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GUEST ARTICLE

PATENT LAW AND THE INDIAN POLICY SHIFT

Prof. (Dr.) Ranbir Singh¹

1. INTRODUCTION

Over the past two decades, India has substantially intensified the protection of Intellectual Property Rights (IPRs). This has although happened due to a number of concomitant factors, and the principal cause can be attributed to India's obligation under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement).² IPRs are a bundle of exclusive private property rights granted for promoting the progress of science and useful arts. The theoretical underpinning suggests that IPRs act as incentives for innovation and thus benefits the society as a whole. Different categories of IP have different justifications based on theories of property propounded by Locke, Hegel, Kant, Bentham, etc.³ In the case of patents, the primary utilitarian justification is disclosure of knowledge which would have otherwise remained secret.

However, the most fundamental core of IPRs is the right to exclude. This right is designed to create to convey market power to the inventor to inhibit static competition by others and thus they also impose a social monopoly cost on the society. However, free-market economists understand this relationship in terms of the ability of IPRs to create dynamic efficiency by contributing to innovation. IPRs although central to the concept of free markets come along with costs of excluding competition, which equally forms the edifice of free markets.

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² The WTO Agreement on Trade-Related Aspects on Intellectual Property Rights (1994) Available at: http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm

³ William Fisher, Theories of intellectual Property, Harvard Law School, Available at: <http://www.law.harvard.edu/faculty/tfisher/iptheory.html>

Consequently, the optimal IPR policy would be the one that balances the interests of the technology producers' vis-à-vis the public interest in its use and consumption.⁴

IPRs involve categories of works which are assured protection through Patents, Copyrights, Trademarks, Geographical Indications, Industrial Designs, Layout Design Protection, Plant variety Protection and Trade Secrets. While the major debate in the policy shift has occurred in the area of Patents, there have also been significant changes in the law and policy of other forms of IP protection. In fact, certain forms of IPR's have been newly introduced complying with India's obligation under the TRIPS Agreement, viz., the protection of Geographical Indications, Layout Design Protection and Plant Variety Protection. The existing Patent, Industrial designs, Copyright and Trademark legislations were either drastically amended or reintroduced to comply fully with the TRIPS Agreement Mandate. In the last couple of decades, India has seen significant reforms in its IP policy in the wake of globalisation under the WTO. While policy shifts in other forms of IPR's have their implications on India's socio-economic growth, the changes in the patent scenario are worth examining in detail. It is mainly due to the impact created by the patent monopoly in India's ability to achieve economic transformation and social welfare that this policy shift will be gaining importance in the days to come.

2. THE INCREASING PRESSURE ON OPTIMAL PATENT POLICY

The non-monopoly origins of the patent system provide us with deep critical insights about the fact that the current understanding of the patent law and policy is partially flawed in its approach.⁵ The patent system developed out of a vision for industrial development in certain parts of Europe. Patent policies aimed at technology transfer and internal competition accrued Industrial Revolution in Great Britain in

⁴ Correa Carlos, Managing the Provision for Knowledge: The Design of Intellectual Property Laws, UNDP (2002) Available at: <http://web.undp.org/globalpublicgoods/globalization/toc.html>

⁵ Zorina Khan, History of Patents, (2002) available at: www.iprcommission.org/papers/word/study.../sp1a_khan_study.doc

early 19th century.⁶ However, this was a period in which there was total flexibility in terms of designing patent policies in favour of territorial or national interests. The second half of 19th century saw international consensus in Patent protection through the Paris Convention of 1883.⁷

Even while there were certain minimum obligations, they were non-binding in nature and hence member countries substantially had the freedom to frame policies although with limited flexibilities. Paris Convention primarily did not require its member countries to give effect to the agreement unless they had a patent law in the territory. The Paris Convention essentially occurred through a process of general consensus which suggests that the member countries formally agreed to standards which were reflective of its internal patent policies. The 20th century saw the rise of United States and a few Asian countries which framed suitable patent policies based upon the then available flexibilities in the international patent norms. Thus, if the patent system has a history of delivering on the general socio-economic welfare and growth of certain countries, it can well be seen that the patent system fundamentally focused on its essential object. It was the sovereign countries ability to use those flexibilities that matured the patent system into a tool for socio-economic growth.

However, the TRIPS Agreement was a watershed where the individual countries were left with little or no policy options due to the limited nature of flexibilities. The binding nature of obligations came out as fetters on countries willingness to bypass the international norms thereby allowing it to frame policies in national interests. Moreover, the TRIPS Agreement owes its origin to certain vested corporate interest which lacks sound sense of balance in allowing countries to move on the growth path. It is in this context that we attribute the TRIPS Agreement for disallowing countries to frame optimal patent policies in the light of its socio-economic objectives. Such pressure is quite visible when we examine the recent policy shifts in the Indian scenario. Further, the attempts for international substantive patent law

⁶ *Ibid.*

⁷ The Paris Convention on Protection of Industrial Property (1883)

harmonization and the mounting pressures created by FTA's (Free Trade Agreements) are testimonial to this syndrome. The EU-India free trade agreement had initially contained provisions on data exclusivity and patent term extensions and patent-linkage being put at the negotiating table.⁸ However, good sense prevailed over the Indian government and the PMO in 2010 issued a statement that India will not negotiate TRIPS-plus commitment that goes beyond domestic laws. Bilateral investment treaties are another contentious area which can have implications on domestic patent law and policy. BITs have harsher provisions on expropriation which require full compensation for any act of direct or indirect expropriation including due exercise of regulatory power. Some commentators are of the opinion that India's 83 BITs (72 in force) are way TRIPS –plus and hence India has to tread a cautious path especially in the light of India having issued a compulsory licence on Bayer's drug Sorafenib (Nexavar).⁹

3. INDIA'S PATENT POLICY PRE-REFORMS ERA

Although India saw its first Patent Legislation in 1856, the essential policy focus gained momentum only after independence. Two expert committees were established in independent India to study the functional implications of the then prevailing Patents and Designs Act 1911 and to provide suggestions on the type of a patent system that India should implement. The Patent Enquiry Committee (1948-50) reported that, "the Indian patent system has failed in its main purpose, namely to stimulate inventions among Indians and to encourage the development and exploitation of new inventions for industrial purposes in the country, so as to secure the benefits thereof to the largest section of the public." The second committee, known as the Justice Ayyangar Committee (1957-59), noted that "foreign patentees were acquiring patents not in the interests of the economy of the country granting the patent or with a view to manufacture there but with the object of protecting an export market from competition from rival manufacturers particularly those in other parts of the world".¹⁰

⁸ EU- India FTA Negotiations

⁹ Prabhash Ranjan, Compulsory Licences and BITs, Indian Express (2013)

¹⁰ Report on the Revision of Patent Laws, Ayyangar Report (1959)

The reports concluded that foreigners held 80-90% of the patents in India and were exploiting the system to achieve monopolistic control of the market. The committees therefore suggested that a patent system that focused on access to resources at lower prices would be beneficial to India.¹¹

The Patent Act of 1970, the current legislation on patents in India, was based on the recommendations of these committees. The committees suggested abolition of the then existing product patent system for substances intended for use or capable of being used as food or as medicine or drug. Thus with the introduction of the Patent Act in 1970, India provided only process patents in case of pharmaceutical and chemical innovations. This conscious policy choice was made in light of abuse of the patent system by foreign patent holders. Even the term of protection for process patents in case of pharmaceuticals was limited to a maximum of seven years. The general term of protection was also limited to fourteen years. Compulsory licensing was a mechanism through which the abuse of patent rights was sought to be remedied. However in such cases certain criterion was set before any compulsory license could be issued. The patent law also provided for license of rights in case of certain areas where it was felt that everyone should have the right to use the patent straight away without having to listen to patent holders excuses.

Even the patent law criterion was left undefined which ultimately placed judiciary on the upper hand for determining the standards of patentability. Interestingly the Indian judiciary consciously followed a stricter approach in the light of the enshrined policy object of the patent system. In effect, the patent system prior to the economic reforms and TRIPS obligations was conservative in its approach. This accrued immense benefits to the Indian pharmaceutical industry which has today become the largest generic drug producer in the world. Paradoxically, the provision for product patents failed to stimulate innovations in other areas of technology even before the advent of TRIPS. Thus, the Indian technology industry can traditionally be understood as not essentially based on the patent framework. Several other factors including a closed license regime were also responsible

¹¹ *Ibid.*

for a lack of innovation and enterprise in different areas of technology in India.

4. INDIA'S PATENT POLICY POST-REFORM ERA

The reforms invoked in the early 1990 have changed the whole policy and legal outlook underlying the Patent regime in India. Although such reforms have been initiated in the light of TRIPS Agreement under the WTO, it appears that there are few more reasons than what meets the eye. Although India as a developing country initially argued against the inclusion of IPR's under the WTO framework, the current policy seems to suggest a different approach. A couple of major factors have influenced the current patent policy namely:

The changing alliances in the industry: Certain sections of the Indian industry are working on patent based business models, which presuppose Indian investments in R&D. What could also be seen is a spate of mergers and acquisitions by foreign firms in India and Indian firms across the globe. The increasing consolidation in the Indian industry has changed the equations of optimal patent policy needed to achieve socio-economic goals.

IP as a tool for attracting FDI: The current policy of industrial development based on foreign capital is believed to presuppose stronger IPRs. It is viewed that investments occur only when there is strong IP policy in favour of protecting foreign capital investments. Thus, even while there exist certain policy space in the international IP regime, it is the willingness of national governments to use those spaces that make the real difference. Thus from a low protection patent regime India has seen a significant shift upward.

The following were the major changes made to the Patents Act, 1970 since the post-reform era:

- Increase in the Patent term for 20 years for both products as well as processes.
- Provision of exclusive marketing rights in case of mailbox applications during the transitional period from 1995-2005.

- Specific definition of patent law thresholds which was earlier left to judicial interpretations.
- Abolition of licensing of rights.
- Narrower compulsory licensing provisions without proper time framework.
- Reversal of burden of proof in case of process patents.
- Patents for new subject matter including micro-organisms.

5. IMPLICATIONS OF THE POLICY SHIFT

One of the major criticisms of the current Indian patent policy is the allowance of product patents for drugs and chemicals, which it would have preferred to avoid, but for the TRIPS mandate.¹² Although certain sections of the Indian industry have matured into global firms, the vast majority of the industry is still based on foreign technology absorption and minimal R&D investments.¹³

However, the current policy also envisages certain stop gap arrangements for existing generic production¹⁴ and also measures which could exclude minor improvement over of new chemical entities innovation.¹⁵ However, such interpretation is left to the domain of judiciary which possesses a tremendous possibility of bypassing the public interest policy and stronger interpretation of private property rights in information.¹⁶ This has put the whole issue of access and affordability of patented drugs and the consequent drying up of generic sources.

The economic significance test introduced into the inventive step criterion has also invited equal criticism.¹⁷ While the patent system was traditionally designed for innovations worth protecting, it has slowly

¹² Article 27.1 of TRIPS

¹³ Sudip Chaudhuri, *The WTO and Indian Pharmaceutical Industry*, Oxford University Press, (2005)

¹⁴ Section 11(A)(7)

¹⁵ Section 3(d)

¹⁶ The Indian judiciary has shown tremendous inclination to align with the public interest goals of patent policy. See the discussion in later section.

¹⁷ Section 2(1) (ja)

shifted its stance in favour of investments worth protecting. This has economic implications inasmuch as economic feasibility, even without improvements in technology may still be protected under the patents regime. The current definitions on patent law thresholds introduced, even while there exists sufficient flexibility under TRIPS, represents a significant shift from the traditional notions of patentability. The guideline issued by the Indian Patent Office however tend to adopt a cautious approach.¹⁸

The subject matter of patents has also been expanded in the wake of TRIPS to include micro-organisms. Thus, a clear policy of excluding DNA patents and patents on essential sequence tags (EST's) seems to haunt the existing patentability standards in India. This is particularly after the seminal decision of the US Supreme Court in Myriad Genetics case in 2013.¹⁹ Unfortunately, the recently issued biotechnology guidelines by the Indian patent office lack definitive clarity on this issue. Certain innovations in the areas of biotechnology form tools for innovations since the innovations in this arena are both sequential and complementary. Thus, the whole question of rapid innovation in this area is under debate due to anti-common effects in the biotech inventions.²⁰

The compulsory licensing provisions have also invited criticisms due to lack of time frame which could frustrate the purpose behind ensuring competition principles within the Patent scheme. Before the advent of the product patent regime in case of drugs and chemicals the existence of the time frame was not a sensitive issue but the position has altered

¹⁸ See, Manual of Patent Practice and Procedure, IPO Guidelines (2010)

<http://www.ipindia.nic.in/ipr/patent/manual/HTML%20AND%20PDF/Manual%20of%20Patent%20Office%20Practice%20and%20Procedure%20-%20pdf/Manual%20of%20Patent%20Office%20Practice%20and%20Procedure.pdf>

¹⁹ Association of Molecular Pathology (2013)

²⁰ Rebecca Eisenberg and Micheal Heller, Tragedy of the Anticommons: Anticommons in the Bio-medical Industry, Science <http://www.sciencemag.org/content/280/5364/698.full>

without ensuring significant protection against abuse of patent monopoly.

6. JUDICIARY THE SAVING GRACE:

There are at least two notable instances where the Indian judiciary has interpreted patent provisions to balance it with concerns of access to medicines. In *Novartis v. Union of India*, the Supreme Court interpreted Section 3(d) to require “enhanced therapeutic efficacy.”²¹ This criteria leads to differentiation was introduced by the Indian parliament in 2005 to prevent ever-greening of pharmaceutical patents.²² Thus by requiring inventors to show how derivatives to new chemical entities lead to some kind of therapeutic efficacy for patients, Section 3(d) and the *Novartis* decision of the Supreme Court has raised many contentious issues. Recently, United States Trade Representative has threatened India to list as a Section 301 “priority foreign country” for alleged violations of US intellectual property abroad. The USTR claims that Section 3(d) of India’s patent law unfairly discriminated between different categories of pharmaceutical inventions.²³

India also issued a compulsory licence on Bayer’s anticancer drug Nexavar in 2012. In an application made by an Indian generic company NATCO, the Controller General of patents issued the compulsory licence on all three grounds available under the Indian law. The Controller General made a finding that Bayer did not cater to a large section of the India public (Bayer was estimated to cater only to 2% of the patient population) and that Bayer’s price for Nexavar was not affordable by a larger section of the public (Rs. 2,80,000/- per patient per month) and that Bayer did not locally work the invention in India (Bayer imported all quantities of Nexavar into India).²⁴ This

²¹ *Novartis v. Union of India* (2013)

²² Section 3(d) Parliamentary Debates

²³ USTR Section 301 Report (2014)

²⁴ *Natco Compulsory Licence* (2012)

finding was confirmed by the Intellectual Property Appellate Board in 2013²⁵ and in July 2014, the high court has also confirmed the compulsory licence.²⁶ It may be noted that compulsory licence is an important flexibility granted under the TRIPS Agreement Article 31. However, the USTR report has raised objections owing to one of the grounds i.e. local working.²⁷

7. CONCLUSION:

The policy shift in favour of stronger IPRs need not necessarily bring in larger investments. There is always a possibility of the patent holder exploiting the market through importation right thus putting the patent-investment link into question. What is expected out of a patent regime must be clearly understood in the light of socio-economic objects from a developing country's perspective. If socio-economic equity is a Constitutional goal, it goes without saying that IP policy must be designed and implemented based on competition factors rather than being totally carried away by economic arguments in favour of certain sections of the industry.

²⁵ Bayer v. Union of India (2013)

²⁶ Bayer v. Union of India (2014)

²⁷ USTR Section 301 Report (2014)

Transfer Pricing Issues in Intangibles (Intellectual Property): An analysis of problems and possible solutions

Mr. Manish Jain ²⁸

1. INTRODUCTION

Transfer pricing means the price charged between related parties for goods, services, or use of property.²⁹ In a globalised world, a single corporate taxpayer undertakes business across the world and therefore its recourses are deployed across multiple taxing jurisdictions. Some of jurisdictions levy tax at high rate and some are low tax jurisdictions. The mismatch of rate of tax on income in different national taxing jurisdictions is reason and guiding force for any multi-national enterprises (MNEs)³⁰ to plan the allocation of resources and assets in the most tax efficient matter. The said tax efficient method is looked with suspicion by tax authorities, and it is allegedly called as shifting of profits to relatively low-tax jurisdictions through intra-firm transfer pricing, creating what is called the transfer pricing problem.

²⁸ Principal Associate, Lakshmikumaran Sridharan.

²⁹ “Transfer Pricing” BusinessDictionary.com, November 18, 2010 <http://www.businessdictionary.com/>

[definition/transfer-price.html](http://www.businessdictionary.com/definition/transfer-price.html)

³⁰ A multinational enterprise (MNE) is a company that is part of a “MNE Group.” An MNE Group consists of related corporations or similar entities operating in more than one country. Organisation for Economic Co-operation & Development (OECD), *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations*, at G-6 (2001) [hereinafter OECD Guidelines].

Among the transfer pricing transactions of MNE Groups, intellectual property (herein after referred to as 'IP') related transfer prices are the most significant and susceptible to dispute with tax authorities. The main reason for IP related transfer pricing disputes is the high value of IP's high value the complexity of IP-related issues.³¹

IP carries tremendous value because it often produces or has the potential to produce enormous amounts of royalties. Further IP is an intangible³² paper asset without any physical presence; it is easily transferable from one country to another. Thus, IP-related financial problems exist in commercial practices, valuation, and accounting as well as in attribution of income for tax purposes. Consequently, transfer pricing of IP is a major area of dispute and litigation.³³

³¹ Wu, Ronald, "Transfer Pricing: Current Problems and Solutions" (2010). *CMC Senior Theses*. Paper 87.

http://scholarship.claremont.edu/cmc_theses/87

³² "Intangibles" are property lacking physical substance and existing merely on paper. BLACK'S LAW DICTIONARY 811 (7th ed. 1999). Tax law considers patents as common types of intangibles. Intangibles are often defined slightly differently for different purposes, even in the tax law. I have chosen to refer to "IP" rather than intangibles in this article.

³³ For example, Enron (US based company) used off-shore MNEs to create "opaque corporate structures" which wiped out its corporate income taxes in India, Hungary, and (for one year) the United States. See Steven Filling & Prem Sikka, Taxing the Boundaries of Corporate Social Reporting, 33 PUB. INT. 21, 22 (2004), available at <http://aaahq.org/PublicInterest/newsletr/Fall04/fall04.pdf>.

This short article will briefly discuss the some of the transfer pricing issues in the context of the IP and widely proposed legal reforms providing for solutions for the same. It may be noted that this article neither argues for justifications of particular transactions nor questions the legal validity of the same. The only purpose of this article is to highlight the areas of disputes between the taxpayers and the tax department, and to offer possible legal solutions for avoiding those disputes.

2. TRANSFER PRICING MANAGEMENT AS A TOOL FOR TAX EFFICIENCY

Transfer pricing is a significant for both the taxpayers and tax administrators because it is used for cost allocations having a large impact on income, which ultimately determines a corporation's taxable income.

One of the major issues the tax officers in India are dealing with, involves legally shifting profits out of the India to tax havens like Bermuda, Switzerland, Ireland, Singapore, and the Cayman Islands. These nations have lower corporate tax rates in comparison with India. Some even have special tax exemptions for operating businesses in their country which pose large financial benefits. By taking advantage of these foreign tax rates and exemptions, multinational corporations are lowering their international tax rates and reporting higher profits.³⁴

³⁴ See also Russ O'Haver et al., *Improving Deals with Transfer Pricing*, 5 INTER CHANGE 4 (Dec. 2004). MNE Groups can minimize their taxes through three types of activities: tactical (profit shifting

3. MECHANISMS OF TRANSACTIONS PERTAINING TO IP

The efficient tax management or according to tax authorities, allegedly tax evasion may be undertaken by the MNEs in various ways such as Intangible property can be shifted to foreign principals with a transfer of ownership, cost sharing or licensing agreement.

3.1 Transfer of ownership

The transfer of ownership entails the sale of IP developed by one entity to a related affiliate in a different tax jurisdiction. In such a transaction, the tax authorities raise dispute in respect of the sale price on the various grounds such as nature of developed IP, the profit potential from exploitation of the subject IP and the resultant value of the IP.

3.2 Licensing

The licensing of any IP by one company to an associated enterprise typically involves a commercial arrangement whereby the licensee pays a royalty, usually specified as a percentage of the licensee's sales, to the licensor for the rights to exploit the associated intangible in the designated territory. A licensing agreement between an Indian parent

activities), operational (financial restructuring), and tax planning (MNE Group structure reorganization).

and its foreign principal contains terms for pre-existing intangible property rights and royalty payments in return. These royalty payments are taxable income in the India. The current issue surrounding the sale and transfer of intangible property is how to accurately value the transaction. Without an accurate value, an appropriate arm's length payment or royalty fees are difficult to support.

3.3 Cost sharing agreement

In a cost sharing agreement, related companies agree upon how costs for developing intangible property are to be allocated between them. With this agreement, if for example, a patent was produced by the parent, the foreign principal has the rights to use that patent for a portion of developmental costs. There are tax incentives because if the parent is located in a higher tax jurisdiction than the principal and the developmental costs are less than market-based royalty fees, the corporation can decrease its global tax liability.³⁵ Nonetheless, it is often alleged that corporations are shifting cost and risks under transactions to violate the arm's length standard.³⁶

35 Dye, Ronald A., "Cost-Sharing Agreement A tax-saving device of multi-nationals," "Valuation Issues for Buy-In Payments Associated with Cost-Sharing Agreements" Kellogg School of Management, 2008.

http://insight.kellogg.northwestern.edu/index.php/Kellogg/article/cost_sharing_agreements

³⁶ In the industrialized world, transfer pricing is the leading international tax issue. *See* CYM H. LOWELL ET AL., U.S. INTERNATIONAL TRANSFER PRICING ¶ 11.03(3) & n.186 (2005). Transfer pricing is also the most significant tax issue in many developing economies, such as China. *See* KhoonmingHo & Jean Li, *China*, WORLD TAX 2005, at 116, 122 (2005).

