

Licensing and Trade in Foodstuffs and Agrochemical Industries

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This presentation by Simona Cazzaniga and Charles L. Casassa takes into consideration two principal elements:

- *the object of license contracts under consideration in the present workshop, namely foodstuffs and agrochemicals;*
- *the Italian regulatory framework that, beyond that of the European Community or that which derives from the European Community regulatory framework, must be taken into consideration for licenses of trademarks, patents and know-how relative to foodstuffs and/or agrochemicals produced or sold in Italy.*

With respect to the Italian regulatory framework, therefore, two categories of laws relative to or applicable to license contracts will be examined:

SECTION 1

Those of general coverage and/or those which implement the European Community Directives, taking care to highlight possible peculiarities of the Italian system:

License Contracts

In the context of the phenomenon of globalization and the process of harmonization undertaken by the European Community, licenses of trademarks, patents and how-how relative to foodstuffs and/or agrochemicals are subject to substantial

regulatory control. Issues such as public health, consumer protection, the environment, international trade policy, national sovereignty and regional development have a direct or indirect impact on the freedom of commercial operations in the foodstuffs and agro-businesses to produce and sell their products on the global market. Even the most simply drafted license contracts may contain elements or create obligations that are impracticable or prohibited in target markets. Therefore, to protect the business interests of those commercial operations, considerations of the viability of licensing agreements within the European regulatory framework, and specifically within the national regulatory framework of the target member state (in this instance, Italy), must be made before such agreements are drafted.

Exemptions for Technology Transfer Agreements

EC Regulation 240/96 relative to the application of EC Treaty Art. 85(3) [now, after the Treaty of Amsterdam, Art. 81(3)]. Today, the foodstuffs and agrochemicals industry is increasingly characterized by the technologies used, which are normally protected by patents and/or industrial secrets. It is common knowledge that a well-managed commercial strategy exploiting a secret formula, recipe or method of production can determine the success of the product as much as a winning marketing strategy. At the same time, however, the development of large industrial corporate groups or the establishment of commercial distribution or franchising accords among independent companies often entails the transfer of that technology by means of license agreements. These kinds of coordinating activities potentially

could have the effect of preventing, restricting or distorting competition in a particular product market [as prohibited by Art. 81(1) EC Treaty]. Given, however, that the transfer of technology and know-how generally is acknowledged as a significant contributing factor in the improvement of the production of goods and in the promotion of technical and economic progress [as provided by Art. 81(3) of the EC Treaty], qualifying agreements promoting the protection of utilization of such technology have been exempted from the prohibition.

As article 1346 of the Italian Civil Code: "the object of a contract must be possible, lawful, determined or determinable." The European Regulation provides that the know-how must be well-described in the text of the contract or in an attached document and no later than at the moment of signature. Otherwise, the contract is void, and the eventual amounts paid must be returned as "unjustified enrichment."

Therefore, for the contract to be valid, the know-how has to be:

- "not obvious" and "useful;"
- "secret" and well-protected; and
- "fixed on material support."

Please note that, in case of violation of the above rules, criminal sanctions can apply for fraud, fiscal elusion, illegal exportation of currency, etc.

Contracts of "Subfornitura"

Law no. 192/1998 is the new statutory framework regulating outsourcing agreements. Prominent among its provisions is Art. 9 (originally intended to be included within the Italian national antitrust

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provisions in law no. 287/1990), which regulates the situation in which one company is able to establish, in its contractual relationships with another company, an excessive imbalance of rights and obligations (based on the same principle prohibiting adhesion contracts) that tend to favor the business objectives of the stronger party. While it is natural for companies to find themselves in situations where they enjoy dominant bargaining power, those companies cannot, for example, impose contractual conditions that are unjustifiably onerous or discriminatory. In license agreements, such abuse can arise where there are provisions limiting the power of the licensee to obtain components or materials from suppliers independent of the licensor. In the area of trade in foodstuffs and agrochemicals, situations can become rather complicated. One can imagine, for example, a situation in which a license agreement for the production of a certain beverage requires the licensee to purchase all of the ingredients from specifically nominated suppliers. On one hand, the licensee may be in a position to locate a source of ingredients at a lower price and is therefore unable to increase its margin. On the other hand, there may be regulatory requirements or prohibitions that make the procurement of ingredients from the specifically nominated suppliers excessively onerous or even impossible. The Italian legislator has determined that such contractual terms render the contract void.

