (nicknamed "Melody")

ANNEXURE A

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