4. THE COMPLEXITY OF INTELLECTUAL PROPERTY ISSUES

The use of the arm's length standard in transfer pricing regulations is a major problem and may be the root of all transfer pricing issues. All transfer pricing disputes arise over the arm's length standard principal. In court, corporations will support related party transfer prices and allocations with unrelated transactions, believed to be within arm's length. The TPO would argue that the unrelated transaction is not arm's length because of a difference in quantity, market price, type of customer, packaging and other non-monetary factors.

Once the arm's length standard is found to be violated, the TPO can adjust the income, deductions, credits, or allowances of commonly controlled taxpayers to prevent evasion of taxes or to clearly reflect their income. However, certain transactions are unique and no comparable unrelated transaction exists, a level of ambiguity surrounds the arm's length standard. Especially with transactions concerning intangible property, many times no comparables exist because of their nature.

This part discusses various challenges in taxing IP. The challenges include wide variance in the valuation of IP, accounting standards that fail to recognize the existence of IP, and the difficulty faced in determining the revenue attributable to various IP for tax purposes.

4.1 Bundling of IPs

The commercial practice of bundling IPs together for sale presents a problem for understanding transfer pricing adjustments in this context. An MNE Group often conveys licenses of IP rather than selling

underlying property rights.³⁷ Licenses of IP rights often package several patents and “know-how” together as “technology licenses.”³⁸ This transaction allow affiliated foreign MNEs to use the IP developed or owned by another related or affiliated MNE, subject to the MNE Group’s strategic plans and restrictions.³⁹ The complexity of valuing individual IP usually increases with strategies for various sophisticated licensing arrangements and cost sharing agreements.⁴⁰

³⁷ See OECD Guidelines, *supra* note 1, at VI-7, ¶ 6.16. See generally PHILIP MENDEZ, TO LICENSE A PATENT—OR, TO ASSIGN IT: FACTORS INFLUENCING THE CHOICE (n.d.), available at http://www.wipo.int/export/sites/www/sme/en/documents/pdf/license_assign_patent.pdf.

³⁸ See OECD Guidelines, *supra* note 1, at VI-7, ¶ 6.18. See generally Ethan Horwitz, *Patent & High Technology Licensing*, in PATENT & HIGH TECHNOLOGY LICENSING 57, 62-63 (Ethan Horwitz & Mark S. Holmes eds., 2005).

³⁹ See generally Marina Lao, *Unilateral Refusal to Sell or License Intellectual Property and the Antitrust Duty to Deal*, 9 CORNELL J.L. & PUB. POL’Y 193 (1999). A license may have various limitations, which may be based on geographic use, type of product, or channels of trade. An “exclusive license” gives permission to one party only. See ELIZABETH D. HOCHBERG ET AL., E-Z REVIEW FOR INTELLECTUAL PROPERTY 331 (2003).

⁴⁰ “Cost sharing” or “cost contribution agreements” are another common arrangement for importing the value of IP when two or more controlled taxpayers jointly develop the IP. See OECD Guidelines, *supra* note 1, at G-4. They are also known as “cost sharing arrangements” in the United States. Cost contribution arrangements are often interpreted differently by different countries. See Clark

4.2 IP Valuation

Valuation of the IP represents another reason for various disputes between the taxpayers and tax department. Even the Organisation for Economic Co-operation and Development (OECD) Guidelines recognize that it is often difficult to attribute a distinct value to each piece of IP on an ongoing basis.⁴¹ Determination of the true value of IP is complex because the economic value of IP is primarily determined by the economic and legal environment in which the IP is embedded, the market demand for the IP, and the existence or absence of close substitutes.⁴² IP often fluctuates in value significantly depending upon the key assumptions of the inherent risks associated with the IP. These risks can include liability concerns or the possibility that competitors will create new and better products.⁴³

Chandler & Richard Boykin, *Transfer Pricing: Introduction*, INT'L TAX REV., July 2004 Supp., at 3.

⁴¹ The OECD is an international organization of thirty member countries primarily dominated by European countries. The OECD proposes government policies in various areas including transfer pricing. *See* About OECD, <http://www.oecd.org>.

⁴² Patents are sometimes acquired to block the development of close substitutes, prevent other companies from using the technology, or for advantage in cross-licensing arrangements.

⁴³ GlaxoSmithKline's description of its competition recognizes that "[p]harmaceuticals may be subject to competition from other products during the period of patent protection and, once off patent, from generic versions." GSK ANNUAL REPORT, *supra* note 6, at 22; *see also* CANADIAN REVENUE AGENCY, PUBL'N NO. 87-2R,

The valuation of IP poses difficulties for transfer pricing decision making and government oversight for following three major reasons.

- a) comparables for such assets seldom exist. Patents are rarely traded on external markets. Usually MNEs are unwilling to sell their patents, but might license out some of the rights to use the intangible asset.
- b) Second, IP rights are often transferred in combination with tangible assets or services, known as “embedded intangibles.”⁴⁴ Buyers may want to acquire a product that relies on a combination of IP and other assets.
- c) Third, intangibles other than patents are particularly difficult to detect because they are not reported in financial statements.⁴⁵

INTERNATIONAL TRANSFER PRICING 15, ¶ 141 (1999), available at <http://www.cra-arc.gc.ca/E/pub/tp/ic87-2r/ic87-2re.pdf>.

⁴⁴ See generally Richard L. Doernberg, *Taxation Silos: Embedded Intangibles And Embedded Services Under U.S. Law*, 41 TAX NOTES INT’L 561 (2006).

⁴⁵ Intangibles are tracked by certain proxies such as royalties, license fees, and dividends. *Id.* More than seventy-five percent of all private R&D expenditures worldwide are accounted for by MNEs. Most royalties, licenses, and management fees are intra-firm payments flowing from foreign affiliate MNEs to the parent corporation MNE. *Id.* (citing Lorraine Eden et al., *The Production, Transfer, and Spillover of Technology: Comparing Large and Small Multinationals as Technology Producers, in SMALL AND MEDIUM SIZED ENTERPRISES IN THE GLOBAL ECONOMY* 121, 122 (Zoltan J. Acs & Bernard Yeung eds., 1999)).

4.3 Accounting

In addition to the above complexities associated with transactions and valuations, it may also be noted that the standards for financial accounting for IP are usually inadequate. IP generally does not appear on an MNE Group's balance sheet unless acquired through a purchase, in which case the IP appears only as "goodwill because the accounting standards in most countries allow internally-generated IP to be expensed rather than capitalized as investments. IP is generally not recorded or disclosed in an MNE Group's financial statements or its footnotes. Even if an MNE Group measures its IP, very little disclosure about IP is required in the financial statement footnotes.

5. VALUATION APPROACHES FOR TRANSFER PRICING OF IP

From the above discussions, it is evident that valuations of the IP and determination of the transfer prices in IP transactions are complex and difficult task. A major area of dispute is determination of "Arm's-length standard"⁴⁶ being test for determining an MNE's true taxable income and appropriate transfer prices. At this stage, it is advisable that MNEs must use an approved transfer pricing method to test whether controlled transactions satisfy the arm's length standard. The transfer pricing method used for IP should reflect the modern commercial reality. In the following text, there is a discussion regarding various approaches for determining the correct value for determining the price of IP.

5.1 Transactional approach

⁴⁶ Theoretically an arm's-length transaction is one where the result is the same as if independent parties had negotiated a price to buy or sell the product

One type of transfer pricing approach is the transactional approach. This approach examines transfer prices on a transaction by transaction basis does not consider the aggregate financial impact. There are different methods within the transactional approach. The method referred to as the “comparable uncontrolled price” (CUP) uses a price that an outside party would charge the MNE for the item under similar circumstances.⁴⁷ This method is the most commonly used method worldwide to support the transfer prices of IP rights, such as a licensing agreement on a patent.⁴⁸

Comparability is essential for a transactional method to provide a reasonable and reliable benchmark for evaluating an arm’s-length

⁴⁷ The OECD suggests the major traditional transactional method for IP is the comparable uncontrolled price (CUP). *See* OECD Guidelines. Two other traditional transactional approaches to transfer pricing authorized by the OECD are the resale price method and the cost plus method. In practice, these two methods are rarely used for IP because of the uniqueness of most IP. *See* ERNST & YOUNG, TRANSFER PRICING 2003, *supra* note 7, at 18. The OECD Guidelines prefer traditional transactional methods. OECD Guidelines.

⁴⁸ Most MNE parent corporations claim to use a single set of transfer prices for all purposes. *See* ERNST & YOUNG, TRANSFER PRICING 2003 GLOBAL SURVEY 17 [hereinafter ERNST & YOUNG, TRANSFER PRICING 2003]. However, two different transfer prices are used by a growing number of MNE Groups. *See* Chongwoo Choe & Charles Hyde, Multinational Transfer Pricing, Tax Arbitrage and the Arm’s Length Principle 1 (Sept. 24, 2004) (working paper, available at <http://ssrn.com/abstract=600881>) (describing how some companies use one transfer price for internal managerial purposes and another for tax purposes)

result.⁴⁹ Finding comparable IP, however, is often difficult or impossible because of the nature of IP itself.

Finding comparables for IP is “at best an incomplete exercise and at worst completely subjective.” Thus, there is a frequent need to rely on hypothetical transactions in identifying comparable IP for similar products with similar profit potential. Governments sometimes create such fantasy commercial transactions by using comparables not publicly available, known as “secret comparables.”⁵⁰

⁴⁹ Traditional transactional methods use various factors to determine comparable circumstances for arm’s-length consideration, such as the prevailing industry earningsrate and contractual terms for the transfer of any IP rights. Commercial practices, economic principles, or proper statistical analyses provide a basis to adjust for material differences between controlled and uncontrolled transactions. *Id.* As an example, the European Union expects a comparability analysis to include a description of the property or services, functional analysis, contractual terms, economic circumstances, and specific business strategies. *See* Council Resolution 9738/06, annex ¶ 5.2(c), 2006 O.C. (405) 5 (EU)

⁵⁰ A Government’s use of “secret comparables” is a controversial practice that undermines the transparency in the country’s tax law. However, many governments, such as those of Japan, Canada, Korea, and Mexico, use secret comparables to prevent abusive tax avoidance through transfer pricing manipulation. *See, e.g.,* Martin Przysuski, *Canada Reaffirms Use of Third- Party Information for Transfer Pricing Audits*, 34 TAX NOTES INT’L 205, 205 (2004). France, China, Germany, and India have also used secret comparables. Lubna Kably, *Taxmen Flash “Secret Data” to Challenge Companies’ Pricing Claims*, ECON. TIMES (India), Nov. 3, 2004, available at <http://economictimes.indiatimes.com/articleshowarchive.cms?msid=908618>

5.2 Valuation approaches

Another type of transfer pricing approach is the valuation approach. The valuation approaches to transfer pricing best satisfy the arm's-length standard for transfer prices of IP and most closely resemble realistic commercial practices in transferring IP. The valuation approaches for IP based on net worth appear less susceptible to transfer pricing disputes than traditional transactional approaches. Various valuation methods exist to determine the transfer pricing of IP.

- a) The “comparable profits measure”⁵¹ (CPM) determines the arm's-length price of a controlled transaction by reference to profit level indicators such as financial ratios from transactions in the same industry.⁵²

⁵¹ While an economist makes numerous adjustments to establish a CPM, there are three different ways to calculate the CPM : (1) the “CPM with Berry Ratio” (gross profit to operating expenses), (2) the “CPM using an Operating Margin,” and (3) the “CPM using a Three-Year Rolling Average Operating Margin.”

⁵² Comparability under the CPM is less strict than other methods, resting primarily on resources employed and risks assumed. *See generally* Anthony Barbera & John Hatch, *CPM and Determining Income Attributable to Intangible Assets*, 13 BNA TAX MGMT. TRANSFER PRICING REP. 40 (2004). Significant product diversity and functional diversity of the MNE activities for the product are accepted under the CPM. Usually a government prefers that comparable parties operate within the same industry segment as the controlled party. Treas. Adjusting for differences in accounts receivable or payable are

- b) In contrast, the “profits split method”⁵³ looks at the combined profit or loss from a business activity between controlled parties and allocates it between the related parties based on a preset formula.⁵⁴

Valuation methods other than these two may be used if the alternate method provides the most reliable measure of an arm’s-length result. Valuation approaches are needed for regulating transfer pricing of IP because the value of IP is difficult to measure on a transaction by transaction basis.

The governing standard for transfer pricing methods in the India is the “best method rule,” which utilizes various criteria, such as the requirement that data be comparable and reliable, to evaluate the valuation methods.

examples of accounting adjustments to ensure greater consistency for comparability.

⁵³ It essentially allocates income based on IP development costs and is widely used in transfer pricing studies for MNEs. *See* Langbein, *supra* note 181, at 1313. Concern exists about the heavily-weighted use of the RSPM in the proposed 2003 regulations. Michael Heimert, *A Systematic Approach to IP Transfer Pricing*, INT’L TAX REV., Jan. 14, 2005, at 37, 39.

⁵⁴ The formulary apportionment allocation may be based on the relative value of each party’s business activity for the combined venture.

6. POSSIBLE SOLUTIONS

General framework of “internationalization” would be held full at the policymaking level for authorizing transfer pricing methods. There has to be international cooperation to exchange information. Mechanisms may be created for resolving international disputes, as has occurred with the WTO and international IP law.⁵⁵ Harmonization of definitions and provisions in an area such as patent law would also help the cause.⁵⁶

There are also suggestions that major international legal reforms are required to effectively reduce tax avoidance by MNE Groups. It proposes to levy a minimum tax into the current international treaties on IP registration to prevent MNE Groups from escaping significant tax on their IP. It further proposes to adopt uniform and all-inclusive

⁵⁵ The WTO has the WTO Appellate Body, which oversees the work of all WTO dispute resolution panels. *See* G. Richard Shell, *Trade Legalism and International Relations Theory: An Analysis of the WTO*, 44 DUKE L.J. 829, 831- 34, 848-53 (1995).

⁵⁶ Sources on external comparables arise from (1) confidential information from third parties often referred to as secret comparables, (2) public information such as industry surveys, and (3) databases that compile information supplied by the MNEs. *See* OECD, *Comparability*, Comparables are usually located using public databases. *See generally* Mildred A. Hastbacka, *Valuation of Technology Intangibles for Transfer Pricing: Time for Industry Initiatives?*, 32 TAX NOTES INT’L 265, 272 (2003).

multiple ownership rules for IP to identify the MNEs rightfully subject to taxation as IP owners.⁵⁷

CONCLUSION

The Transfer pricing regulations have many gray areas that have resulted in various disputes and litigations. It is often alleged that tax avoidance through transfer pricing manipulation of IP, along with the movement of IP to tax haven countries, has created a need for legal reforms in IP transfer pricing regulation. Along with the valuation of IP, the arm's length standard itself is the core of current transfer pricing problems because many time comparables simply do not exist in IP transactions. Though there are suggestions for the determination of the true value of the IP in such situations.

Undoubtedly, the jurisprudence on the issue is evolving, and current laws and regulations have flaws and are not perfect. Valuation of IP transactions will never be a perfect science. However, regulations governing the IP transactions ought to ensure that IP is being shifted for commercial reasons and not solely for tax evasion.

⁵⁷ THOMAS C. PEARSON, Proposed International Legal Reforms for Reducing Transfer Pricing Manipulation Of Intellectual paper Property, presented at the 18th Asian-Pacific Conference on International Accounting Issues on October 16, 2006

THE COPYRIGHT ACT AND ITS EFFECT ON THE RIGHT TO EDUCATION: A CRITICAL ANALYSIS

-Anuradha Herur⁵⁸ and Samraat Basu⁵⁹

ABSTRACT

This article attempts to analyse the extent of the right of the students to copy copyrighted materials such as course books for educational purposes. It attempts to look at The Copyright Act as amended in 2012 and the exceptions provided in the legislation and the scope of these exceptions. The article moves onto a multidimensional analysis of The Copyright Act in relation to The Constitution of India, and whether the legislation is in consonance with the Constitution. The article also attempts to understand the impact of copying copyrighted works for purposes of knowledge on the educational rights guaranteed under the Constitution. The article also attempts to understand the situations under which copying might be permitted, and the reasons for the same. Further, the article analyses various cases from around the world in an attempt to understand the position of different countries on the extent of copying that is legally permitted. Finally, the article looks at the jurisprudence and social aspects of the right of students to copy materials for educational purposes as against the right of the copyright holders such as authors and publishers who have a

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right to earn profit for the labour, skill and capital they have invested in creating a book.

1. INTRODUCTION

In recent years a number of law review articles and recent Harvard University Press publication have all sought to tackle the question of academic ownership, with many of the works titled something like, “Who owns academic work,” and “Who owns course materials.”⁶⁰ One work in the last year that received a good deal of attention was that of Corynne McSherry, called *Who Owns Academic Work: Battling For Control Of Intellectual Property* (2001). McSherry’s argument seems to discourage academics from using the law and court systems to protect their work, demonising those who do and accusing them of changing the tone of the university into a space fearing litigation. She also suggests that academics should not ask for anything more than what they are given, for fear of losing a gift economy, safe from a commercialized space.

In the summer of the year 2012, the prestigious Delhi University (hereafter, the University) and a photocopying store on its Campus, Rameshwari Photocopying Services (hereafter, the photocopiers) were accused of having infringed the copyright laws laid down by The Copyright Act of 1975 (hereinafter, the Copyright Act) by publishers Oxford University Press, Cambridge University Press and Taylor &

⁶⁰ Corynne McSherry, *Who Owns Academic Work: Battling For Control Of Intellectual Property* Harvard University Press, United States, 2009; see also Georgia Holmes and Daniel A. Levin, “Who Owns Course Materials Prepared by a Teacher or Professor? The Application of Copyright Law to Teaching Materials in the Internet Age”, *B. Y. U Education and Law Journal*, Vol. 2000, No. 1, April-June 2000, p. 165, and Gregory Kent Laughlin, “Who Owns the Copyright to Faculty Created Web Sites?: The Work for Hire Doctrine’s Applicability to Internet Resources Created for Distance Learning and Traditional Classroom Courses”, *Boston College Law Review*, Vol. 41, No. 3 2000, p. 549.

Francis⁶¹ (hereinafter, the publishers). The publishers have alleged the reproduction and issuing of their publications in the most “illegal and unauthorised manner” by the photocopiers at the instance of the University.⁶² The publishers thereby initiated a suit against the University and the photocopiers for permanent injunction, restraining infringement of copyrights, damages, rendition of accounts of profits and so forth.⁶³ They also asked that the distribution of the compilation be stopped immediately, as the distribution of the ‘pirated’ copies would cause them revenue losses.⁶⁴ The photocopiers’ shop was subsequently raided and an inventory of all the pirated copies was made, and the copies were seized.⁶⁵ The incident left the world of academia stunned, and many academicians, lawyers and scholars have expressed their shock about the matter.

The right to free and compulsory education in India, however, has been granted as a Fundamental Right under Article 21A of the Constitution.⁶⁶ While this article talks about free and compulsory education to children aged between six and fourteen years of age, Article 41 of the Constitution provides that the state shall provide for education to its citizens. Education in India has been recognised as the most important way of attaining development and redressing inequity. In fact, in his address to the nation on August 15 2007, commemorating 60 years of independence, Prime Minister Manmohan Singh pronounced education as the “foundation on which a progressive, prosperous society can be built.”⁶⁷

⁶¹ Staff Reporter, “Delhi University, photocopy service in the dock over piracy”, *The Hindu*, August 14, 2012.

⁶² *Ibid.*

⁶³ *The Chancellors, Masters and Scholars of the University of Oxford & Ors. v. Rameshwari Photocopying Services & Anr.*, CS (OS) 2439/2012

⁶⁴ *Supra* Note 1.

⁶⁵ *Ibid.*

⁶⁶ *The Constitution of India*, 1950, Article 21 A.

⁶⁷ Lawrence Liang, “Exceptions and Limitations in Indian Copyright Law for Education: An Assessment”, *The Law and Development Review*, Vol. 3, No. 2 (2010), pp.200 – 210.

Education today, has been brought within arm's reach for many people in the Indian society. The continuing development of information and communication technologies have presented for the people a wealth of opportunities for creative interventions to help close the educational gap. This development in technology may seem to be very promising in helping to transcend geographical limitations in education, enabling wider dissemination of learning materials as well as allowing for collaborative learning and production of learning materials. In fact, the internet has the centrality of future education. The internet enables self-learning in ways once not thought possible, significantly reduces the costs of learning materials, and allows for interactions to take place across borders.⁶⁸ An older and almost as commonly used technology in sharing educational material has been through the photocopiers.

2. DEFINING THE AMBIT OF THE COPYRIGHT ACT:

1.1. SCOPE OF SECTION 51 OF THE COPYRIGHT ACT

Section 51 of the Copyright Act⁶⁹ enunciates the general rule that copyright in a work shall be deemed to be infringed in certain cases. This Section enunciates the rule that certain acts shall not constitute the infringement of copyright. In other words, all reproduction is not precluded, and the section specifies the instances in which it may be permitted. Thus, while Section 51 enacts the general rule that reproduction of the whole or a substantial part of a copyright work will constitute infringement, this section enunciates the rule that all reproduction is not precluded and specifies the instances in which it is permitted.⁷⁰

Several classes of cases of reproduction have been held to be fair, and hence not an infringement; such as:

- a. Fair quotation

⁶⁸ *Ibid.*

⁶⁹ The *Copyright Act*, 1957, s. 51.