Biotechnology

European Parliament and European Council Directive 98/44 addresses the patentability of biotechnological inventions. Biotechnology has become an essential element in the development and enhancement of foodstuffs; although there are significant differences in opinion on the extent of its use and the risk both to consumers and the biosphere. The promethean advances and enthusiasm in biotechnology in the United States, for example, is not generally shared in Europe. As a conse-

quence, while European single market harmonization has made commendable advances toward a coherent regulatory system, there are still substantial regulatory differences in the global market. The new directive of the European Community will have an influence on the foodstuff industry in terms of the commercial viability of private research and development, which is largely driven by the reward of the exploitation of property rights arising from industrial patents. The regulatory disparity between countries in the transatlantic market, for example, will unavoidably produce circumstances where licensed technology will almost be worthless in certain markets, either because the technology is not protected or protectable, or because it has been included among those technologies that have been prohibited. Hence, there will be a good deal of attention given, for example, to the interpretation by the national courts of Article 4(1) of the directive, which provides that plant and animal varieties, as well as essentially biological processes for the production of plants and animals, shall not be patentable.

Plant Varieties

After an eight-year delay, Italy has conformed its national laws on plant varieties to the provisions of the 1991 International Convention on Plant Varieties in Legislative Decree 1988 no. 455. With this new legislation, a unique instrument for the protection of some plant variety inventions has been developed. The protection is not as comprehensive as the protection conferred by patents, but the "UPOV" (Union for the Protection of Plant Varieties) and the Italian legislator have determined that it was important to provide some level of protection analogous in some respects to patents for products that, according to Art. 53/b of the European Patent Convention, are not patentable. Therefore, inventors of new plant varieties will have a limited right to enjoy the fruits of their inventions, which are transferable and can be sold.

Phytosanitary Products

Legislative Decree 194/95 enforcement of European Directive no. 91/414 concerns the marketing of phytosanitary products. European Parliament and European Council Regulation 1610/96, which is directly applicable in the European member states, has instituted a complementary protective certificate for phytosanitary products. All phytosanitary products protected by a patent in a member state that are intended to be introduced into the national markets of the member states must, therefore, be certified. Licensees who manufacture and sell phytosanitary products in the national markets of the member states will have to see to it that this essentially administrative procedure has been properly executed.

Recent Developments on the Patentability of Genetically Modified Organisms

Decree of Agricultural ministry 08/07/99 enforcement of European Directive no. 99/53 regards the measures of protection against introduction and diffusion in the community of organisms causing damages to the plants and vegetable products.

Labeling and Relabeling

Legislative Decree 77/93 enforcement of European Directive 90/496 regarding the labeling and relabeling of alimentary products.

Please note that the European Court of Justice settled that the trademark owner must be notified in advance for every relabeling operation that could modify the original look of the product (Decision no. 11/11/97 case C-349/95).

Additives and Preservative Regulation in Foodstuff

Ministry Decree 27/02/96 no. 209 enforcement of directives no. 94/34, 94/35, 94/36, 95/2, 95/31.

Publicity:

1) Presidential Decree October 10, 1996, n. 627 Regulation of Antitrust Authority investigative procedures in matters of false advertising.

2) Supervisory Commission on Publicity (Giuri di Autodisciplina Pubblicitaria)

SECTION II

Those purely national laws relative to single foodstuff or agrochemical products.

In fact, there are more than 2,400 laws and decrees currently enforced that have a bearing on the ability to sell certain products or on the means, terms and conditions of production and/or introduction of products into the stream of commerce in Italy. In the framework of the national laws, one can identify two categories: those applicable in general to all foodstuffs or agrochemicals (conservation; additives and enhancements; packaging; transport and labeling), and those regarding single foodstuffs or agrochemicals.

Research Methodology

To identify all of the applicable laws, we first consulted the LEX and UTET Italian databases (updated as of April 10, 1999) and then the *Official Gazette* for those subsequent laws that had not been registered in the databases.