⁷⁰ Dr. Raghubir Singh, *Iyengar's The Copyright Act*, Universal Law Publishing Co., New Delhi 2010.

- b. Extracts from comments and criticism
- c. Bona fide abridgements, and so forth⁷¹

Other cases of reproduction may be recognised when they arise. Each case would depend on its own circumstances. All uses of a book are dedicated to the public, except as reserved by statutes.⁷² Under certain circumstances, and for some purposes, a subsequent author may draw from previous works its identical words, and make use of them, particularly in works with regard to arts and sciences. This includes medical and legal publications, in which the entire community has an interest.⁷³

1.2. UNDERSTANDING FAIR DEALING WITH REFERENCE TO EDUCATIONAL INSTITUTIONS

Section 52 of the Copyright Act⁷⁴ deals with the concept of fair dealing, by specifying what shall not constitute the infringement of copyright. This section was first amended by the Copyright (Amendment) Act, 1983, and thereafter by the Copyright (Amendment) Act, 1994. This section mainly deals with what is known as 'fair dealing' or 'fair use'.⁷⁵ Fair use of copyright material is the extra legal use, which is usual, reasonable and customary.⁷⁶ Copyright is provided for the purpose of promoting the progressive science and the usual arts. Therefore, the use of copyright material, even to the extent of some copying is, under certain circumstances, not an unlawful use. Such lawful use comes under the description of 'fair use'. The Copyright Act provides statutory defences to claims for infringement of copyright. One such statutory defence is a fair dealing with a literary, musical, artistic or dramatic work for the purpose of research or private study; or criticism or review, whether of that work or of any other work. Before publication, there can be no fair use of works protected under the common law of copyrights. As long as the author

⁷¹ *Ibid.*

⁷² *West Publishing Co. v. Thompson Co.*, 169 Fed Cas 539 833 (861).

⁷³ *Sampson and Murdock v. Seaver-Radford Co.*, 140 Fed Cas 539 (541).

⁷⁴ *The Indian Copyright Act*, 1957 s. 52.

⁷⁵ *Ibid.*

⁷⁶ *Supra* note 11 at 395.

keeps his work confidential and does not communicate it, no one has a right to use it. After the work has been published, there may be a fair use, as well as an unfair use. In determining whether there has been a fair use, the Court must find:

- a. Whether there has been any substantial taking, and
- b. Whether there has been any use which might amount to

plagiarism.⁷⁷

If there has been no substantial taking or no plagiaristic use, like infringement of copyright, for instance, no question of fair or unfair use arises. If it is found that there has been plagiaristic use, then the question arises as to whether the use has been fair or unfair.⁷⁸ In the case of *Howkes and Sons (London) Ltd. v. Paramount Film Service Ltd.*,⁷⁹ the Chancery Court first took into account whether or not there had been any substantial taking from the musical work in question. The Court then proceeded to consider whether the taking was 'fair dealing', i.e., whether or not it fell within the exception.

The question whether the dealing has been fair or unfair depends on the circumstances of each particular case. The court must look at:

- a. the nature and object of the selection made
- b. the quantity and value of materials used, and
- c. the degree in which the use might prejudice the sale,

diminish the profits or supersede the objects of the original work.

The provisions under this Section were upheld in the case of *Academy of General Education, Manipal v. B. Manini Mallya*,⁸⁰ where the Supreme Court held that "Section 52 of the Copyright Act provides for certain acts which would not constitute an infringement of copyright. When a fair dealing is made *inter alia*, of a literary or a dramatic work for the purpose of private use including and not limited to research, criticism

⁷⁷ *Ibid.*

⁷⁸ *Ibid.*

⁷⁹ *Howkes and Sons (London) Ltd. v. Paramount Film Service Ltd.*, (1934) Ch. 593; See also *Ladbroke (Football) Ltd. v. William Hill (Football) Ltd.*, (1964) 1 All ER 465.

⁸⁰ *Academy of General Education, Manipal v. B. Manini Mallya* 2009 (39) PTC 393 (SC).

or review, whether of that work or of any other work, such a dealing does not constitute an infringement of copyright.”

The Copyright Act is a piece of welfare legislation.⁸¹ That said, the legislation aims at protecting and safeguarding the interests of authors and owners.⁸² It cannot be lost sight of the same very legislation balances the competing interest of the society and those who are members of the society so that the protection given to the authors should not unnecessarily infringe upon the legitimate acts done by bona fide persons. The Copyright Act⁸³ clearly provides exceptions⁸⁴ so far as it relates to reproduction of any work done, the said provision has to be interpreted in the light of corresponding benefit which will be given to the children and youth by enabling them to study the books and making them available at reasonable costs. This it does by providing photocopies of selected pages of chapters from the prescribed books for educational purposes.

The preamble of the constitution of India calls India a socialist country. Justice Kuldip Singh said, “The fundamental rights guaranteed under Part III of the Constitution of India including the right to freedom of speech and expression and other rights under Article 19 cannot be appreciated and fully enjoyed unless a citizen is educated and is conscious of his individualistic dignity. The “right to education”, therefore, is concomitant to the fundamental rights enshrined under Part III of the Constitution. The State is under a constitutional mandate to provide educational institutions at all levels for the benefit of the citizens. The educational institutions must function to the best advantage of the citizens. Opportunity to acquire education cannot be confined to the richer section of the society.”⁸⁵

It can be clearly seen that if the photocopying of educational books are not allowed then the future of our country will be hampered, as knowledge will become the prerogative of the elite section of society.

⁸¹ *Miller v. Taylor (1769)* 4 Burr 2303 (2335).

⁸² *Ibid.*

⁸³ *The Indian Copyright (Amendment) Act, 2012.*

⁸⁴ *The Indian Copyright (Amendment) Act, 2012*, s. 52.

⁸⁵ *Mobini Jain v. State of Karnataka* AIR 1992 SC 1858 ¶¶ 13-14.

The high costs of these books will make it impossible for a significant section of the population. It must be kept in mind that India is a developing nation and a huge section of its population live below the poverty line or in just the basic sustenance level. In such a situation, even if an individual wants to pursue higher education, the high costs of access to education will limit his opportunities of growth. We must not see it as the loss of the individual but as a loss of the nation to effectively nurture its citizen and provide them opportunities for growth and self-realisation.

In a similar Canadian case of *Alberta (Education) v. Canadian Copyright Licensing Agency*,⁸⁶ the Canadian Supreme Court also ruled “It was neither artificial nor unreasonable to conclude that the photocopies mainly serve the teacher’s purpose of teaching and that this was the relevant and predominant purpose of the dealing.”

3. FAIR DEALING:

1.3. UNDERSTANDING ‘FAIR USE’

To prevent copyright from becoming a hindrance to the legitimate use of works in which copyright subsists in furtherance of knowledge, the Copyright Act provides exceptions in the manner and circumstances detailed in the several clauses of the section. Such fair use is not an infringement of copyright under the act. It is often difficult to say:

- a. Whether an alleged act of copying from an original work in which copyright subsists amounts to piracy? or
- b. Whether an alleged act of copying may or may not be justified on the ground of fair dealing? or
- c. Whether the use made of the work in which copyright subsists does not exceed what the law permits?⁸⁷

However, there is considered to be an infringement of copyright, if:

⁸⁶ *Alberta (Education) v. Canadian Copyright Licensing Agency*, [2012] 2 S.C.R 345

⁸⁷ *Supra* note 11 at 396.

- a. So much is taken that the original is sensibly and materially diminished, or
- b. The labour of the previous author is substantially, and to an injurious extent appropriated by the defendant.⁸⁸

The question of piracy often depends upon:

- a. A balance of the comparative use made by the defendant of the materials of the plaintiff;
- b. A determination of the nature, extent and value of the materials used;
- c. The object of each work; and
- d. The degree to which each author may be fairly presumed to have restored to the same common source or sources, or to have exercised the same common diligence in the selection and arrangement of materials.

While the law of copyright protects authors and others against the use of their works without permission, the acts mentioned in this section are not in the interests of the public and of the various sections of the community. In some cases, the interests of the owners of the copyright themselves are regarded as the infringement of rights.⁸⁹

1.4. FAIR DEALING DEFINED

What is or is not fair dealing has been understood to depend upon the circumstances of each case. In determining the issue of fair dealing, the court should consider:

- a. The nature, scope and the purpose of the works in question – if the works are similar in these aspects, they may be regarded as competitive. If so, the latter publication might interfere with the sale and diminish the profits of the earlier work, thereby causing substantial injury to the owner of the copyright in the earlier work. If, however, they are different in their nature, scope and purpose, the latter has a greater

⁸⁸ *Ibid.*

⁸⁹ *Ibid.*

liberty to make quotations and take extracts from the work in which copyright subsists. However, it is important to note that the use of quotations for a profitable commercial purpose does not fall under the ambit of fair use.

- b. The extent, relative value, purpose and effect of the material appropriated – the real criterion, in this case, is the quality of the work, rather than the quantity, because the most vital part of the work may be small in quantity as compared to the whole work. However, infringement is also said to have taken place if a substantial amount of the work has been appropriated.
- c. Intent – although intent is not material for infringement of copyright, it is considered to be an important element in determining fair use.⁹⁰

While fair dealing has not explicitly been defined in the Copyright Act, Section 52 (1)(a)⁹¹ specifically mentions that ‘fair dealing’ very different from ‘reproduction’ of any work. Justice A.K. Sikri, in the case of *Syndicate of The Press of The University of Cambridge on Behalf of The Chancellor, Masters and School v. B.D. Bhandari*⁹² & Anr. and *The Chancellor Masters and Scholars of The University of Oxford v. Narendra Publishing House and Ors.*⁹³ was of the opinion that “When we talk of ‘fair use’, it would in the context mean that there is someone who enjoys copyright in that work, but the user thereof comes within the domain of eventualities provided under *Section 52* of the Copyright Act.⁹⁴ In the same case,⁹⁵ Justice Sikri also observed that “when plea of fair use under *Section 52* of the Copyright Act is adopted by the Respondents what is expected from the Court on the application of the provisions of *Section 52* of the Act is not to examine whether the activity is

⁹⁰ *Ibid.*

⁹¹ The *Indian Copyright Act*, 1957 s. 52(1).

⁹² *Syndicate of The Press of The University of Cambridge on Behalf of The Chancellor, Masters and School v. B.D. Bhandari & Anr.* (2011) 185 DLT 346.

⁹³ *The Chancellor Masters And Scholars of The University of Oxford v. Narendra Publishing House and Ors.* 2008 (106) DRJ 482

⁹⁴ *Supra* Note 15.

⁹⁵ *Supra* Note 33, 34.

infringement is not, but to examine whether the conditions stated in a particular clause of *Section 52* of the Act invoked by the respondents is satisfied or not.” In other words, for any piece of work to be considered reproduced, three things have to be taken into consideration: the quantum and value of the matter taken in relation to the comments or criticism; the purpose for which it is taken; and the likelihood of competition between the two works.

Another question that comes up when the issue of ‘fair dealing’ is taken up is how much of the work constitutes fair dealing. In the case of *Chatrapathy Shanmughan v. S Rangarajan*,⁹⁶ the Madras High Court held that it was a settled position that an infringement of copyright would arise only when there was substantial reproduction of the plaintiff’s work. Similarly, in the case of *S.K. Dutt v. Law Book Co. and Ors.*, it was held that in order to be an infringement of a man’s copyright there must be a substantial infringement of the work. A mere fair dealing with any work falls outside the mischief of the Copyright Act.

However, the May 2012 decision of the American case of *Cambridge University Press v. Becker*,⁹⁷ was the first case in which any Court defined and explained the ambit of ‘substantial infringement.’ In this case, it was decided that the University would not require a license for reproduction of less than 10% of the total page count of the book. This decision has played a significant role in expanding the domain of fair use.

4. EXPLAINING FAIR DEALING:

Explaining something like fair dealing, which has not been defined in any statute or document is a task in itself. However, some Courts have come up with certain methods, which may be helpful in further understanding, and defining what comes under the umbrella of ‘fair dealing’. Perhaps the most commonly known and used test is called the four-factor test, which was developed by the American Courts. The

⁹⁶ *Chatrapathy Shanmughan v. S Rangarajan*, (2004) 29 PTC 702 (Mad)

⁹⁷ *Cambridge University Press v. Becker Case 1:08-cv-01425-ODE Document 423 Filed 05/11/12.*

four steps involved in this test are: the purpose and character of use; the nature of copyrighted work; the amount and substantiality of the portion taken; and the effect of the use upon the potential market.⁹⁸ The Supreme Court of the United States, however, lays emphasis on the first factor – the purpose and character of use, more commonly known as the transformative test. This factor is considered to be the primary indicator of fair dealing. Under the transformative factor, two issues are considered:

- 1) whether the material that has been taken from the original work has been transformed by adding new expression or value;
- 2) whether any value was added to the original work by creating new information, new aesthetics, new insights and understandings.⁹⁹

The second factor, that addressing the nature of the copyrighted work lays more emphasis on facts and information that has been taken from factual works like biographies and encyclopaedias, rather than fictionalised works like novels and stories. It also enunciates the greater value of the concept of fair dealing when the work is published rather than unpublished.¹⁰⁰ Understanding the third factor, which deals with the amount and substantiality of the portion taken, is fairly simple – the lesser that is taken from any copyrighted work, the more likely that fair dealing would be taken into consideration.¹⁰¹

The final, and perhaps most arguable aspect of the four-factor test is that of the effect of the use of the copyrighted work on the potential market. Essentially, this factor deals with the question of whether or not the use of the copyrighted work deprives the copyright owner of

⁹⁸ Rich Stim, 'Measuring Fair Use: The Four Factors' (2010) *Copyright & Fair Use, Stanford University Libraries*, available at <http://fairuse.stanford.edu/overview/fair-use/four-factors/> (last accessed 27 February 2014).

⁹⁹ *Ibid.*

¹⁰⁰ *Ibid.*

¹⁰¹ *Ibid.*

his income, or undermines a new or a potential market for the copyrighted work.¹⁰²

This, however, is not the only method of explaining and understanding fair dealing. The test for fair dealing was articulated much differently in *CCH Canadian Ltd. v. Law Society of Upper Canada*¹⁰³ as involving two steps. The first step was to determine whether the dealing was for the allowable purpose of “research or private study” under Section 29 of the Copyright Act of Canada, “criticism or review” under Section 29.1, or “news reporting” under Section 29.2 of the same Act. The second step assesses whether or not the dealing is “fair.”¹⁰⁴

5. DETERMINATION OF FAIR USE

The question of fair dealing does not arise until a substantial amount of the work has been reproduced to constitute infringement. Reproduction of a small part of the work, which does not constitute a substantial part of the infringed work is not infringement, for it is permitted. It is substantial that the infringement has been to an unfair extent.

The words ‘unfair use’ have a broader meaning with respect to the appropriation by reproduction of a substantial part of a work in which copyright subsists than they have upon the acquirement of knowledge by a student of the field treated by the publication.¹⁰⁵

A subsequent author, who, after a thorough study of a copyrighted work uses the knowledge so gained in his own work, may not be guilty of unfair use. A considerable portion of the material of the original work may be reproduced into another work, but only if it becomes indistinguishable from the original work, and constitute an original

¹⁰² *Ibid.*

¹⁰³ *CCH Canadian Ltd. v. Law Society of Upper Canada* (2004) 1 SCR 339, 2004 SCC 13.

¹⁰⁴ *Ibid.*

¹⁰⁵ *Supra* note 11 at 403.

work in itself. The fairness of the use depends upon the originality of the matter so copied and the exactness of the copy.¹⁰⁶

However, under the guise of copyright, a plaintiff cannot ask the Court to close all the avenues of research and scholarship and all other frontiers of human knowledge.¹⁰⁷

6. DEFINING THE PURVIEW OF 'FAIR DEALING' IN INDIA

Sub-clause (i) of section 52 (1)(a)¹⁰⁸ of the Copyright Act provides for the fair dealing of a literary, dramatic, musical or artistic work for the purposes of private use, including research. The object of this clause is to enable students to make copies of copyrighted work for their own personal use. However, these copies cannot be used by the students, or anybody else for profit, or other commercial purposes.¹⁰⁹

Section 52 (1)(zb)¹¹⁰ of the Copyright Act clearly excludes within the purview of infringement, any reproduction, adaptation, issuance of copies to facilitate the persons with disabilities to access such work for educational purposes. Here, it would be useful to define and understand the ambit of 'disabilities' as "Certain acts not to be infringement of copyright:- (zb) the adaptation, reproduction, issue of copies or communication to the public of any work in any accessible format, by - (i) any person to facilitate persons with disability to access to works including sharing with any person with disability of such accessible format for private or personal use, educational purpose or research; or (ii) any organisation working for the benefit of the persons with disabilities in case the normal format prevents the enjoyment of such works by such persons: Provided that the copies of the works in such accessible format are made available to the persons with disabilities on a non-profit basis but to recover only the cost of production: Provided further that the organisation shall ensure that the copies of works in such accessible format are used only by persons

¹⁰⁶ *Folsom v. Marsh*, 9 Fed Cas 342 (344, 348).

¹⁰⁷ *Ratna Sagar v. Trisea Publications* 64 (1996) DLT 539.

¹⁰⁸ *Supra* note 15.

¹⁰⁹ *Supra* note 11 at 406.

¹¹⁰ *The Indian Copyright (Amendment) Act*, 2012 s. 52.

with disabilities and takes reasonable steps to prevent its entry into ordinary channels of business.

Black's Law Dictionary defines the term 'disability' as 'inability to perform a certain function'. This will clearly cover the case of those who are incapable of having adequate access to education. It is but obvious that the at least some of the students who have been affected by the suit by the publishers will be included under the purview of 'disability' in its context of access to education, which under Article 41¹¹¹ of the Constitution of India (hereinafter referred to as the Constitution) is a constitutional guarantee.

Fair dealing with a literary work for the purpose of private, bona fide intended for the educational institutions is not an infringement of the copyright possessed by the author. In *V. Ramaiah v. K. Lakshmaiah*,¹¹² one Mocherla Ramakrishnaiah wrote *Girija Kalyanam*, which was approved by the Osmania University as one of the five subjects for B.A., B.Com., and B.Sc. students for Papers I and II. The respondent wrote a guide, called 'Sri Vidya Excellent Guide' to help the students in the language, Telugu Parts I and II under Exercises A. 19 to A. 23. According to the plaintiff, the book was assigned to him by the author under a deed dated 15th June 1937, and the respondent pirated his right as a copyright-holder. The respondent, however, pleaded that the writing of the guide would not amount to infringement of the copyright of the appellant, and that he used the words fairly to help guide the students, and a fair reading of the guide prepared by him showed that his act did not amount to infringement of Section 52 of the Act. The respondent also denied the appellant as the copyright holder. The Court, in this case held that the work in question did not amount to infringement.

Fair dealing, as one of the affirmative defences to infringement of copyright in India, places the onus of proving fair dealing on the user, once the owner has established prima facie infringement by substantial copying of expression, though it isn't substantially necessary that prima

¹¹¹ The *Constitution of India*, 1950 a. 41.

¹¹² *V. Ramaiah v. K. Lakshmaiah* 1989 PTC 137.

facie be proved before the application of fair dealing is considered.¹¹³ The courts have, however, time and again reiterated that it is impossible to develop a 'rule of thumb' for cases of fair dealing as each case depends upon the facts and circumstances of that case.¹¹⁴

7. A COMPARATIVE ANALYSIS OF THE USA, INDIA AND CANADIAN SITUATIONS REGARDING COPYRIGHT AND PRINT DISABILITY

The Indian situation on the right of a print-impaired person to utilise copyrighted work in print or electronic format solely for educational purposes is not clear yet as the Apex Court is yet to arrive at a decision regarding the Delhi University case. This, however, is not the case in other more developed countries like USA and Canada.

In Canada as referred earlier in the case of Alberta Education,¹¹⁵ it was held that copying material for teaching in classrooms would be permissible. This is a welcome legislation, which delicately balances the requirements of both the students and the copyright holders. However, the question of what constitutes a classroom has not been defined. In this digital age, a classroom can mean a virtual classroom, traditional classroom and in any other such situation where a teacher is giving private tuitions to a student in the students' house. The Indian Courts should take notice of this case and they should allow students to photocopy material for classroom use. The scope and definition of classroom should be liberal and the ambit should be wide. The narrow definition of the word classroom will only impede the very objective of furthering the cause of education.

In the American decision of Cambridge University Press v. Becker,¹¹⁶ the threshold for copying has been pegged at 10 percent of the total

¹¹³ *Civic Chandran v. Ammini Amma* 1996 PTC 16 670.

¹¹⁴ *ESPN Star Sports v. Global Broadcast News Ltd. and Ors.* 2008(36) PTC 492 (Del).

¹¹⁵ *Alberta (Education) v. Canadian Copyright Licensing Agency*, [2012] 2 S.C.R 345.

¹¹⁶ *Cambridge University Press v. Becker Case 1:08-cv-01425-ODE Document 423 Filed 05/11/12.*

text of the book. It must be kept in mind that America is a Capitalist country whereas our Country is founded on socialist principles. Therefore, the threshold for copying in India must necessarily be significantly higher than America with an aim to provide justice and access to education to the teeming millions who can barely afford to put two square meals together.

Even developing countries like Costa Rica have made clear their stand on the prevailing issue. *“Thousands of students participated in a march in San José on Tuesday, October 9, 2012, protesting for their right to photocopy textbooks for educational purposes. The unrest was caused by President Chinchilla vetoing Bill 17342 (known as the 'Photocopying Law') which seeks to amend Law No 8039 on Procedures for Enforcement of Intellectual Property Rights, on the grounds that it removes protection of the work and intellectual property in the artistic, literary and technological areas.”*¹¹⁷ This would prohibit students from photocopying textbooks for educational purposes, textbooks that they simply cannot afford to purchase. It has been noticed that American and British publishers have been trying to impose Western prices on third world countries. It must be understood that if that happens then a majority of the population will not be able to afford the books and by extension will be disabled for life. In a view to protect social justice and follow the protest, Costa Rican President Laura Chinchilla, by way of a presidential decree, extended an exception to Law 8,039 and allowed photocopying academic material even if the photocopy shop makes a profit.

India should take a cue from this and take a similar stand with regard to photocopying instead of condemning small-time photocopy shops which run on meagre profits and poor students. The social justice objectives of the preamble should not just be mere words, but it must be enforced through legislation and judicial interpretation.

¹¹⁷ Jenny Cascante Gonzalez, ‘Costa Rica: Students Protest Veto of Photocopying Law’ *Infojustice.org*, available at: <http://infojustice.org/archives/27502>. (last accessed on 21st June 2014).

8. UNDERSTANDING THE RIGHT TO FREE AND COMPULSORY EDUCATION

1.5. RIGHT TO EDUCATION AS A CONSTITUTIONAL RIGHT

The right to education, in India may be seen as a natural extension of the argument for the expansion of the scope of the right to life and personal dignity. The Supreme Court, by introducing the right to life as a qualitative concept as under Article 21, has ensured that any aspect that falls under establishing ‘quality of life’ falls under the wider ambit of Article 21. As a result, many Directive Principles of State Policy that were hitherto unenforceable and non-justiciable have become enforceable under Article 21. Further, the Supreme Court has also implied a number of fundamental rights from Article 21 even though these rights have not been expressly provided for under the Constitution. The right to education as under Article 21A of the Constitution is perhaps the most important of these implied rights. The word ‘life’ has been held to include ‘education’ as education is one of the important, perhaps the most important of the necessities to a life of human dignity.¹¹⁸

The right to education in India was granted as a Fundamental Right under the Constitution by the 86th Amendment Act of 2002, under Article 21A that “the State shall provide free and compulsory education to all children of the age of six to fourteen years in such manner as the State may, by law, determine.” As the Supreme Court famously held in the case of *Mohini Jain v. State of Karnataka*, that the right to education flows directly from the right to life and that the right to education was concomitant to the fundamental rights. The court opined “*it becomes clear that the framers of the Constitution made it obligatory for*

¹¹⁸Inclusive Planet, The Centre for Internet & Society, & Alternative Law Forum, ‘Right to Knowledge for Persons with Print Impairment: A Proposal to Amend the Indian Copyright Regime’ (November 2009) *Inclusive Planet, The Centre for Internet & Society, & Alternative Law Forum* available at <http://cis-india.org/accessibility/publications/uploads/Case%20for%20Amendment%20of%20Copyright%20Regime%20in%20India%20November%202022-%202009.pdf> (last accessed 22nd June, 2014)

*the State to provide education for its citizens*¹¹⁹ right to education is indeed imperative to ensure the right to life and personal dignity of every Indian citizen. The Court further reiterated this position in the case of *Unni Krishnan v. State of Andhra Pradesh*.¹²⁰

While this article granted the right to free and compulsory education for children aged between six and fourteen years of age, the amendment also substituted the following provision for early childhood care and education to children below the age of six years, in the place of Article 45 as a Directive Principle of State Policy.

1.6. THE LINK BETWEEN EDUCATION AND COPYRIGHT

Given the recognised need for and promise of distance education, the incredibly high costs of educational materials in the developing world, and the prevalence of piracy, the importance of copyright law for developing countries is clear. Developing countries must structure their copyright laws in ways that maximise the availability of low cost books, as well as the ability of educational institutions to provide learning materials through distance learning programs without having to pay prohibitively high royalties.¹²¹

The link between copyright and learning is indeed an old one, and the free dissemination of knowledge and culture has always informed the normative spirit of copyright law. The first copyright statute, The Statute of Anne, was titled An Act for the Advancement of Learning. This approach, which emphasised public interest in the circulation of knowledge, was the philosophical basis for granting limited exclusive rights to authors. Today, the concern for the public interest has been recognised by all major international institutions and clearly articulated

¹¹⁹ *Mohini Jain v. State of Karnataka* 1992 SCR (3) 658.

¹²⁰ *Unni Krishnan v. State of Andhra Pradesh* 1993 SCR (1) 594.

¹²¹ Government of India, 'Study On Copyright Piracy In India' (2011) *Ministry of Human Resource Development* available at: <http://www.education.nic.in/copyright/mainact.asp> (last accessed 27th February, 2014).

in all major instruments tasked with the global regulation of copyright.¹²²

9. UNDERSTANDING ACCESS TO KNOWLEDGE AND DISABILITY:

1.7. ACCESS TO KNOWLEDGE

Another important aspect that should be considered while broaching this delicate issue of copyright infringement is access to knowledge. It is impossible for people belonging to different socio-economic backgrounds to have similar access to books and knowledge. It is also not very prudent to expect everybody to be able to buy and utilise many books that seem to cost a fortune these days. This issue was addressed in the United States of America in the case of **Aaron Swartz**¹²³ who believed that locking up access to knowledge behind the barriers of money by powerful publishing companies and online databases was socially detrimental to the world. This profited only a few rich people and caused the entire world to lose out on vital knowledge and information. The authors did not profit from the activities of these copyright holders. They wanted their work to be accessed and used by students and other people for research purposes. They wanted to impart knowledge. He believed that access to knowledge should be free.

This is especially true in a developing country like India where the poverty rate is as high as 37%.¹²⁴ If one attempted to buy all the books, which are normally prescribed for any course, most of which are highly priced, it would mean that only very few privileged students would be able to afford an education in India. The facility of copying certain pages for educational purposes is necessary because purchasing individual books is expensive.

¹²² *Supra* Note 8.

¹²³ *United States v. Swartz*, 1:11-cr-10260, 106 (D. Mass. filed Jan 14, 2013).

¹²⁴ DP/INF/Summary.

1.8. DISABILITY

India is a developing nation and in the context of the same, if photocopying of expensive course books for educational purposes is not allowed then it will lead to disabling students from economically challenged backgrounds with regard to access to education.

India is a social welfare nation and keeping that in mind, it is the duty of the court to uphold the constitutional values of equality of opportunity. Not allowing students who cannot afford to buy the books to photocopy will lead to the creation of a barrier to education. This will ultimately lead to increasing the gap between the rich and poor. The rich will have access to the expensive books and will be in a better position to equip themselves with knowledge whereas the poor will continue to wallow in the mire. They will not have the means to access knowledge even if they are interested in further studies. It will destroy the ideals on which our constitution was created. Further, it will be a breach of section 52 (1) (zb) of the Copyright Act as a person who does not have the economic capability to buy expensive books will necessarily be disabled from accessing such books. Therefore, it will come within the ambit of section 51 (1) (zb).

At this point, it would be interesting to note that a frequently voiced criticism of the U.S. copyright system is that it enables persons claiming copyright interests to “over claim” – that is, to successfully assert rights over content, despite the fact that either the content at issue is not subject to copyright protection at all, perhaps because it has fallen into the public domain, or because it comprises non-copyrightable facts, ideas, scenes *A faire*, or *de minimis* fragments of expression, a specific use of that content is permissible under, for example, the fair use doctrine.¹²⁵

¹²⁵ Patricia Aufderheide & Peter Jaszi, ‘Media, Untold Stories: Creative Consequences of The Rights Clearance Culture for Documentary Filmmakers’ (2004) *Center for Social Media*, available at http://www.centerforsocialmedia.org/rock/backgrounddocs/printable_rightsreport.pdf (last accessed 27 February 2014); Marjorie Heins & Tricia Beckles, ‘Will Fair Use Survive?: Free Expression in the

10. ECONOMIC ANALYSIS OF THE PREVAILING SITUATION OF PRINT IMPAIRMENT IN INDIA

Education is regarded as the most effective vehicle of social and economic empowerment. Education, especially primary education is not just an inalienable human right, but a powerful instrument for generating benefits for individuals and their families, the societies in which they live, and future generations. Primary education is recognised as a basic human right across the world and is the most important step in educating a significant number of people as it is a prerequisite for higher levels of education. However, over the years, the quality of education has been on a steady downfall, and its economic returns have been on a constant downward spiral, especially in developing countries, where the dropout level has also been on an increase.¹²⁶ On a macroeconomic level, it is more than apparent that the economic development of a country plays an important role in the quality and quantity (number of years) of education an individual receives. Lesser-developed countries, where access to money, and by

Age of Copyright Control' (2005), *Brennan Center for Justice at NYU School of Law*, available at <http://www.fepproject.org/policyreports/WillFairUseSurvive.pdf> (last accessed 27 February 2014); Lawrence Lessig, *Free Culture: How Big Media Uses Technology and The Law to Lock Down Culture and Control Creativity*, The Penguin Press, New York, 2004; James Gibson, "Risk Aversion and Rights Accretion in Intellectual Property Law", *Yale Law Journal*, Vol. 116, No. 3, July-September 2007, p. at 883, pp. at 887-906; William F. Patty & Richard A. Posner, "Fair Use and Statutory Reform in the Wake of Eldred", *California Law Review*, 92 Vol. 92, No. 6, December 2004, p. 1639, pp. 1655-56; Christopher S. Yoo, "Copyright and Public Good Economics: A Misunderstood Relation", *University of Pennsylvania Law Review*, Vol. 115, No. 3, January-March 2007, p. 635; Christopher S. Yoo, 'Copyright and Product Differentiation', *N. Y. U Law Review*, Vol. 79 No. 1 April-June 2004 p. 212.

¹²⁶ Milan Thomas & Nicholas Burnett, 'Exclusion of Education: The Economic Cost of Out of School Children in Twenty Countries', *Educate A Child & Results for Development* available at: <http://r4d.org/sites/resultsfordevelopment.org/files/resources/Exclusion-from-Education-Final-Report.pdf> (last accessed 24th June 3014).

extension access to education is difficult are known to have compromised with the education of the citizens.

It is, therefore, crucial that educationally disabled and print impaired students in India be provided access to expensive textbooks and study material in order to ensure educational progress. Though fair dealing may be considered to have a significant restriction on the exclusive rights of the copyright owner, courts tend to interpret this by considering the economic impact it has on the copyright owner. While it is important to secure the economic profits of the author and the publisher, there is a greater social responsibility to ensure and secure education for the children of this great nation. If this situation is assessed from the macro level, we can see that there will be a huge economic loss to the country if students are denied access to education.¹²⁷

11. CONCLUSION

It is imperative that the judiciary interpret the 'Fair Use' doctrine liberally. It has been clearly mentioned that copyright legislations are welfare legislations¹²⁸ and the Copyright Act is trying to balance the needs of the society and the rights of the author. Essentially, it is doing the job of a funambulist. However, in the instant case the need of the society in educating their children is exponentially more important than the needs of publishers and authors to make profit. The judiciary must take care to ensure that education is not monopolised by publishers driven by profit motive and that it is accessible to all who want to study. Education must not be allowed to be made the prerogative of the elite section of society and to do that, the scope of Fair Use and the Educational Exception should be widened to allow photocopying of copyrighted material for use by the students. There should not be a cap on the amount of material photocopied, and the students should be free to photocopy any book assigned by the teacher to further their education. Without access to expensive books, the loss will not be only for the student but it will be a loss for the nation as a whole. The future of our country will be undermined as a large section

¹²⁷ *Ibid.*

¹²⁸ *Supra* Note 22.

of our society will be unable to cultivate their minds and further, the social welfare objective of both the copyright legislation and the preamble of our constitution will be defeated.

IS FAIR DEALING REALLY FAIR IN INDIA?

- Pracheta Kar¹²⁹ and Rishabh Saxena¹³⁰

ABSTRACT

The central theme of this article is the conflict between the concept of 'fair dealing' as enshrined in the Indian Copyright Act and a similar concept of 'fair use' as part of American Laws. In contemporary times, this debate gets all the more potent in the backdrop of the controversy generated by legal action taken by the Oxford University Press, Cambridge University Press and Francis & Taylor against a small non-descript photocopy shop 'Rameshwari Photocopiers' located in the heart of Delhi University. This article does not keep its ambit limited to this specific example as just one case cannot & should not act as a catalyst for change in legislation. Hence, we delve into the original thought process behind the genesis of both these concepts and also deal with the contemporary perspectives on them in U.K., U.S.A. & Canada. Finally, analysing the Indian scenario, we find that continuation of the 'Fair Dealing' concept with certain amendments to bring it in line with the 'Fair Use' doctrine is the best possible discourse to adopt for India. There is a dire need to bring life to the Indian fair dealing provisions; fair dealing in India is in the need of some fair healing.

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1. INTRODUCTION

“The secret of life is honesty and fair dealing. If you can fake that, you've got it made.”

--Groucho Marx

Every student in Delhi University, in fact every student in India, has become familiar with the issue of fair dealing of copyright, all thanks to the Rameshwari photocopy case. The case has emerged as one of the most egregious abuses of copyright with leading publishers, Oxford University Press (OUP), Cambridge University Press (CUP) and Taylor & Francis (T&F) filing a lawsuit against Delhi University and Rameshwari Photocopy Service, the licensed photocopier for creating and distributing course packs to the students of the University. They took a clear stand that through this lawsuit they were not targeting the “fair dealing” exceptions provided for under Section 52 of the Indian Copyright Act but only challenging the illegal duplication of copyrighted materials for commercial purposes by the photocopying shop. In their view, they were not targeting the “fair use” of materials by students and teachers. But what they conveniently forgot was that their copyright protected material was very essential for academic purposes and it was photocopied since the students could not buy the course books at such unaffordable prices. It is important to understand the context in which the Rameshwari Press was working. There are two aspects to it. One simple way to look at it is that it was involved in a commercial activity & hence the application of Section 52 in this case cannot be attracted. However, the other, more realistic aspect is the context in which it was operating. There was a proper tender taken out by the Delhi University to select a photocopier for this specific purpose. Hence, Rameshwari Press was acting as an agent of the University & in light of the same, its involvement in producing the course packs was not towards a commercial purpose but rather driven towards meeting the university’s purpose. In this case, Rameshwari photocopy had a license from the University of being the exclusive ‘agent’ for creating and distributing course packs. It is very pertinent to note that use of copyrighted work for the purposes of an educational

institution is an exception to copyright infringement.¹³¹The end purpose of these course packs is the education of the students which falls squarely within the ambit of ‘permissible purposes’ as enshrined in Section 52 of the Indian Copyright Act. On this very point, the Canadian Supreme Court, who have a similar copyright system as that of India have ruled that distribution of extracts for educational purpose comes under the ambit of ‘permissible purpose’ in the case of *Alberta (Education) v. Canadian Copyright Licensing Agency*.¹³²

One of the most clichéd arguments then forwarded by publishers is that, ‘Authors are not philanthropists & publishing houses not charities’. While nobody, and by this we mean no legal jurisdiction, has overlooked the commercial aspect of this whole exercise, one needs to remember that the underlying philosophy of the TRIPS Agreement, Indian Copyright Act & similar enactments world over which expound Fair Dealing/Fair Use as the case maybe is that reproducing parts of a copyrightable work in certain situations without making payments to the copyright holder is permissible on grounds of equity or as laid down by legislature. This is primary purpose of the concept of Fair Use or Fair Dealing.

Now comes the question of the cases where in these course packs are sold by the Press to students not belonging to Delhi University. In such a scenario, one can take a hardline view & propose that this does not fall under the ambit of fair dealing as the Publishers are saying. The other view based on equity would be that even a non-DU student cannot possibly afford such steep prices of all of the individual books. Moreover, another view that has been advanced recently is that the objective which a whole book seeks to achieve & the objective which a course pack, made after selecting different portions of different books seeks to achieve are completely different. In such a case, the existence of cheap course packs is not affecting the sales of books at all since buyers interested in the objectives that can be fulfilled by the book will purchase books only.

¹³¹Section 52 (1) (i) of the Indian Copyright Act,1957

¹³² *Alberta (Education) v Canadian Copyright Licensing Agency* 2012 SCC 37

It is this subjectivity that is sought to be highlighted by means of this paper. The fact that real life circumstances relating to such a subjective aspect tend to get complicated when subjected to a rigid set of exceptions mentioned in a statute. Another case that can be pointed out here is that of *India TV Independent News Services Pvt. Ltd. v. Yashraj Films Private Limited & Super Cassettes Ltd.*¹³³ In this case, the TV Channel broadcasted an exclusive segment focused on singers & when these singers were singing their songs live on TV, certain clips of the movies to which those songs belonged were shown. Infringement of copyright was claimed and the Delhi High Court released a judgment restraining the Channel from distributing, broadcasting or otherwise publishing or in any other way exploiting any cinematograph film, sound recordings or part thereof that is owned by the producers. This is where an interesting points stems up. Would it not be unethical, even cruel, to restrain a singer from singing his own song in front of an audience merely because the legal rights subsisting over it are possessed by someone else? The deficiency of Section 52 of the Indian Copyright Act in this regard thus becomes a handicap which ultimately acts to the detriment of tenets of justice & equity. The division bench of Delhi High Court also somewhat realized this when an appeal was made to the judgment and ended up setting aside the earlier order and removing the restrictions.

In the light of this case, the authors have written this article which deals with “fair dealing” provisions in India and how it is different from fair use, which primarily is a US doctrine. We have also tried to contemplate as to what changes can be made in our law so that such lawsuits do not arise again and students or any other users engaging in fair dealing are not troubled. Ultimately, what suits India the best: fair dealing, fair use or fair healing of fair dealing?

2. FAIR DEALING AND FAIR USE

¹³³ *India TV Independent News Services Pvt. Ltd. v. Yashraj Films Private Limited & Super Cassettes Ltd* FAO (OS) 584/2011

Copyright grants the creator of a creative and original work an exclusive right over its use and distribution. Fair dealing is one of the defences to the exclusive right granted through a copyright to the author of a creative work. The concept of 'fair dealing' is primarily a British 'copyright concept' in contrast to the concept of 'fair use' which is derived from the American law and is more flexible than the former. These concepts have been recognised in the Berne Convention as well as the TRIPS Agreement. Fair dealing permits the reproduction or use of the copyrighted work, which but for this exception, would have amounted to infringement.¹³⁴ The prior permission of the author is not required. This doctrine emerged as an equitable one¹³⁵ which serves an answer to copyright proponents who claim that copyright, not being a patent, is not an absolute right.¹³⁶ Fair dealing counterbalances the rights of creators of original works with the interests of the public at large. It is like a middle ground between right holders and users which can be used to spread ideas. Fair dealing, as found in the British copyright regime is very restrictive and contains an exhaustive list of exceptions which have been defined in the CDPA, 1988. The exceptions are: - (a) research or private study, (b) reporting current events and (c) criticism or review. In India, the doctrine of fair dealing has been dealt with under Section 52 of the Indian Copyright Act, 1957 which has been extensively borrowed from the UK Copyright Law and faces the same kind of rigidity. The enumerated purposes under Section 52 have been typically interpreted as exhaustive, inflexible and certain, since any use not falling strictly within an enumerated ground is considered an infringement.¹³⁷ There is no thumb rule to deal with such cases and each case depends upon

¹³⁴*S.K. Dutt v. Law Book Co and Ors.*, AIR 1954 All 570

¹³⁵*Harper & Row Publishers v. Nation Enterprises*, 471 US 539

¹³⁶Giuseppina D' Agostino, "Healing Fair Dealing? A comparative copyright analysis of Canada's Fair Dealing to UK Fair Dealing and Fair Use", *McGill Law Journal*, 53 (2008) 309

¹³⁷*Blackwood and Sons Ltd and Others v. A.N. Parasuraman and Others*, AIR 1959 Mad 410

the facts and circumstances.¹³⁸ Lord Denning M.R., in deciding *Hubbard v Vosper*, famously noted that:

‘It is impossible to define what is ‘fair dealing.’ It must be a question of degree. You must consider first the number and extent of the quotations and extracts. Are they altogether too many and too long to be fair? Then you must consider the use made of them...Other considerations may come to mind also. But, after all is said and done, it must be a matter of impression.’¹³⁹

But this concept of ‘fair dealing’ which is an integral part of copyright law has not quite developed in India; it continues to be found in its formative stage. What kind of an approach towards fair dealing is required- whether strict or liberal- also needs to be analysed. The problem that is faced with respect to this defence is that Indian courts and legislature have not fully explored the scope of fair dealing which is a very necessary exception. A restrictive approach puts the credibility and efficiency of this exception into question. Fair dealing has not even been defined in the Act. Therefore, we need a more elaborate scheme similar to the US counterpart, that is, fair use. In this paper, the judicial pronouncements on fair dealing will show how it is gradually evolving and what all needs to be further incorporated in its ambit.

1.9. FAIR USE

Section 107 of the US Copyright Act, 1976 lays down four factors for determining fair use:

- i. Purpose and character of work;
- ii. Nature of copyrighted work;
- iii. Amount and substantiality of the portion used;
- iv. Effect on market value of the original.

¹³⁸*ESPN Star Sports v. Global Broadcast News Ltd and Ors.*, 2008 (36) PTC 492 (Del)

¹³⁹*Hubbard v. Vosper* CA 1971 ([1972] 2 WLR 389)

U.S.A. has adopted this doctrine keeping in mind rapid technological advancement. Courts must adapt the doctrine on a case-by-case basis.¹⁴⁰ Fair use of copyright material is the extra-legal use which is usual, reasonable and customary.¹⁴¹ This American concept is now being imported by many countries around the world because of its inherent logical reasoning and better protection ambit.

1.10. FAIR DEALING

Fair dealing was statutorily introduced for the first time in the 1911 Act of U.K.

It has not been defined anywhere; rather, it has been acknowledged as a question of degree in the famed case of *Hubbard v. Vosper*¹⁴² which was the first major judicial attempt to define “fairness” which depends upon various factors as already pointed out.