We then began our inquiry using the term "alimentari," or foodstuffs, and we encountered the presence of 2,434 documents. To identify the most relevant among these documents, and to obtain a quantity of data to be cataloged systematically, we extrapolated the documents regarding aspects of interest of all kinds of foodstuffs so that we could create classifications among subcategories.

In the ambit of foodstuffs, for example, we then made an inquiry of laws related to "packaging," where 259 documents were identified. Subsequently, the same approach was applied to laws regarding "additives, colorants and enhancements," where 204 documents were identified.

To proceed to an analysis of the laws relative to particular foodstuffs or kinds of foodstuffs, we then had to research all of the specific normative texts for certain kinds of foodstuffs, chosen on the basis of subjective criteria based essentially on those most commonly found in commerce.

We obtained the following list for an exempletive cross-section of foodstuffs:

Proteins
 Meat 495
 Fish 263
 Shellfish 78
 Caviar 11
 Poultry 70
 Game 162

Dairy Products 55
 Milk 905
 Cheese 196
 Yogurt 27

Carbohydrates
 Bread 233
 Bread Stick 13
 Pasta 270
 Rice 365
 Pizza /

Fruits
 Apple 120
 Orange 52

Vegetables
 Asparagus 13
 Artichoke 37
 Potato 276
 Tomato 91
 Pea 43
 Fennel 12
 Lettuce 19
 Chicory 41

Sugars
 Sweet 42
 Sugar 565
 Chocolate 67
 Jam 24
 Ice Cream 96

Seasonings
 Vinegar 129
 Oil 207
 Salt 128
 Pepper 79
 Spices 82
 Aromatic Spice 19

Drinks
 Alcoholic Drinks 59
 Soft Drinks 4
 Mineral Water 303
 Wine 762
 Beer 262
 Fruit Juice 46
 Herb Tea 3
 Coffee 558

We then determined that, among the categories of foodstuffs, or among the specific foodstuffs that in Italy are subject to a special and specific law, the so-called "DOC" (Denominazione di Origine Controllata) and/or those bearing the so-called "collective trademarks" should be identified and taken into consideration.

Our consultation of the UTET database on the basis of a serial inquiry ("Alimenti — DOC & Marchi) identified 164 applicable documents. Given the commercial and economic importance of each of these products, we have collected and categorized each of the laws applicable to specific products with the following results:

Fourteen general laws applicable to the method of establishing collective trademarks of "DOC" products, whether by agreements or bilateral accords between Italy and other countries, which recognize and protect such products.

Type of product	NN.doc. searched
<i>Wines</i>	5
Must and wine	4
Loazzolo wine	1
<i>Salted Pork Meats</i>	28
San Daniele ham	13
Parma ham	11
Modena ham	1
Ham of the Veneto	2
Varzi salami	1
<i>Dairy Products</i>	58
Buffalo mozzarella	4
Cheese	20
Grana padano e	
Parmigiano reggiano	6
Grana padano	8
Parmigiano reggiano	4
Pecorino cheese	1
Roman pecorino	11
Varied pecorino	4
<i>Oils</i>	
Varied oils	8
<i>Fruits and Vegetables</i>	
Fruit and vegetable	8
Vegetable	13
Fruit	12

*National Case Law and Commentary
in Foodstuffs and Agrochemicals*

We also conducted a general search of the case law in the foodstuffs and agrochemical sectors in order to identify its typology and volume. We were able to find 858 decisions in the UTET database.

Criminal Rules in Foodstuff

- Art. 515 Italian Criminal Code:
Fraud in Trade

- Art. 516 Italian Criminal Code:
Sale of Not Genuine Foodstuff as
Genuine.

- Art. 517 Italian Criminal Code:
Sale of Industrial Products with
Deceptive Signs.

- Art. 440 Italian Criminal Code:
Sophistication and Adulteration of
Foodstuff.

- Art. 444 Italian Criminal Code:
Trade of Noxious Foodstuff.

We collected the recent and most representative cases and have categorized them by subject:

- Commercial Fraud
- Public Safety
- Customer Deception
- Administrative Sanction
- Competition and Publicity
- Deceptive Practices in Labeling
- Wholesale Commerce
- Warehousing of Perishable
Goods