The task of the court is to consider the use to which the work is put and then ascertain what the perceived purpose of that use was. The user’s subjective intention might well be relevant on the issue of whether the dealing was “fair”, but it is wrong for a court to put itself in the user’s shoes to decide what the purpose was.¹⁴³ If the court purports to discover whether the use fell within the ambit of the statute, there seems no good reason why both, the user’s actual intentions and also the impact of the use on the intended recipient should not be of help.¹⁴⁴

¹⁴⁰*Lewis Galoob Toys v. Nintendo Inc.*, 964 F.2d 965

¹⁴¹T.R.S. Iyengar, *The Copyright Act, 1957*, Universal Law Publishing Co., New Delhi, 2001, p.52

¹⁴²Supra note 07.

¹⁴³*Pro Sieben Media AG v. Carlton UK Television Ltd.*, [1999] 1 W.L.R. 605

¹⁴⁴*Ibid.*

There are no determinative factors to judge whether a purpose is within the scope of fair dealing or not. It also differs from case-to-case much like the U.S. doctrine of “fair use”, the only difference being the enumerated list of purposes in fair dealing. Cases of fair dealing for the purposes of criticism, review and reporting current events are generally trickier to adjudge than cases of non-commercial research and private study. In *Ashdown v Telegraph Group Ltd*,¹⁴⁵ the court laid down the following test which according to us, best fit the purpose of determining fair dealing. It laid down that,

“The success or failure of the defence depends on three factors:

- 1. Whether the alleged fair dealing is in commercial competition with the owner’s exploitation of work,*
- 2. Whether the work has already been published or otherwise exposed to the public*
- 3. The amount and importance of the work which has been taken.”*

1. The degree to which the infringing use competes with the exploitation of the original work of the owner is one of the most important factors. If a criticism or a review of the work competes with it in the sense that the criticism or review will act as an acceptable substitute to the public regarding that work, it becomes highly relevant.¹⁴⁶ The test should be understood as referring not just to competition with the actual form of media in which the claimant exploits his work but any form of activity which potentially affects the value of the copyright work.¹⁴⁷ Mere subsistence of any commercial rivalry is not conclusive of unfair dealing. If in case of research or private study, if the dealing is for commercial purposes then it will fall outside the provisions of the act. But if it is the case of criticism or

¹⁴⁵*Ashdown v. Telegraph Group Ltd.*, [2001] 4 All ER 666

¹⁴⁶Kevin Garnett, Gillian Davies and Gwilym Harbottle, *Copinger and Skone James on Copyright*, London Sweet & Maxwell, London, 2005, p. 498

¹⁴⁷Supra note 11.

review or reporting current events and the use is for commercial purposes, then it does not prevent the dealing from being fair.¹⁴⁸

In *Newspaper Licensing Agency Ltd. v. Marks and Spencer plc*,¹⁴⁹ it was held that a dealing by a person for his own commercial advantage, and to the actual or potential commercial disadvantage of the copyright owner, would not be fair dealing unless there was some overriding element of public advantage which justified the subordination of the rights of the copyright owner.

2. If the work is unpublished, any dealing is unlikely to be fair.¹⁵⁰ This principle speaks for itself. If the author or owner of the copyrighted work has not published it yet, any other person will naturally use the same for his/her own commercial gain. The motive can be clearly culled out from that act. The dealing would be anything but fair.

3. Taking up the most significant and valuable part of the copyrighted work is also an important factor in judging whether the dealing was fair or not. A useful test may be whether it was necessary to use as much as the defendant did for the relevant purpose.¹⁵¹ But this principle should not be used against the defendant unnecessarily in order to make a case of unfair use.

In addition to the above mentioned three factors, some other relevant factors may be,

4. Motive of the alleged infringer.

5. Purpose of the use.

The TRIPS Agreement requires the following:

- i. Reproduction is permissible only in certain special cases;

¹⁴⁸Supra note 14 at p. 499.

¹⁴⁹*Newspaper Licensing Agency Ltd. v. Marks and Spencer plc*, [2001] Ch. 257

¹⁵⁰Supra note 11.

¹⁵¹*PCR Ltd v. Dow Jones Telerate Ltd*, [1998] F.S.R. 170

- ii. It must not conflict with the normal exploitation of the work;
- iii. It must not unreasonably prejudice the legitimate interests of the copyright-holder.¹⁵²

The Berne Convention also deals with fair dealing in its Article 10. Clause 1 of the same permits making “quotations” from a work which has already been lawfully made available to the public, provided that the making is compatible with fair practice, and its extent does not exceed that justified by purpose; this is inclusive of quotations from newspaper articles and periodicals in the form of press summaries. Clause 3 requires the acknowledgement of the source and the name of the author if it appears on the work where such use is made.

Fairness should be judged by the objective standard of whether a fair-minded and honest person would have dealt with the copyright work in the manner in which the defendant did, for the relevant purposes.¹⁵³

An approach similar to that in U.K. has been adopted in India where the purpose of fair dealing has been limited.¹⁵⁴ For the exception of fair dealing to apply,

- i. The purpose must be confined to the ones defined in Section 52 (1) (a).
- ii. The dealing must be “fair”.
- iii. There has to be acknowledgement of the source.

¹⁵²*Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)* (adopted 1994, came into force 1 January 1996)

¹⁵³*Hyde Park Residence Ltd v. Yelland*, [2001] Ch. 143 [1999] R.P.C. 655

¹⁵⁴Section 51(1)(a) of the *Copyright Act*, 1957; *S.K. Dutt v. Law Book Co.*, AIR 1954 All 570; *Civic Chandran v. Ammini Amma*, (1996) PTC (16) 670 (Ker)

In *Blackwood and Sons Ltd v AN Parasuraman*,¹⁵⁵ the Court stated that in order to receive protection the use must be one enumerated in the statute under ‘fair dealing’.

It also stated two points in connection with the meaning of the expression ‘fair’ in ‘fair dealing’:

1. In order to constitute unfairness there must be an intention to compete and to derive profit from such competition and
2. That unless the motive of the infringer were unfair in the sense of being improper or oblique the dealing would be fair.

The test is to find out whether the use is likely to harm the potential market or the value of the copyrighted work.¹⁵⁶ If substantial and important works are reproduced then the intention of the infringer to use the labour of the copyright owner for his own profit can be made out.

In India some authors have used “fair use” and “fair dealing” interchangeably though the two concepts are truly like chalk and cheese. Reputed authors like Iyengar have stated that since copyright is provided for the purpose of promoting education also, the use of copyright material even to extent of some copying is not unlawful. It comes under the description of ‘fair use’.¹⁵⁷ Before publication, there can be no fair use of works protected under the common law of copyrights. As long as an author keeps his work confidential and non-communicated, no one has the right to use it.

In determining whether there has been fair use or not, the court must find-

- (1) Whether there has been any substantial taking, and

¹⁵⁵Supra note 4.

¹⁵⁶*Civic Chandran v. AmminiAmma*, (1996) PTC (16) 670 (Ker); *Hubbard v. Vosper* [1972] 2 QB 84 (CA); *Sony Corporation v. Universal City Studios, Inc* 464 US 417 (1984)

¹⁵⁷Supra note 8.

(2) Whether there has been any use which might amount to plagiarism.

If it is found that there has been plagiaristic use, then the question arises whether the use has been fair or unfair which depends upon the facts and circumstances of the case. The court must look at-

2. The nature and object of the selection made,
3. The quantity and value of the materials used, and
4. The degree in which the use may prejudice the sale, diminish the profit or supersede the objects of the original work.¹⁵⁸

3. JUSTIFICATION FOR FAIR DEALING/ FAIR USE

The reason for allowing the exception of fair dealing is that an infringing use of the copyrighted work may bring about greater public benefit than its denial.¹⁵⁹ Therefore the public can use the copyrighted work "fairly" without requiring the permission or licence from the copyright owner. It has to balance two competing and equally significant interests i.e. the monopoly of authors which acts as an incentive to create and that such a monopoly must not come in the way of creative ability of others or the right of the public to build upon

¹⁵⁸Ibid. at p. 383

¹⁵⁹T.G. Newby, "What's Fair Here is Not Fair Everywhere: Does the American Fair Use Doctrine Violate International Copyright Law?" *Stanford Law Review* 51, 1633 (1999); See also *Sony Corporation v. Universal Studios*, 464 US 417, 479-480 (1984). There are jurists who have justified the fair use doctrine in a Lockean framework; See B.J. Damstedt, "Limiting Locke: A Natural Law Justification for the Fair Use Doctrine", *Yale Law Journal* 12, 1179 (2003); Some authors also argue that fair use doctrine does not in any way protect freedom of speech, see W. Lockridge, "The Myth of Copyright's Fair Use Doctrine As a Protector of Free Speech", *Santa Clara Computer & High Tech. Av Journal* 24, 31 (2007)

previous works.¹⁶⁰ The reproduction of some portion of the copyright work is necessary for the purposes of research, private study, criticism, news reporting, teaching, review, etc. If fair dealing is not allowed then the society will become stagnant as there will be no protection for the justified dissemination of information. Who will protect the rights of the public if only the rights of the owner are sought to be protected?

4.1. FAIR DEALING IN INDIA

In India, for the dealing to constitute “fair”, the purposes have to fall within the statutorily entrenched purposes of private use, research, criticism and review given under Section 52 of the Copyright Act.

4.1.1. Private Use

In India, fair dealing is allowed for private use including research after the 1994 amendment. This exception allows private research and not commercial research.¹⁶¹

In *Syndicate Press of University of Cambridge v. Kasturi Lal & Sons*¹⁶², the Delhi High Court observed that:

“Law should encourage enterprise, research and scholarship but such encouragement cannot come at the cost of the right of an individual to protect against the misappropriation of what is essentially a product of his intellect and ingenuity. The law encourages innovation and improvement but not plagiarism. Copyright is a form of protection and not a barrier against research and scholarship. Lifting portions of the original work and presenting it as one’s own creation can in no way be described as any form of bona fide enterprise or activity. Research and scholarship are easily distinguishable from imitation and plagiarism.”

¹⁶⁰*Kartar Singh v. Ladha Singh*, AIR 1934 Lah 777; *Eastern Book Co. v. Navin Desai*, AIR 2001 Del 185

¹⁶¹V.K. Ahuja, *Intellectual Property Rights in India*, LexisNexis Butterworths Wadhwa, New Delhi, 2012, p. 257

¹⁶²*Syndicate Press of University of Cambridge v. Kasturi Lal & Sons* (2006) 32 PTC 487 (Del)

In *Blackwood v Parasuraman*,¹⁶³ principles for determining what constitutes "private use" were laid down. Fair dealing was claimed for the purpose of private study as the defendant had published guides of the plaintiff's books but it was rejected by the Court and it was held that private study covers the student copying the book for his own use, and not circulation of copies among other students. It was given a restricted meaning. Similar were the facts in *Syndicate of Press University of Cambridge v Kasturi Lal*,¹⁶⁴ where the Court held that there was infringement, not falling because Section 52(1) (h) allows reproduction for the purpose of answering questions in an examination and not questions and answers as a whole.

In *University of London Press Ltd v. University Tutorial Press Ltd*¹⁶⁵ also Peterson J. stated that:

"it could not be contended that the mere republication of a copyright work was a 'fair dealing' because it was intended for purposes of private study; nor if an author produced a book of questions for the use of students, could another person with impunity republish the book with answers to the questions. Neither case would come within the description of 'fair dealing'."

4.1.2. Criticism or Review

This defence is available for criticism or review only when the act is accompanied by an acknowledgement as require under the provision of Section 52 (1). The intention of this provision is to protect a reviewer who wants to put forth his opinion or views or comments on a particular copyrighted work by using extracts from that work. The principle regarding this was probably first laid down in the case of *Hubbard v Vosper* which has already been discussed and was followed in the case of *Associated Newspapers Group v. News Group Newspapers Ltd*¹⁶⁶ where it was held that it is not fair for a rival in the trade to take

¹⁶³Supra note 4.

¹⁶⁴Supra note 28.

¹⁶⁵*University of London Press Ltd v. University Tutorial Press Ltd*, [1916] 2 Ch 601

¹⁶⁶*Associated Newspapers Group v. News Group Newspapers Ltd*, 919860 RPC 515

copyright material and use it for its own benefit. The motive for which the copy is made is the relevant question. For the dealing to be fair in criticism, the use should be made only for criticism or review and not for other incidental purposes. It is permissible to quote from other comparable works for the purpose of exemplifying the criticism.¹⁶⁷

The case of *Syndicate of Press of University of Cambridge v Kasturi Lal & Sons* is a landmark judgement on the issue of fair dealing as it has also set a precedent in case of criticism too. In this case the Delhi High Court has observed that:

“a review, a criticism or guide acknowledges the original authors of the work that they deal with. A review may summarise the original work and present it for perusal to a third person so that such person may get an idea about the work. A criticism may discuss the merits and demerits of the work. A guide may seek to enable students of the original work to better understand it from the point of view of examinations. Verbatim lifting of the text to the extent of copying the complete set of exercise and the key to such exercise can in no manner be termed as a review, criticism or a guide to the original work.”

In *Civic Chandran v Ammini Amma*,¹⁶⁸ it was held that even if the copying is substantial it does not constitute infringement if it is for the purpose of criticism. Criticism or review may relate not only to the literary style, but also to the doctrine, philosophy, ideas or events described by the author.¹⁶⁹

It is not necessary for the parts of the work selected for the criticism or review to be representative of the work as a whole. Criticism of a single aspect of a work is therefore capable of constituting fair dealing.¹⁷⁰

¹⁶⁷Supra note 27 at 259.

¹⁶⁸Supra note 20.

¹⁶⁹Supra note 12 at para. 10-11.

¹⁷⁰*Time Warner Entertainment Ltd v. Channel 4 Television Corporation Plc*, [1994] E.M.L.R. 1

Parodies also fall within the purview of criticism.¹⁷¹ They are a humorous form of social commentary, and while deciding whether a particular work constitutes a valid parody, it must be established that only that much work is to be copied as would be necessary to remind the reader, listener or viewer of the original work.¹⁷²

In U.K. this issue is yet to be addressed directly by the Courts where it has been accepted as a possibility.¹⁷³ But in the U.S.A. it clearly falls within the scope of fair use. In India the stance is not clear as such cases have not arisen yet.

4.1.3. Reporting Current Events

Fair dealing material for the purpose of reporting current events in print or broadcast media is also an exception under Section 52 (1) (b) of the Copyright Act because a person has the right to know (right to freedom of speech and expression).¹⁷⁴In

Ashdown v Telegraph Group,¹⁷⁵ the exception of fair dealing was not granted when a newspaper published extracts of a confidential diary minute of a political meeting.

It was rejected because of the extent of reproduction made for the defendants' commercial interests. The events must be current ones and not history. It must not be for editorials either.

The Berne Convention has certain relevant provisions for the reporting of current events. Article 2 (8) excludes protection for “news of the day or to miscellaneous facts having the character of mere items of press information.” It is also included in the limited class of exceptions provided for under Article 10 of the Convention.

¹⁷¹*Campbell v. Acuff-Rose Music*, 114 S. Ct. 1164

¹⁷²*Woody Allen v. National Video*, (1985) 610 F Supp 1612

¹⁷³*Williamson Music v. The Pearson Partnership Ltd* [1987] F.S.R. 97

¹⁷⁴*Reliance Petrochemicals v. Indian Express Newspapers*, (1988) 4 SCC 592

¹⁷⁵Supra note 11.

4.2. WHY DOES FAIR DEALING EXIST IN INDIA?

The concept of fairness in fair dealing implies that the economic interests of the copyright holder must not be adversely affected. But since a balance has to be maintained between the rights of copyright holder and public interest, a probable reason for India having adopted the fair dealing doctrine is that it attaches significance to research and study, and in spite of a commercial angle being present at times, it must be encouraged.

But quite pain strikingly, Indian courts have always taken a contradictory approach in dealing with this issue. Fair dealing claims alike the ones discussed above have been upheld. In cases like *Forster v Parasuram*¹⁷⁶ and *Ramaiah v Lakshmaiah*,¹⁷⁷ it has been held that publication of guide books even for a profit-making purpose fall within the fair dealing exception. Element of 'fairness' has not been duly considered in these cases since these guides bring about competition in the sales of books and hamper the economic interests of copyright holder despite serving the noble purpose of education.

Moreover, we observe that the law relating to fair dealing in India is not as evolved as it is the U.S.A or the U.K. The latter two have cases or statutes governing almost each and every major aspect of fair dealing although there are some grey areas; in India this is not the case. Most of the times we have followed the principles of the U.K. law and rarely have we tried to build upon our own system. There are many areas (for instance, parodies, current events, reporting of historical facts publishing answers to questions framed by another author and the like) which have not yet been addressed by the Indian judiciary or legislature. Therefore, much needs to be done in this regard.

4.3. COMPARATIVE ANALYSIS

4.3.1. A Canadian Perspective

¹⁷⁶*Forster v. Parasuram*, AIR 1954 Mad 331

¹⁷⁷*Ramaiah v. Lakshmaiah*, (1989) PTC (9) 137 (AP)

Canadian authors are coming up with a new outlook towards “fair dealing” post the decision of *CCH Canadian v Law Society of Upper Canada*¹⁷⁸ and opine that the fair dealing exception to copyright law has become outdated because of two factors:

- the impact that the internet has had on Canadian culture, and
- the decision the Supreme Court of Canada where it held that *"in order to maintain the proper balance between the rights of a copyright owner and users' interests, fair dealing must not be interpreted restrictively."*

The following should judge what fair dealing constitutes- the purpose and commercial nature of the dealing, the character of the dealing, the amount of the dealing, alternatives to the dealing, the nature of the work, and the effect of the dealing on the work.¹⁷⁹

Subsequent to the decision the National Consultation on Copyright Policy determined that the fair dealing exception required amending.¹⁸⁰ But the federal government, in the form of Bill C-1 1, adopted a rigid approach to the amendments.¹⁸¹ Hence, it can be seen that Canada is

¹⁷⁸*Canadian v. Law Society of Upper Canada*, [2004] 1 SCR 339 [CCH]

¹⁷⁹Giuseppina D'Agostino, “Healing Fair Dealing? A Comparative Copyright Analysis of Canada's Fair

Dealing to U.K. Fair Dealing and U.S. Fair Use”, *McGill Law Journal* 53, 309 (2008)

¹⁸⁰Michael Geist, "Copyright Consultation Provides Blueprint for Reform" *The Hill Times* (2

November 2009), *available at* <http://www.michaelgeist.ca/content/view/4543/159/> > last accessed 12/04/2014'

¹⁸¹An Act to Amend the Copyright Act, 1st Sess, 41st Parl, 2011 (assented to 29 June 2012), now titled

not yet ready to adopt the fair use doctrine or rather a liberal approach to fair dealing even after the judiciary has called for such an amendment.

4.4. A BRITISH OUTLOOK

Fair dealing first appeared in the U.K. in the Copyright Act, 1911 and has been subject to much debate with some scholars arguing that the U.K. doctrine offers no principles or vision and that it contains too many obstacles undermining its operation; its purposes are too rigid and have been interpreted restrictively.¹⁸² Others maintain that U.K. courts "have construed the specific purposes liberally."¹⁸³ The Whitford Committee had recommended that the fair use doctrine should be adopted in the United Kingdom,¹⁸⁴ but this was rejected by the Government, together with a proposal to rename the defence "fair use" or "fair practice".

4.5. WHAT IS THE FAIREST APPROACH FOR INDIA?

4.5.1. Why Fair Use?

Furthermore, the courts in USA in the case of Cambridge University Press v Becker¹⁸⁵ underlined that there won't be any requirement of a license for less than 10% reproduction of the copyright work. If such a strong economy like that of USA, can give such a wide leeway to its inhabitants on grounds of equity under fair use, it becomes fairly easy for the Indian lawmakers to amend Section 52 in order to relax the restrictions & to justify these measures in the backdrop of the

Copyright Modernization Act, SC 2012, c 20 [Bill C-11]

¹⁸²Supra note 12 at p. 481

¹⁸³Lionel Bently & Brad Sherman, *Intellectual Property Law*, Oxford University Press, Oxford, (2004), p. 193

¹⁸⁴Report of the Committee to Consider the Law on Copyright and Designs, Cmnd. 6732, paras 672-677

¹⁸⁵ Cambridge University Press v Becker Civil Action No.. 1:08-CV-1425-ODE

comparatively weak socio-economic situation of India. This thus would end up entailing certain activities not strictly non-commercial but still nevertheless justifiable on grounds of reason, logic & equity. The end result would be a piece of legislation ready to adapt to fast changing dynamics of the Indian economy while aiding the inhabitants in doing so without compromising the business potential of publishers & the ilk.

It offers a permissible list as opposed to the exhaustive list of the U.K., Canadian and Indian statutes. The argument against a codified system such as that in the United Kingdom was that a more flexible approach allows the courts to develop the law on a case-by-case basis as new problems emerge.¹⁸⁶ The burden of proof also lies on the defendant to prove that his infringing acts were fair dealing for the purposes permitted under the Act. This burden is quite a heavy one and has to be within the four corners of the statutory provisions.

Fair use laws facilitate increase in creative and ingenious productivity, which is the primary objective of the law of copyright. A set of factors assist in the decision making process. It is based on judicial discretion rather than on any exhaustive list. Fair dealing, on the contrary, is a right with limitation. Unlike fair dealing, fair use is a more flexible model. It allows the expansion of the exception to cater to the requirements of the evolving technological and economic practices in the society. Even though the purview of the Indian concept of fair dealing is larger than that of the Canadian model, from where the doctrine emerged, the exceptions are becoming redundant due to the rapid nature of technological changes. The material link between technology and copyright cannot be ignored. And as already observed, the fair dealing doctrine has not been correctly interpreted by Indian Courts even after laying down such an exhaustive list for the determination of fair dealing thus suggesting that Courts actually do not attach a lot of significance to the enumerated exceptions. The grey areas pertaining to this field are also quite a number. Since the fair use model does not have a very strict approach, a number of principles and guidelines have developed through case laws and precedents

¹⁸⁶Weinreb, "Fair's Fair: A Comment on the Fair Use Doctrine," *Harvard Law Review* 103, 1137 (1990)

which has not been the case in fair dealing. Considering all these circumstances, the U.S. fair use provision has proven to be the "fairest" of them all.¹⁸⁷

4.6. WHY FAIR DEALING?

There have been a number of objections to follow the fair use doctrine universally. As has already been pointed out earlier, even though Canada laid down a lithe approach in the form of the CCH decision, the government was not ready to adopt the proposed amendments into the statute. Even in the U.K., although the Courts have a digressed a tad bit while interpreting the statues and deciding the cases, those factors have not been formally entrenched in to the statutes. In India also no such approach has been attempted yet. The biggest problem that has been identified with the fair use doctrine is "case-by-case" approach as it gives rise to huge amount of litigation and thus pendency in case. Furthermore, fair use is said to be "ill, though hardly dead yet."¹⁸⁸ It has been said that claims of U.S. fair use superiority are often misguided, and many others have called on the United States Congress to clarify fair use."¹⁸⁹ The courts have also failed to simplify fair use despite attempts to establish bright-line presumptions that (1) commercial uses are unfair,¹⁹⁰ (2) the plaintiff's unpublished works should be favoured,¹⁹¹ and, more recently, (3) works must be

¹⁸⁷David Nimmer, "'Fairest of Them All' and Other Fairy Tales of Fair Use", *Law &*

*Contemp. Probs.*66, 263 (2003)

¹⁸⁸Wendy J. Gordon, "Keynote: Fair Use: Threat or Threatened", *Case W. Res. L. Rev.* 55, 903 (2005), p.912

¹⁸⁹Michael Carroll, "Fixing Fair Use", *N.C.L. Rev.* 85, 1087 (2007)

¹⁹⁰*Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 104 S. Ct. 774 (1984)

¹⁹¹*Harper & Row Publishers v. Nation Enterprises*, 471 U.S. 539 at 546, 105 S. Ct. 2218

(1985)

transformative to constitute fair use.¹⁹² It is increasingly expensive and painful to mount litigation to clarify the scope of the use, and some users also consider it risky because of these reasons. The fear is that due to such reasons, the claimants may not even come to Courts to have their disputes settled. In addition to proving this theoretical point, the American Intellectual Property Law Association has noted that the average cost of defending a copyright case is just less than one million U.S. dollars. Since fair use is very case specific, it does not leave any room for remedy common to all, thus giving rise to a lot of confusion and chaos too.

Fair dealing on the other hand is what we need in the present day since there are a number of cases being filed on this issue. The basis of interpretation of statutes is that law should be interpreted strictly. We do not follow an open ended system like the U.S. Therefore, keeping in mind the nature of our legal system, fair dealing is the most appropriate method.

4.7. CONCLUSION- FAIR DEALING OF FAIR DEALING

While UK developed a mature licensing system, Canada & USA saw the courts intervene in order to protect the interests of the public at large & considering the overall socioeconomic status of India, it's high time for India to follow suit. To this end, while the Court can come up with guidelines in the present Rameshwari case but the best course of action would be to amend the law & taking cue from the other major democracy of the world by adopting a more fair-use biased model in India.

Probably the only difference was that fair use applied to any situation and not merely to an enumerated purpose. Post the CCH decision in Canada, it can be said that the Canadian model is in fact more flexible than the one in the U.S. The CCH decision has not yet been followed in India.

¹⁹²*Campbell v. Acuff-Rose Music*, 510 U.S. 569, 114 S. Ct. 1164 (1994)

Also if right now, we had fair use provisions instead of fair dealing, there might have been a possibility that the dispute between the publishers and the University and Rameshwari Photocopy Service might not have arisen. But that is only a mere possibility. Since the Indian judiciary has never dealt with the “limit of permissible copying” for educational purposes in India, we would have to refer to decisions from other jurisdictions. In 2012 one of the US courts decided in Cambridge University Press v Becker, that the University would not require a license for reproduction of less than 10% of the total page count of the book. Following this example, we should also permit copying of at least 15-20% of the total page count of the book to accommodate the needs of the Indian educational system. Permissible purpose and a permissible limit would definitely bring in some life to our fair dealing provisions. Fair dealing also needs to be defined somewhere to bring out more clarity in Section 52 of the Copyright Act.

We conclude that, such a rigid approach to fair dealing should not be followed in India keeping in mind the technological and societal changes. Intellectual Property Laws have not fully taken their shape yet and therefore, confining them to such strict interpretation of statutes would leave no room for fairly judging the cases and for judicial creativity. Agreed that the freedom of speech and expression does not allow the misappropriation of another’s work, but these two interests have to be balanced. We do not seek to propose that the fair dealing provisions be completely done away with but simply that the flexibility of the ‘fair use doctrine’ be adopted. An amendment in line with the CCH decision of Canada could do use some good. Fair dealing should be allowed for purposes beyond the statute as well. The American model has been more effective in balancing the interest of the user and the owner. Though it has its own problems, it is still better than our present system. What we should do is come with a more efficient model which can help us tackle our disputes better. At present, this issue has not been subject to much judicial interpretation but it is not long before it will be exposed to judicial examination and we should be prepared for any such scenario. Judicial discretion should be allowed to avoid any misuse of the flexibility and to accommodate technological changes. Instead of adopting the ‘fair use doctrine’ in its entirety, an alternative ‘such as’ approach or the expansion of fair dealing should be adopted. Since we are already referring to parameters laid down in

different judgements to judge fair dealing, why not incorporate them into the statute and simultaneously introduce a “such as” clause in the provision. Fair use is based on utilitarian principles and fair dealing is based on the natural law theory where author takes centre stage. The view of the authors is in favour of adapting the fair dealing doctrine with certain features of the ‘fair use’ system. It is now up to the legislators, in the present day circumstances, to approach & analyse this issue so as to best serve our interests.

CLASH BETWEEN INTELLECTUAL PROPERTY LAW AND COMPETITION LAW A CRITICAL ANALYSIS

- Ruchi Verma¹⁹³ and Shanya¹⁹⁴

Abstract

Competition Law and Intellectual Property Law prima facie appear to have conflicting objectives and goals. These conflicts have in turn brought the emergence of a long debated topic, which has to be resolved for better understanding of the subjects. Thus, with evolving of jurisprudence in this area and the emergence of a plethora of cases, the author intends to understand the interface between two streams of law i.e. Intellectual Property Rights (IPR) and Competition law. Competition law operates towards facilitating the market growth by curbing anti-competitive practices in the market. On the other hand, IPRs confer exclusive monopoly to the proprietor. However, there have been wide changes in the recent times that have changed the course of debate. The latest trend and dispute has shifted from conflict between the domain of IPRs and completion law to the exercise of rights in IPR affecting competition law. This flows from the fact that the both are intended towards furthering innovation and consumer welfare.

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Therefore, in the light of the above intricacies and problems the author seeks to discuss the general principles and laws pertaining to Intellectual Property Right and Competition law. Thereafter the author has tried to analyze the application and operation of both the laws in different jurisdiction followed by a deep study of Case laws. Lastly, the author seeks to critically examine all the factors to reach to an amicable solution for the same.

1. INTRODUCTION

Competition Law and Intellectual property rights (IPRs) seem to operate in different domains having distinct objectives and applications. Thus, understanding the smooth operation of IPR law to competition law is the most challenging task, which needs immediate attention.¹⁹⁵ With evolution of jurisprudence on competition law and emergence of plethora of cases, it has become utmost important to understand the interface between two mainstreams of law i.e. IPR and competition law. Apart from India, this topic is widely debated throughout the world also, and thus the author would also like to discuss and critically analyze the situation in different jurisdictions. This would help in drawing contrast with Indian Jurisprudence and further highlighting ways to reconcile the same.

Competition law operates towards protection of practices, which help in furtherance of the smooth functioning of the markets.¹⁹⁶ On the other hand, IPRs operate to give exclusive rights over a property.¹⁹⁷ Thus, broadly it can be inferred that intellectual property seeks to protect individual interest and competition protects the market. The interface and connection between IPRs and competition law is essentially created by the non-excludable character of intellectual property that causes the deadlock between the two.¹⁹⁸ Thus, this tussle boils down to the conflict between the IPR law and the competition law, which needs to be amicably resolved.

¹⁹⁵ K.D. Raju, “The Inevitable Connection between Intellectual Property and Competition Laws”, *Journal of Intellectual Property Rights*, Vol 18, March 2013, p.111.

¹⁹⁶ K. Maskus, ‘Competition Policy and Intellectual Property Rights in Developing Countries: Interests in Unilateral Initiatives And A WTO Agreement’ (1999), *at* <http://siteresources.worldbank.org/DEC/Resources/847971251813753820/6415739-1251814020192/maskus.pdf> (last accessed 1March 2014).(Not found)

¹⁹⁷ W.R. Cornish, *Intellectual Property*, Sweet and Maxwell, 2003.

¹⁹⁸ *Supra* note 1, at p. 10.

However, there have been wide changes in both laws in the recent times. On one hand, competition law is emerging as a law designed for regulation of economic power¹⁹⁹ and on the other hand expansion of IPR coverage to wide range of markets and products along with emergence of IPR driven markets in various jurisdictions is taking place.²⁰⁰ Thus, the latest trend and dispute has shifted from conflict between the domain of IPRs and completion law to the exercise of rights in intellectual property affecting competition law. This flows from the fact that the both are intended towards furthering innovation and consumer welfare.²⁰¹

Therefore, in order to deal with the intricacies and problems, the author has divided the paper broadly under three major heads. Firstly, the author seeks to discuss the general jurisprudence pertaining to IPR and Competition law. Thereafter the author has tried to cull out the operation of both the laws in different jurisdiction followed by a deep study of Indian Jurisprudence. Lastly, the author seeks to critically examine all the factors followed by conclusively determining the solution of the same.

1.1. OBJECTIVES OF IPR AND COMPETITION LAW

It is a common fallacy that competition law and IPRs have conflicting goals. It has emerged from the traditional notions behind the subject matter of the two domains without deep scrutiny of its background. IPR is usually taken as a tool to confer exclusive monopoly thereby preventing others from participating and offering products in the market. This can be directly equated with adverse impact on

¹⁹⁹ Richard Whish, *Competition Law*, Oxford University Press, 2005.

²⁰⁰ D.Evans and R Schmalensee, 'Some Economic Aspects of Antitrust Analysis in Dynamically Competitive Industries' (2001), at <http://www.nber.org/books/innovation2/evans5-1-01.pdf> (last accessed 2 March 2014).[Not *per se* available on the site mentioned; Author has accessed it from a CCI ARTICLE]

²⁰¹ Alison Jones and Brenda Sufrin, *EU Competition Law: Text, Cases and Materials*, Oxford Publications, Online resource centre 789 (2006), available at books.google.co.in/books?isbn=0199572739, (last accessed 5 March 2014).

competition in the market. It can also be understood simply in the light of formation of monopoly by licensees of different products in the market. IPR seems to narrow down the free and competitive market while competition law revolves on the pivot of promoting efficiency and preventing distortions in the market.

Analyzing IPR in the background of reward theory also clarifies the situation of the endless conflict between competition law and intellectual property law which derives its color from the policy of reward theory i.e. reward to the inventor.²⁰² The law was inclined to reward the creator for disclosure of his work to public and thereby granting access to everyone else to something that would otherwise remain in abyss. Protection of such nature was impliedly the cost for the disclosure to the society at large. Thus, IPR was always focused on individual rights and thereby led to the initiation of conflict with the confinement of individual rights with the advent of competition law.

However, a close observation reveals that both IPR and Competition Law work towards a common objective. There is a unanimous consensus on the fact that both aim towards promotion of innovation and consumer welfare.²⁰³ This can be witnessed from other jurisdictions as well. According to the U.S. Department of Justice & the Federal Trade Commission-

*“... [Competition] laws aims towards protection of robust competition in the market, while IP laws work to protect the necessary ability to earn a return on the investments that is necessary to innovate. Both lead to enter the market with production of desired technology, service or product.”*²⁰⁴

²⁰² Holyoak & Torremans, *Intellectual Property Law*, Oxford university Press, 2008.

²⁰³ *Atari Games Corp v. Nintendo of Am Inc*, 897 F.2d 1572, 1576 (Fed Cir 1990).

²⁰⁴ US Department of Justice and Federal Trade Commission, ‘Antitrust Enforcement and Intellectual Property Rights: Promoting innovation and competition’ (2007), at <http://www.ftc.gov/sites/default/files/documents/reports/antitrust-enforcement-and-intellectual-property-rights-promoting-innovation->

Competition law is essential for the liberalization and economical growth. It can be traced out from the fact that hundreds of countries have enacted competition law. These include the U.S., European Union, Japan, Canada, and Singapore etc. This was followed by series of amendments in legislations across the world and enactment of new legislations to stay at par with the rapid growth and economical liberalization which subsequently gave rise to analyze the role of intellectual property in great depth as cases of misuse of IPR were rising at a sharp pace. Thus, India enacted its competition law in 2002.

The harmonization of the same is evident from the fact that the *Competition Act*, 2002 has accommodated the objectives of IPR aptly while framing laws and provisions. Competition law enumerates that there is no harm in dominance of market power as long as it is not abusive. It may be considered against competition law if the proprietor holder abuses its dominant position thereby tampering competitive market.²⁰⁵ The IPR owner is generally viewed in a dominant position but this can be reconciled with the above fact of abuse of dominant position. In the recent times, gradual changes have been introduced in both competition and intellectual property law. It includes prohibition of activities and provisions that explicitly and directly contravene competition in the market. Thus, a balanced approach is required for careful construction of the same.

2. STATE OF AFFAIRS IN VARIOUS OTHER JURISDICTIONS

2.1. UNITED STATES

The role of IPR in competition law is not widely dealt under the United States antitrust legislation. However, with advancements in both competition law and Intellectual property law, there has been long debates regarding the immunity to be granted to IPR in the ambit

[and-competition-report.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf](http://www.competitionreport.s.department-justice-and-federal-trade-commission/p040101promotinginnovationandcompetitionrpt0704.pdf), (last accessed 11 March 2014).

²⁰⁵ The *Competition Act*, 2002 [No.12of 2003], s. 4. available at <http://www.cci.gov.in/images/media/competitionact/act2002.pdf> (last accessed 2 March 2014).(Not found)

of antitrust laws. The traditional view pertaining to IPR saw IP law's as key to monopolies, which were contrary to the Anti-trust practices.²⁰⁶

However, with emerging jurisprudence in the field of IPR, there has been an inclination towards the view that IPRs allow consumers exercise the freedom to substitute products and technologies with other products and technologies available in the market. The Department of Justice and other authorities have analyzed the contentious issue very closely and have inferred that presence of IPR does not necessarily amounts to abuse of dominant position or creation of monopolies.²⁰⁷

In the furtherance of the same, a framework was established upon deliberations and discussions by various agencies and authorities and consequently resulted in formulation of an antitrust "safety zone".²⁰⁸ It pertains to regulation of licensing agreements under IP laws for providing certainty and boost up competition in the market. The framework and guidelines related to safety zone enumerates that no restrictions will be imposed on IP licensing agreement in case the following situation arises²⁰⁹:

²⁰⁶ US Department of Justice and the Federal Trade Commission, 'Antitrust enforcement and intellectual property rights: Promoting innovation and competition' (2007), at <http://www.ftc.gov/reports/innovation/P04010.PromotingInnovationandCompetitionrpt0704.pdf>. (Last accessed 1 March 2014). [NOT AVAILABLE]

²⁰⁷ *Illinois Tool Works Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006). This case established that there should not be a presumption of market power under the Sherman Act when the sale of a patented product is conditioned on the sale of a second product in a tying arrangement.

²⁰⁸ US Department of Justice and the Federal Trade Commission, 'Antitrust Guidelines for the Licensing of Intellectual Property', April 1995, pp. 22-23, ¶ 3.4, available at <http://www.usdoj.gov/atr/public/guidelines/0558.pdf> (last accessed 2 March 2014).

²⁰⁹ *ibid.*

- (i) If the arrangements and restraints under IP laws are not prima facie anti-competitive i.e. leading to predatory pricing, tying-in arrangements, reduction of output, controlling the market or increasing prices; and
- (ii) If the total account of each relevant market affected by the restraint imposed by the licensor and licensees together is not more than 20 percent; and/or
- (iii) If, apart from the parties relating to the licensing agreement, there are 4 more specialized entities that are independently controlled and pose incentive to research and development which proves to be a close substitute to the R&D activities of the parties to the licensing agreement.

Further the Department of Justice and Federal trade Commission have narrowed down the licensing agreements under IP and assignments that would be subject to liability under antitrust law:²¹⁰

- (i) Conditional refusals to license which cause competitive harm;
- (ii) Tying arrangements (if the seller has market power in the tying product; the arrangement has an adverse effect on competition in the relevant market for the tied product; and the efficiency justifications for the arrangement do not outweigh the anticompetitive effects); and
- (iii) Cross licensing and patent pooling agreements where the arrangements result in price fixing, coordinated output restrictions among competitors or foreclosure of innovation.

2.2. EUROPE

The interface between IPR and competition law is dealt in Article 81 of the Treaty of European Commission.²¹¹ The relationship between

²¹⁰ *Supra* note 13.

²¹¹ Article 81, European Union, Treaty Establishing The European Community, available at

licensing in IPR and competition law is enumerated by EC in detail. The journey can be traced as a shift from liberal approach to more intervening approach. EC has adopted a more economical and market-centric view, which is reflected in the TIBER of 2004, coupled with guidelines of technology transfer.²¹² Article 82 of the EC also plays a crucial role in case of abuse of dominant position concerning agreements under IPRs.²¹³

EC has broadly issued 2 block exemptions that explicitly provide immunity to IPRs from the conduct rule concerning anti-competitive agreements. However, this does not mean that the immunity extends to conduct rule concerning abuse of dominant position too.²¹⁴

The 1st block exemption is the “specialization agreement” that addresses the IPR was issued in year-2000.²¹⁵ It deals with the exemption of provisions of use and assignment of IPR that are expressly mentioned in the specialization agreement subject to compliance of various condition mentioned therein. Some of them are:

- (i) Necessity of use of Intellectual Property rights and assignment for the implementation of the specialization agreement²¹⁶;

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12002E081:EN:HTML> (last accessed 7 March 2014).

²¹² A. Jones & B. Suffrin, *EC Competition Law: Text, Cases And Materials*, 2008, p. 777.

²¹³ *id.* at p. 773.

²¹⁴ Article 82 of the EC Treaty prohibits an abuse by one or more undertakings of a dominant position within the common market or a substantial part of it pertaining to the extent to which it may affect trade within Member States.

²¹⁵ Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialization agreements.

²¹⁶ Article 1(2), Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialization agreements.

- (ii) The combined market share of the participating undertakings should be less than 20% of the relevant market²¹⁷; and
- (iii) The specialization agreement must not directly or indirectly have the object of: (a) fixing prices when selling the product to third parties; (b) limiting output or sales; or (c) allocating markets or customers²¹⁸.

The second block exemption, which addresses IPRs expressly, is the “technology transfers” block exemption that was issued in 2004.²¹⁹ It pertains and regulates the exemption of patents, know-how and copyright assignments and licensing agreements from perspective of the conduct rule of anti-competitive agreements, subject to conditions and limitations underlined therein. Some of these are:

- (i) In case of agreement between the competitors, the combined share of the relevant market accounted for the parties must not exceed more than 20%²²⁰
- (ii) The share of the relevant markets individually accounted for by each of the parties must not exceed 30% in case of agreement between the non-competitors²²¹

²¹⁷ Article 4, Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialization agreements.

²¹⁸ Article 5, Commission Regulation (EC) No 2658/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of specialization agreements.

²¹⁹ Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

²²⁰ Article 3(1), Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

²²¹ Article 3(2), Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

- (iii) It bars inclusion of agreements containing severely anti-competitive restraints.²²²

3. THE TRIPS AGREEMENT

The TRIPS Agreement also enumerates guidelines and safeguards in this regard. The essence of the same can be narrowed down to three guiding principles which are:

- (i) It is up to the determination of each nation to reserve its own IPR-related competition policy.
- (ii) It is required to have consistency between the TRIPS Agreement's principles of IP protection and national IPR-related competition policy.
- (iii) The focus is majorly centered towards targeting those practices that are restricting the dissemination of protected technologies.²²³

The TRIPS agreement enumerates elaborately in its text the role of IPRs and supporting character of competition policy to avoid the deadlock between the two domains.²²⁴ However, TRIPS agreement is merely facilitating than being mandatory. Thus, the objectives and principles of TRIPS guide in attaining the competitive balance required for facilitating innovation along with economic growth.²²⁵

²²² Article 4, Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements.

²²³ A. Roy & J. Kumar, 'Competition Law in India' 2008, p. 183.

²²⁴ S.D. Anderman, *The Interface Between Intellectual Property Rights And Competition Policy*, Cambridge University Press, 2007, p. 7.

²²⁵ Article 8.2, WTO, Agreement On The Trade-Related Aspects Of Intellectual Property Rights, available at

Article 6 of the TRIPS deals with an important aspect of exhaustion, which plays, a vital role under competition law. It deals with exhaustion of rights. It facilitates the balancing of rights, duties and liabilities under the two domains.²²⁶

Article 8.2 deals with other aspects of objectives and principles enumerated under the TRIPS Agreement.²²⁷ This article is of much importance from the perspective of developing nations as it facilitates developing nations in justifying its' provision and stand in competition law for dealing in areas that are silent under TRIPS agreement like abuse of dominant position in the relevant market and IPR.²²⁸

Article 40 of TRIPS²²⁹ is the cornerstone of the interface between IPR and competition law and helps in providing flexibilities to the developing nations. It has provisions like code of conduct for transfer of technology²³⁰ for the developing nations and equitable principles for

http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm (last accessed 9 March 2014).

²²⁶ A.K. Koul, "The General Agreement On Tariffs And Trade (GATT)/World Trade Organization (WTO): Law, Economics And Politics", 2005, p. 460.

²²⁷ *Supra* note 31; Article 8.2 states: "Appropriate measures, provided they are consistent with the provisions of the agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology."

²²⁸ J. Watal, *Intellectual Property Rights In The WTO And Developing Countries*, Oxford University Press, 2001, at p. 293.

²²⁹ Article 40, WTO, "Overview: The TRIPS Agreement", available at http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last accessed 10 March 2010).

²³⁰ C.M. Correa, "Innovation and Technology Transfer in Latin America: A Review of Recent Trends and Policies", published in S. Lall (ed.), *The Economics Of Technology Transfer*, 2002, at pp. 339-342.

regulating anti-competitive and restrictive practices that were adopted by the UN General Assembly in 1980.²³¹

Further, Article 7 acts as a guiding principle for interpreting the provisions pertaining to IPR and competition law under TRIPS.²³² Article 31(k) also acts as a strong provision to counterbalance the adverse effect of IPR on competition law.²³³

4. EMERGING JURISPRUDENCE IN DEVELOPING COUNTRIES

As discussed above, TRIPS agreement provides a wide ambit for inclusion of provisions pertaining to IPR and competition law. Further, it also grants flexibility to all the nations including developing nations to formulate provisions as per the needs and requirements of their market. However, in the absence of mandatory provision, there are ample chances of subjection of this contentious issue to more negotiations at World Trade Organization.²³⁴ Thus, in the light of above possibility, it is of utmost necessity for the developing nations to clarify its stand and scope on the subject of interface between

²³¹ UNGA Adopted This By Resolution 35/63 Of December 1980; The United Nations, A Set Of Multilaterally Equitable Agreed Principles And Rules For The Control Of Restrictive Business Practices, at <http://www.un.org/documents/ga/res/35/a35r63e.pdf> (last accessed 12 March 2014).

²³² D. Shanker, "The Vienna Convention on the Law of Treaties, the Dispute Settlement System of the WTO and the Doha Declaration on the TRIPs Agreement", 36 *Journal Of World Trade*, 2002, p.721.

²³³ Article 31(k), TRIPS Agreement reads: "Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti competitive. The need to correct anticompetitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions, which led to such authorization, are likely to recur, *Supra* note 31.

²³⁴ *Supra* note 34 at p. 304.

competition law and IPR to be able to exercise the flexibility accorded to it in future.

There are also chances of development of mandatory provisions under TRIPS pertaining to the present jurisprudence in developed countries.²³⁵ This would directly hamper the development, growth and flexibilities in developing nations. Thus, developing nations should concentrate and analyze the aspects related to their economies to build a framework for reconciling both IPR and competition law.

There is not much jurisprudence and provisions available under TRIPS for regulation from the perspective of competition policy except for few elaborations. TRIPS pose lots of difficulties to the developing nations as it mostly addresses and facilitates the developed nations' policy framework. Most of its substantive content draws its roots from EPC and thus it had negligible impact on EU²³⁶ and created many changes as far as developing nations are concerned.

Thus, the developing nations should create a framework for analyzing the grounds, principles, objectives and situations under which IPR would override the competition law and regulatory measures for facilitating economic growth and development. As far as technological transfers are concerned, the developing nations are pushed to a disadvantaged position as compared to the developed nations and hence, there is a need for concrete steps by the developing nations to avoid further exploitation.²³⁷

There is a need to regulate licensing, assignments and agreements issue in cases of conflict between IPR and competition law.²³⁸ Additionally,

²³⁵ *id.* at p. 301.

²³⁶ C. Colston & K. Middleton, *Modern Intellectual Property Law*, Routledge-Cavendish, 2005, at p. 60.

²³⁷ WTO Working Group on the Interaction of Trade and Competition Policy at its fifth session (WT/WGTTT/5), ¶15, www.wto.org.tw/SmartKMS/fileviewer?id=2008 (last accessed 23 March 2014).

²³⁸ D.V. Eugui, 'What Agenda For The Review Of Trips? : A Sustainable Development Perspective' (2002) available at

competition laws in developing countries should be framed in a way to deal directly with all anti-competitive practices, predatory pricing, collusive practices, tying-arrangements, etc which can cause adverse impact on the welfare of customers and economic development.²³⁹

5. THE STUDY OF THE INTERFACE IN INDIA

With the emergence of plethora of cases and regulations pertaining to prevention of the overriding effect of IPR over competition law, it has become necessary to critically analyze the subject in great details with respect to both statutory provisions and judicial precedents. However, a mixed view is prevalent in the present scenario pertaining to the much debated issue of IPR and competition law.

Critically examining, one can easily reach to the reasonable inference that every subject under IPR does not need regulation by the competition law.²⁴⁰ IPR merely confers the dominant position or facilitation of monopolies but this does not necessarily imply the abuse of dominant position by the proprietor of the subjects specified under IP laws.²⁴¹

In India, Competition Act, 2002 provides for the prohibition of anti-competitive practices and not monopolies per se. Completion law effectively operates to regulate the unjustified practices under IPR subject to conditions and provisions enumerated therein.

6. STATUTORY ANALYSIS

http://www.ciel.org/Publications/AgendaTrips_Summer02.pdf (last accessed 12 March, 2014).

²³⁹ *Supra* note 30 at p. 8.

²⁴⁰ M. Naniwadekar, 'Intellectual Property Rights and Competition Law: Friends or Foes?' (2009), *at* <http://spicyipindia.blogspot.com/2009/09/intellectual-property-rights-and.html> (last accessed 24 March 2014). (Page not found)

²⁴¹ Shubha Ghosh, "Intellectual Property Rights: the View from Competition Policy", 103 Nw. U. L. Rev. Colloquy, pp. 344-346 (2009).

The Competition Act, 2002 passed by the Indian legislature is in synchronization with the principles of economic efficiency and liberalization. With the opening of trade barriers and rapid flow from international markets, a need was felt for robust regulation of the same. Thus initially an open market policy was formulated in India. Later on keeping in mind the new challenges, Competition Act was enacted which seeks to fulfill its objectives vide prohibition of the following:²⁴²

- (i) Anti-competitive agreements;
- (ii) Abuse of dominant position by the enterprises in the market; and
- (iii) Regulation of combinations that exceed the threshold limits against the prescribed assets or turnover.

The competition law policy and practice find reference in the Indian law vide Articles 38 and 39 of the Constitution. It lays down the principles for promoting and securing social, economic and political justice for the people and maintaining social order.²⁴³ The duty is on the State to ensure the same. Additionally, the State is burdened with the duty to regulate the ownership of material resources and direct the control in the best way to address the common good with fulfillment of maximum objectives. This is to ensure and check the concentration of power in the hands of few, which leads to anti-competitive practices, and accumulation of wealth in the hands of few.

In order to fulfill the gaps in the MRTP act and counterbalance the challenges, Government in October 1999, appointed a High Level Committee to draft a new competition law.²⁴⁴ Consequently

²⁴² D.P. Mittal, *Competition Law & Practice*, Taxmann Publications Pvt. Ltd., 2008 at p.3.

²⁴³ T Ramappa, *Competition Law in India: Policy, Issues and Developments*, The University Press, New Delhi, 2011.

²⁴⁴ The Institute of Chartered Accountants of India, 'Competition Laws And Policies' (2004), at p. 129.

Competition Act, 2002,²⁴⁵ was enacted with robust provision and inclusion of TRIPS complying provisions too.

S. 3 of the Competition Act, 2002 dealt with the anti-competitive agreements. The interface between competition law and IPR can be easily traced by incorporation of S. 3(5) of the Act. It is essentially a blanket provision which acts as an exception for IPRs under S. 3(5) of the Act. This is done to accommodate innovations and thereby promote technologically advanced goods and products.²⁴⁶ However, it also regulates efficiently, the practice in order to check unreasonable practices of IPR under this provision.²⁴⁷

Thus, there are provisions for regulating such foul agreements and licenses under IPR that go against the spirit of the Competition Act, 2002.²⁴⁸ Provisions have been made to address any anti-competitive practice pertaining to IPR to be proved through the channel of abuse of dominant position as mentioned under S.4 of the Competition Act, 2002.²⁴⁹ Additionally, the Act also includes explicit categories like price fixing, geographical divisions etc. that extends up to predatory pricing, tying-in arrangements and other allied subjects, if they lead to causing appreciable adverse impact on competition.²⁵⁰

²⁴⁵ R. Dutta, 'Critical Analysis: Reflection of IP in Competition Law of India', at <http://www.inclawnews.com/display.aspx?4674> (last accessed 21 March 2014).

²⁴⁶ *id.*, at p. 133.

²⁴⁷ S. Jain and S. Tripathy, "Intellectual Property and Competition Laws: Jural Correlatives", *Journal of Intellectual Property Rights* (2007), at pp. 236-243.

²⁴⁸ *Supra* note 50, at p.134.

²⁴⁹ *Supra* note 47 at p. 24, S. 4 define abuse of dominant position broadly to include: (a) unfair or discriminatory prices, (b) restrictions on production or technical and scientific development, (c) practices that result in denial of market access, and (d) tying and market leverage.

²⁵⁰ S. Ghosh, 'Presentation on IP and Competition In India', at <http://www.business.uiuc.edu/stip/documents/ShubhaGhosh.pdf> (last accessed 24 March 2014).

7. CRITICAL ANALYSIS IN THE LIGHT OF JUDICIAL PRECEDENTS

Since the emergence of MRTP Act and Competition Act, 2002, plethora of cases have emerged, laying down principles related to the subject matter of competition law and IPR. Anti-competitive agreements²⁵¹ and abuse of dominant position²⁵² along with other sub heads form the framework of Competition Act that determines the regulation of IPR pertaining to competition law.

There have been various landmark judgments pertaining to the conflict between IPR and the competition law. Various authorities and agencies are continuously deliberating and debating over this contentious issue. *Aamir Khan Productions Pvt. Ltd. v. Union of India*²⁵³ is a landmark judgment delivered by the Bombay High Court wherein the Court while dealing with a matter pertaining to the issue of IPR held that CCI has the jurisdiction to deal with all cases concerning competition law and IPR. In *Kingfisher v. Competition Commission of India*²⁵⁴ also, the Court reiterated that the CCI is competent to deal with all the issues that come before the Copyright Board. Such cases enumerate the fact that the Indian Courts are ready for dealing with emerging cases of competition law involving IPR.

Competition law has provided S. 3(5) as a provision that highlights interface between competition and IPR issues. It is a blanket provision incorporated in the competition law. However, there is no provision under S. 4 on the ground of IPR abuse or public policy for interference in such cases. It specifically enumerates that action can be taken only in cases where there is abuse of dominant position leading to appreciable adverse effect on the competition.

²⁵¹ The *Competition Act*, 2002, s. 3.

²⁵² The *Competition Act*, 2002, s. 4.

²⁵³ *Aamir Khan Productions v. Union of India*, 2010 (112) Bom L R 3778.

²⁵⁴ *Kingfisher v. Competition Commission of India*, Writ petitions no. 1785 of 2009.

Cartel is yet another issue that is dealt elaborately under the competition law. Formation of cartels is a prevalent practice among industries and firms. Recently the proprietors owning IPRs have indulged in formation of cartels and thereby causing distortion of competition in the market. An evident example of the same can be traced from the film industry as it involves both IPR issues i.e. copyright along with competition law provision affecting the industry. In the case of *FICCI Multiplex Association of India v. United Producers/Distributors Forum (UPDF)*,²⁵⁵ the petitioner (FICCI) filed complaint against the UPDF alleging the formation of market cartels in the film industry. This was deliberately done by UPDF to boost their revenue and thus it had refused to strike deal with the multiplex owners. This has direct and drastic effect on the multiplexes as their business is wholly dependent on the film industry.

Consequently, this resulted in anti-competitive practice of refusal to deal leading to distortion of competition adversely for gaining profits. Further, defendants held 100 per cent share in the industry and thus indulging in limitation of supply of films in the market qualifies as an anti-competitive practice. It qualified as a violation of S. 3(3) the Competition Act too. The parties on delivery of the show cause notice filed a petition in Bombay High Court on the pretext of lack of jurisdiction of CCI to decide a matter pertaining to IPR. The Court citing S. 3(5) of the Competition Act 2002 read with S. 3(1) held that the latter section cannot curtail the right to sue for infringement under IPR, and further CCI has jurisdiction to entertain all matters that can be presented before the Copyright Board.

Recently, CCI also held that copyright is not an absolute right but is merely a statutory right under the Copyright Act, 1957.²⁵⁶ Further, in *Microfibres Inc v Girdhar & Co.*, the Court observed that:

“The legislative intent was to grant a higher protection to pure original artistic works and lesser protection to the activities that are commercial

²⁵⁵ *FICCI Multiplex Association of India v. United Producers Distribution Forum (UPDF)*, Case No. 1 of 2009, CCI order dated 25 May 2011.

²⁵⁶ *Gramophone Company of India Ltd. v. Super Cassette Industries Ltd.*, 2010 (44) PTC 541 (Del).

in nature. Thus, the intent of the legislature is explicitly clear that the protection provided to a work that is commercial in nature is at lower pedestal than and not to be equated with the protection granted to a work of pure Article.²⁵⁷

It can therefore be safely concluded that the precedents enumerate greater protection to original artistic works as compared to the furtherance of commercial interest. CCI has come out with a landmark decision as it undoubtedly moved towards checking the abuse of dominance by forming cartels in the market of film industry.

In *Hawkins Cookers Limited v. Murugan Enterprises*²⁵⁸, Delhi High Court held that a well known mark on the pretext of being prominent and well-known cannot be left unchecked to create monopoly in the market by indulging in practices of controlling the incidental market. The same would fall under the category of abuse of dominant position in the market and is prohibited.

The status of law in U.S. is no different. In *Twentieth Century Music Corp v. Aiken*²⁵⁹, the Court reiterated that the immediate aim of the copyright law is to make sure that the author gets a fair return, however the ultimate aim is to stimulate artistic work for public good. Thus, the aim and objective of both IPR and Competition law is to promote innovation and interest of the public along with furtherance of competition in the market for common good. A similar approach is adopted by the ECJ which can be inferred from the case of *Hoffmann-La Roche*²⁶⁰ and *United Brands*.²⁶¹

²⁵⁷ *Microfibres Inc v. Girdhar & Co.*, RFA (OS) no. 25/2006 (DB), decided on 28 May 2009.

²⁵⁸ *Hawkins Cookers Limited v. Murugan Enterprises*, 2008 (36) PTC 290(Del).

²⁵⁹ *Twentieth Century Music Corp v. Aiken*, 422 US 151(1975).

²⁶⁰ *Hoffmann-La Roche & Co AG v. Comm'n*, Case C-85/76, 1979 ECR 461.

²⁶¹ *United Brands Co & United Brands Cont'l BV v. Comm'n*, Case C-27/67, 1978 ECR 207, 63-66.

In *Entertainment Network (India) Limited v. Super Cassette Industries Ltd.*,²⁶² Hon'ble Supreme Court in length stated the interface between competition law and effect of IPR on competition in the market. Refusal to deal is one such limb of anti-competitive practices that is covered under the competition law. The Court observing the same held that, though the proprietor of a copyright exercises absolute monopoly over it, but the same is limited in the sense that any transaction with unreasonably tainting or limiting competition would amount to refusal. Undoubtedly, IPR owners can enjoy the fruits of their labour via royalty by issuing licences but the same is not absolute.

The jurisdiction of other countries also highlights the fact that exercise of rights under IP laws is subject to the competition law/anti-trust law. Dealing a case pertaining to refusal of license, a U.S. Court in *Kodak II*²⁶³ and in *In re Independent Service Organizations*,²⁶⁴ held that IPR does not grant an unfettered right to violate the anti-trust law. Further, in *United States v. Microsoft*²⁶⁵, the Court held that the IP laws are not immune from anti-trust laws and all the general laws are equally applicable on IP laws and exclusive right holders.

Excessive pricing and predatory pricing is yet another problem that competition law is grappling with. It is also closely associated to refusal of license. In *Union of India v. Cyanamide India Ltd. and another*,²⁶⁶ the Hon'ble Court held that overpricing of lifesaving drugs is also prohibited and the same does not fall beyond the ambit of price control. Competition law is currently facing a lot of trouble in keeping the branded agencies and patented products under the ambit of price control. In case of lack of substitutes, there's always a potential danger hovering in the form of monopolies. The domain of life saving drugs in relation to high pricing is a major concern in developing nations.

²⁶² *Entertainment Network (India) Limited v. Super Cassette Industries Ltd.*, MANU/SC/2179/2008, 2008(5) OK, 719.

²⁶³ *Image Technical Serve v. Eastman Kodak Co.*, 125 F. 3d 1195 (1218) (9th Cir 1997).

²⁶⁴ *CSU LLC v. Xerox Corp.*, 203 F. 3d 1322 (1326) (Fed Cir. 2000).

²⁶⁵ *United States v. Microsoft*, 38 1998 WL 614485 (DDC, 14 September 1998).

²⁶⁶ *Union of India v. Cyanamide India Ltd and another*, AIR 1987 SC 1802.

Competition law is enacted to promote fair practices prevent abuse of dominant position and completion in the market that is prevalent in the form of tie-in arrangements, excessive pricing, exclusive licensing etc.

In the case of tying arrangements, a highly usable product or service is tied with a less marketable product or service and the seller agrees to sell both together irrespective of the choice of the buyer. Practicing illegal, tying arrangements is against the competition law or anti-trust law. In *Tele – Direct* case²⁶⁷, it was observed that the selective refusal to license a trademark constitutes an abuse of the dominant position. Recently, the *Microsoft* case is yet another example that dealt with the issues of abuse of dominant position and refusal to deal with third parties and inclusion of tying arrangements.²⁶⁸

8. CONCLUSION

It can undoubtedly be inferred now that both IP and competition law have complementary goals. Both are working towards achieving the ultimate objective of promoting innovation and protection of consumer & economic welfare. IP furthers innovation which consequently results in promotion of competition in the market. Over the time, direct goals of these two domains of law have been sufficiently reconciled for attaining the optimum middle path.

IP confers rights to the property holder to enjoy the returns of the disclosure, while competition law is required to deal with IPR in a manner of not absolutely curtailing it rather reconciling it with the goals of competition law. Competition law should impose regulation on IPR only to the extent of interference by holder of IPR in the domain of competition law. There is a need to strike an optimum balance between the policies of IPR and competition law. This will facilitate the long term relationship between the two along with fulfilling the goal of innovation and economic welfare.

²⁶⁷ *Canada (Director of Investigation and Research) v. Teledirect (Publications) Inc.* (1997), 73 C.P.R. (3d) 1 (Comp. Trib.).

²⁶⁸ *Microsoft v. Comm'n*, Case T-201/04, 2007 ECR II-1491.

However, there are certain inferences that need to be taken into consideration while reconciling the IP law and competition law. IPR confers exclusive rights on the proprietor and hence, it must be regulated with regard to the following points. Firstly, since the jurisprudence pertaining to effect of IPR on competition law is restricted only to the jurisprudence from U.S., ECJ and sparsely from other jurisdictions; hence, its activities relating to acquisition of ownership under IPR for strengthening monopolies should be seriously discouraged. Secondly, IPR law must be regulated only in the sphere where it causes adverse effect on the competition to prevent unnecessary interference in the IP laws. Thirdly, IPR companies must be regulated efficiently to prevent concentration of market power in the hand of few to prevent the potential threat of cartels and abuse of dominant position. CCI must be given ample power and jurisdiction to scrutinize distortion of competition and refusal to deal by the industries and firms in the market. Fifthly, excessive pricing and refusal to deal unnecessary on frivolous grounds should be made subject to CCI scrutiny to facilitate smooth functioning of the market.

The detailed analysis of both the streams- IPRs and competition law direct us to the conclusion that both have overlapping issues which can't be dealt in isolation. Despite both are in essence poles apart, however, their goals and objectives are converging than conflicting as understood in general parlance. Despite the fact that there are intricacies and sensitive issues, both the streams have managed to reconcile and strike a middle path in order to ensure the fulfillment of the ultimate objective of common good and protection of consumer welfare.

Thus, at this initial stage of competition law in India, the emerging jurisprudence in India and abroad allay down sufficient framework for development of competition law and regulatory scheme for IPR. The emerging jurisprudence had effectuated the inclusion of gradual changes in both the laws thereby getting prepared to tackle new challenges and plethora of new cases & disputes.

Also, it is equally important from the perspective of a developing nation like India to understand the sensitive and crucial aspects of the contentious issue of tussle between IPR and its effect on competition

law. The framework is set in appropriately to handle any interference with economic growth. However, a true understanding and application of laws and reasons behind the precedents would help in ensuring the smooth function of both the domains and specific needs of the Indian market.

**THE SUPREME COURT ON THERAPEUTICAL EFFICACY
AND SECTION 3(d) OF THE INDIAN PATENTS ACT**

- Harekrishna Ashar²⁶⁹

Abstract

The Supreme Court of India has rejected the plea of Novartis for the grant of a pharmaceutical patent for its anti-cancer drug, sold in the name of Glivec/ Gleevec²⁷⁰. The judgment has received mixed reactions; both contented and condemned. It is essential to make a rational and unbiased analysis of the same and evaluate its potential impact on global pharmaceutical giants, which the author seeks to do in this paper.

Part I of this paper elucidates the object of patent protection, whereas Part II highlights the background of the legislation in India with regards to patent protection. Part III provides for the essential conditions to be fulfilled for the grant of a patent; Part IV stipulates a brief timeline of the Novartis case and Part V highlights the submissions of Novartis before the Hon'ble Supreme Court of India. Part VI deals with the repercussions and reactions of the judgment to the Indian economy and Part VII concludes with the author's view on the impact of the judgment to the Indian pharmaceutical market.

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²⁷⁰Novartis AG *vs.* Union of India & Ors.; (2013) 6 SCC 1;

1. OBJECT OF GRANTING PATENT

A statute is best understood if we know the reason for it, the reason being the safest guide to its interpretation.²⁷¹ It is essential to note that the purpose of the Patents Act, 1970 (**Patents Act**) is to encourage inventions and to ensure that the inventions are working in India on a commercial scale and to the fullest extent that is reasonably practicable without undue delay. It must be noted that Patents are not granted merely to enable patentees to enjoy a monopoly over the importation of the patented articles²⁷². In light of the same, an obligation is created and imposed on a patentee to work the patent in India on a commercial scale and to the fullest extent; either by the patentee itself or through licensees authorised by it. Novartis' failure to obtain Patent protection in the present case, therefore necessitates in the granting of a compulsory license²⁷³, which is one of the flexibilities in Patent protection, included in the Trade Related Aspects of Intellectual Property Rights (**TRIPS**) Agreement, and is in most cases desired to be avoided at all costs by pharmaceutical giants.²⁷⁴ Needless to say, compulsory licensing is a boon to developing countries, limiting the prospects of an epidemic, generating easy accessibility and affordability of basic life-saving drugs²⁷⁵.

²⁷¹ Justice Chinnappa Reddy in *Utkal Contractors and Joinery Pvt. Ltd. and Others vs. State of Orissa and Ors.*, (1987) 3 SCC 279

²⁷² P. Narayanan, *Intellectual Property Law*, Third Edition, p. 68 (Eastern Law House, 2013)

²⁷³ Section 82 to 98 of the Patents Act deal with the circumstances and the grounds under which compulsory licenses of different kinds may be granted.

²⁷⁴ Compulsory licensing, as defined by the World Trade Organisation, is a practice whereby a government allows someone else to produce the patented product or process without the consent of the patent owner. The author maintains the opinion that it is in the interests of all pharmaceutical conglomerates such as Novartis in the present case, that compulsory licensing is not carried out for its product that is sought to be patent protected.

²⁷⁵ See '*Compulsory licensing as a public policy tool in developing countries*' [http://www.law.yale.edu/documents/pdf/Compulsory_Licensing.pdf]

2. BACKGROUND

In the present case, the Supreme Court of India has in its judgment gone beyond the specific technical and legal issues surrounding the dispute and has taken in to consideration a much larger political and economic perspective. What the judgment says and what it implies has tremendous significance for the patent regimes in developing countries beyond the secondary patenting issues relating to Section 3(d) of the Patents Act, 1970. The judgment reads as

*“In order to understand what the law really is, it is essential to know the “why” and “how” of the law. Why the law is what it is and how it came to its present form?”*²⁷⁶

In order to understand the Patents Act, 1970 as per legislature’s point of view, it is pertinent to look through the glasses of the statute maker²⁷⁷. With the introduction and commencement of the Patents Act, 1970, India abolished product patent protection in drugs (and food). However, with the advent of the TRIPS Agreement of the World Trade Organization (**WTO**) in 1995²⁷⁸, product patents have become mandatory, despite countries being free to frame their own Patent laws.

Under the Patents (Amendment) Act, 1999, applications for product patents for inventions relating to medicine and drug were permitted with certain conditions and exceptions²⁷⁹. Nevertheless, it

] page 10; <http://blogs.lse.ac.uk/indiaatlse/2013/03/25/compulsory-licenses-for-pharmaceuticals/>

²⁷⁶ Novartis AG *vs.* Union of India & Ors.;(2013) 6 SCC 1; Para 29, p. 16

²⁷⁷ Justice Reddy in Reserve Bank of India v. Peerless General Finance and Investment Co. Ltd. And Ors., 1987 (1) SCC 424

²⁷⁸ India, being a founding member of the GATT, and thus a member of the WTO since its inception, is bound by the TRIPS Agreement, like all other members.

²⁷⁹ Exclusive marketing rights are not granted to an article or substance based on the system of Indian Medicine as defined in Section 2 (1) of the Indian Medicine Central Council Act, 1970; and where such article

was only in 2005 that in compliance with the TRIPS Agreement²⁸⁰, India started granting pharmaceutical patent protection, albeit with a prerequisite in Section 3(d) of the Patents Act, 1970.²⁸¹ Further, applicants for such patents are allowed to make separate applications for grant of exclusive marketing rights to sell or distribute the article subject to certain conditions, the principal being the patentability of the article under the provisions of Sections 3 and 4 of the Patents Act, 1970.²⁸²

3. CONDITIONS TO BE FULFILLED FOR GRANT OF PATENT

The Supreme Court of India has in the present case, carved out a fine line for the grant of new patents, being that unless a *therapeutic benefit* is gained from the drug sought to be patented, a patent must not be granted, thereby keeping with the object of the introduction of Section 3 (d) to the Patents Act.²⁸³

is already in the public domain. Further, excepting all chemical substances which are ordinarily used as intermediates in the preparation or manufacture of any of the medicines or substances referred to in sub-clauses (i) to (iv) of section 2 (1) (l) of the Patent Act.

²⁸⁰ It must be noted that India had already availed the 10 year transition period provided under the TRIPS Agreement and had no legal basis to delay implementation beyond the same.

²⁸¹ Section 3 (d) of the Patents (Amendment) Act, 2005 provides that '*the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance*' is not patentable.

²⁸² Patents (Amendment) Act, 2005

²⁸³ *Ibid.*

As per the relevant law in force, the following criteria must be fulfilled for a new product or process to qualify as an “invention”²⁸⁴, namely:

- (i) It must be new and not be anticipated;
- (ii) It must involve an inventive step; and
- (iii) It must be capable of industrial use and application.²⁸⁵

Further, for an invention to be patentable, it must not fall under the categories set out in Section 3 and Section 4 of the Patents Act.²⁸⁶ Therefore, it is clear that under the provisions of the Patents Act, the subject matter must satisfy the twin tests of “invention” and “patentability”, which in the present case, the application fails²⁸⁷. It can be argued that whereas some items may be an “invention” as the term is generally understood and yet they may not qualify as an “invention” for the purposes of the Act, others may even qualify as an “invention” as defined under the Act and yet may be denied patent protection for other larger considerations as may be stipulated in the Patents Act. However, Section 3(d) of the Patents Act, 1970 provides an explanation that salts, esters and other derivatives of known substances will be considered to be the same substance, ‘*unless they differ significantly in properties with regard to efficacy*’, considering in future a new form of an existing product shows some increase in efficacy. It must be said that the law relating to such cases is rather untouched, and niche so far and has not been specifically dealt with in the present case.

²⁸⁴ As per section 2 (j) of the Patents Act, *invention* means a new product or process involving an inventive step and capable of industrial application.

²⁸⁵ Section 2 (ac) of the Patents Act, 1999.

²⁸⁶ Section 3 of the Patents Act, 1999 provides a list of all inventions, which are not ‘inventions’ under the provisions of the Act whereas Section 4 provides that all inventions dealing with atomic energy are not patentable under the Act.

²⁸⁷ *Novartis AG vs. Union of India & Ors.* (2013) 6 SCC 1; Para 195, p. 96

In *Novartis AG vs. Union of India & Ors.*, the primary issue before the Supreme Court was whether the *beta crystalline form* of the drug sought to be patented, stands the test of patentability as specified in section 3 (d) of the Patents Act, 1970.²⁸⁸

4. BRIEF TIMELINE OF THE PRESENT CASE

Pharmaceutical conglomerate Novartis first applied for a patent for its drug *imatinib* (and other derivatives of a compound) in the United States in April 1993 and then once again in 1994, abandoning its previous application the preceding year. At this stage, the patent was commonly known as the '*Zimmermann*' patent, after the name of its inventor. At the relevant time, Novartis could not apply for a patent for its drug in India due to the non-application of the TRIPS Agreement in India²⁸⁹. However, soon after the advent of the TRIPS Agreement in India, Novartis did eventually make a patent application in India for the *beta crystalline form of imatinibmesylate* in 1998.²⁹⁰ The Apex Court has noted that at the time of application of the Patent in India, the legislation governing the same was in a transitional phase, with the law being significantly different to what it stands as today²⁹¹. Until 2005, the Applicant's application was kept in a 'mailbox'²⁹² and was only taken out of the 'mailbox' for consideration after certain amendments were made to the Patents Act, with effect from 1st January 2005.²⁹³

²⁸⁸ (2013) 6 SCC 1

²⁸⁹ It must be noted that prior to the commencement of the TRIPS, member countries were barred from providing protection for a patent applied or granted elsewhere before TRIPS came into being, i.e., before 1 January 1995.

²⁹⁰ Novartis' application dated 16 July, 1998 was allotted application no. 1602/MAS/1998.

²⁹¹ *Novartis AG vs. Union of India & Ors.*; (2013) 6 SCC 1; Para 12, p. 8

²⁹² As per the relevant provisions of the TRIPS Agreement,

²⁹³ At this stage, the patent application attracted 5 pre-grant oppositions by M/s. Cancer Patients Aid Association, NATCO Pharma Ltd., CIPLA Ltd., Ranbaxy Laboratories Ltd. and Hetro

Thereafter, the Assistant Controller of Patents and Designs rejected Novartis' application on the ground that the invention sought was obvious to a person skilled in the art in view of the disclosure provided in the *Zimmermann* patent²⁹⁴ specifications and further disallowed the same as per the provisions of Section 3 (d) of the Patents Act²⁹⁵. Thereafter, against this Order of the Assistant Controller, Novartis filed an appeal before the Madras High Court, which was later transferred to the Intellectual Property Appellate Board (IPAB)²⁹⁶. Apart from challenging the order of the Assistant Controller, Novartis also filed two writ petitions before the Hon'ble Madras High Court²⁹⁷ seeking a declaration on Section 3 (d) as unconstitutional, as it not only violates Article 14 of the Constitution of India but also not in compliance with the TRIPS Agreement. The said appeal before the IPAB was rejected on 26th June 2009,²⁹⁸ to which the Company preferred an appeal before the Supreme Court of India. The Supreme

Drugs Ltd. A hearing was given to all parties by the Assistant Controller of Patents and Designs on 15 December, 2005, as per Rule 55 of the Patent Rules, 2003

²⁹⁴ The application was made on April 28, 1994 and patent was granted on May 28, 1996 under US Patent No. 5,521,184. It is from this patent that the subject matter of the present case is derived.

²⁹⁵ On 25th January, 2006, the Assistant Controller of Patents and Designs passed an order rejecting the patent claim filed by Novartis on the grounds that the invention claimed by Novartis was *obvious, anticipated and that the grant of patent on the Drug is not permitted* under Section 3(d) of the Patents Act.

²⁹⁶ As at that time, the appellate authority under the Patents Act had yet to become functional.

²⁹⁷ Writ Petition Nos. 24759/2006 and 24760/2006

²⁹⁸ With regards to Section 3 (d) of the Act, the IPAB held that "Since India is having a requirement of higher standard of inventive step by introducing the amended section 3(d) of the Act, what is patentable in other countries will not be patentable in India. As we see, the object of amended section 3(d) of the Act is nothing but a requirement of higher standard of inventive step in the law particularly for the drug/pharmaceutical substances."

Court of India has in its judgment²⁹⁹ dated 1st April 2013 (**Judgment**) of the Division Bench of Hon'ble Justice Mr. Justice Aftab Alam and Hon'ble Justice Ms. Ranjana Prakash Desai upheld the rejection of Novartis' patent claim on the Drug

5. SUBMISSIONS OF NOVARTIS BEFORE THE HON'BLE SUPREME COURT

The primary submission of Novartis was that the beta crystalline form of the drug for which the patent was applied for in India was developed through two distinct inventions—firstly, from imatinibtoimatinibmesylate³⁰⁰ and secondly, from imatinibmesylate to the beta crystalline form. The Supreme Court of India however ruled that ImatinibMesylate was a known substance at the time of application of the patent, thereby not qualifying as an 'invention' under the Patents Act and not further satisfying the criteria of therapeutic efficacy as laid down in Section 3 (d) of the Patents Act³⁰¹. The Court also recorded a finding that the pharmacological properties of Imatinib Mesylate were known in the Zimmermann patent and in an article published in a *Cancer Research* Journal³⁰², thereby further justifying the lack of criteria for an 'invention' in Novartis' case.

6. INTERPRETATION OF 'EFFICACY' AND 'THERAPEUTIC EFFICACY'

Section 3 of the Patents Act, 1970³⁰³ specifically lays down what are not inventions and categorically specifies that the mere discovery of a

²⁹⁹A copy of the judgment can be found here at <http://judis.nic.in/supremecourt/imgs1.aspx?filename=40212>; (last accessed 5th January, 2014)

³⁰⁰For which the patent had already been granted in USA; *Supra* 20.

³⁰¹Novartis AG *vs.* Union of India & Ors.; (2013) 6 SCC 1; Para 157, p. 81-82.

³⁰²*Cancer Research*, (1996), Inhibition of the Abl Protein-Tyrosine Kinase in Vitro and in Vivo by a 2-Phenylaminopyrimidine Derivative, p. 69

³⁰³Section 3 (d) of the Patents (Amendment) Act, 2005, as a direct result of the Parliamentary debate centered on drugs and machinery.

new form of a known substance which does not result in the enhancement of the known *efficacy* of the substance or the mere discovery of any new property or new use for a known substance shall not be considered an ‘invention’ for the purposes of the Patents Act, 1970.

In a healthcare context, as is the present case, the term ‘efficacy’ indicates the capacity for beneficial change (or therapeutic effect) of a given intervention (e.g. a medicine, medical device, surgical procedure, or a public health intervention)³⁰⁴. In the same context, a therapeutic effect is a consequence of a medical treatment of any kind, the results of which are to be analysed and judged to be desirable and beneficial. The Supreme Court of India has held the term efficacy to mean “*the ability to produce a desired or intended result*”.³⁰⁵ Therefore, the test of efficacy in the context of section 3(d) would depend upon the result, the function or the utility that the product under consideration is desired or intended to produce. Consequently, the court concluded that in case of a medicine that claims to cure a disease, the test of efficacy could only be “therapeutic efficacy”, i.e. the capacity of the drug for beneficial change, which must be judged strictly and narrowly.³⁰⁶ The court also held that as per the explanation to the provision, a mere change of form with properties inherent to that form would not qualify as an “enhancement of the efficacy” of a known substance, thereby categorizing what is to be considered therapeutic efficacy³⁰⁷.

The Apex Court also rejected Novartis’ claims of better bioavailability and better physical characteristics such as better storability of the compound, requiring the same to be collaborated with necessary data in each case to justify a claim for an enhancement of therapeutic

³⁰⁴<http://www.news-medical.net/health/Efficacy-What-Does-Efficacy-Mean.aspx>

³⁰⁵ The New Oxford Dictionary of English, Edition 1998; Novartis AG *v.* Union of India & Ors.; Para 180, p. 90.

³⁰⁶ *Ibid.* para. 181, p. 91

³⁰⁷ *Ibid.*

efficacy.³⁰⁸ As Novartis did not submit any material to demonstrate the same, the application failed to satisfy the test laid down in section 3(d) of the Patent Act. It has been held that Section 3(d) of the Patents Act does not bar patent protection for all incremental inventions of chemical and pharmaceutical substances, with the determination of the same on a case-to-case basis³⁰⁹. Therefore, in interpreting cases under Section 3(d) of the Patents Act, as suggested by the Apex Court, courts in India will lay greater emphasis on the ability of the product to materially improve the therapeutic effect provided by the patented drug.

It must be noted that at the time of application of the patent, there was no criteria for any additional therapeutic benefit being derived from the product as it was only post the application, that the said criteria was introduced to Section 3 (d) of the Patents Act³¹⁰. The apex court has remarked that the case of Novartis “*appears in rather poor light and the claim for patent for beta crystalline form of imatinibmesylate would only appear as an attempt to obtain patent for imatinibmesylate, which would otherwise not be permissible in this country*”³¹¹.

7. SECONDARY PATENTS

Secondary Patents are essentially patents that are granted in relation to new developments or improvements of the subject matter of the primary patent, which plea in Novartis’ case has been rejected by the Supreme Court. Secondary patents, which are allowed in certain cases in the United States of America and the United Kingdom when ‘enhanced utility’ can be proved from the base compound,³¹² do not find any safeguard in the Indian Patents Act, 1970. Therefore, it is safe

³⁰⁸Novartis AG vs. Union of India & Ors. (2013) 6 SCC 1;para 188, p.94.

³⁰⁹*Ibid.* para. 191, p. 95

³¹⁰ As there was no statutory requirement to do so at the time in the Patents Act in 1998.

³¹¹ Novartis AG vs. Union of India & Ors.(2013) 6 SCC 1;para 194, p.96.

³¹²See http://www.olswang.com/pdfs/Bios_Jul03.pdf (last accessed 22 June, 2014)

to say that unless the Indian law is amended to provide for secondary patents, companies Novartis' cannot expect patent protection in India.

8. COMPULSORY LICENSING

In the present context, considering the delicacy of the legislature, had Novartis made the Patent application in the United States of America a few months later, with the advent of the TRIPS Agreement, the drug would well have been eligible for a patent in India³¹³.

Linking patenting to therapeutic benefit is what the Apex Court has done in its judgment in the Novartis case. The ruling is consistent with the provisions of the TRIPS Agreement and has been arrived at by following a transparent and internationally accepted legal processes that is not arbitrary. As a result, other legislations that have stricter patent regimes might also be induced to introduce similar provisions in their patent laws to make drugs more affordable.

It must be noted that the TRIPS Agreement also permits compulsory licensing, which has been granted to NATCO for SorafenibTosylate(sold as Nexavar by the patentee, Bayer).³¹⁴

Amongst other problems, India suffers from the problems of high prices of patented medicines and low access to generics, i.e., non-patented medicines and a compulsory license. Due to a variety of factors including poor public health facilities, and inadequate insurance facilities, drug access is trifling in India, with Indian generic companies lured by foreign markets.

³¹³Section 3 (d) in the Patents Act, 1970 was only introduced by the Patents (Amendment) Act, 2005 whereas the TRIPS Agreement came in to effect from 1995.

³¹⁴<http://www.natcopharma.co.in/index.php/news-for-dump/149-natco-granted-compulsory-licence-for-nexavar>

However, it must be noted that the same, when challenged was upheld by the IPAB, with certain modification with regards to royalty. <http://www.ipab.tn.nic.in/045-2013.htm> (last accessed 26 June, 2014)

9. REACTIONS AND REPERCUSSIONS IN THE INDIAN ECONOMY

The immediate reaction to the judgment was one of widespread acclaim and support, particularly from organisations such as the WTO and Médecins Sans Frontières (Doctors Without Borders) amongst others that welcomed the judgment as a stronghold against evergreening.³¹⁵

The Supreme Court of India has rightly observed “*the rules and regulations of the patent systems are not governed by civil or common law but by political economy*”.³¹⁶ As quoted by Michel³¹⁷, “*Patent systems are not created in the interest of the inventor but in the interest of the national economy*”.³¹⁸

It must be appreciated that in the Novartis case, the Supreme Court has taken a stance wherein it is not only justified to deny patents where incremental innovation is trivial as in the present case, but one must significantly prove and demonstrate some form of therapeutical efficacy in the product³¹⁹. The Division Bench has given great consideration to the impact or rather damage the same, if granted would have to society and has highlighted the relevance of specific conditions of a country for deciding the appropriate patent regime.³²⁰

Pharmaceutical patent protection was allowed till the advent of the Patents Act, and was thereafter once again re-introduced belatedly in 2005, considering the dire consequences of non-compliance of the

³¹⁵The following article is a comparison between the Indian and South African patent regime and worth noting. <http://www.iol.co.za/lifestyle/major-victory-on-affordable-drugs-1.1495438#.UrTxUNIW0l9> (last accessed 6th January, 2014)

³¹⁶ Novartis AG *vs.* Union of India & Ors (2013) 6 SCC 1; para 36,

³¹⁷ Michel, *Principal National Patent Systems*, Vol. I, P.15

³¹⁸ Novartis AG *vs.* Union of India & Ors. (2013) 6 SCC 1; para 36, p.18

³¹⁹ Novartis AG *vs.* Union of India & Ors (2013) 6 SCC 1; para 55, page 100;

³²⁰ *Ibid.*

TRIPS Agreement by India.³²¹ The intent of the same was to promote and provide a stimulus to investment and innovation in research and development in India. However, it was in the interim period that industry in India witnessed development, somewhat unprecedented, albeit in the absence of the pharmaceutical patent protection.³²² It is essential to note that prior to 1972, when pharmaceutical patent protection was provided in India, global pharmaceutical giants such as Novartis did not contribute much to innovation, market growth and development in India, as was anticipated by them,³²³ and were uninclined towards developing industry and investing in manufacturing activities in India.³²⁴ It has only been due to the advent of the WTO and the TRIPS Agreement that India has been forced to re-introduce the provisions for pharmaceutical patent protection in its legislature.

In the present case, the fundamental basis for rejection of the Patent application is that there is no therapeutic benefit derived from the product, thereby eliminating the need of consumers in paying exorbitant prices for the product. This will have a direct effect on 'evergreening'³²⁵ as it will be even harder for producers to prove

³²¹ WTO members (India being one of them) were under an obligation to implement TRIPS provision by 2000, 2005, or 2016, depending on their level of development. India was given an extended period of time to make its patent regime compliant to the TRIPS Agreement, which it did by the Patents (Amendment) Act, 2005 which came into force on 1st January, 2005. It is through the same that India has now implemented a product patent regime and product patents in the pharmaceutical sector.

³²² Prof. Sudip Chaudhary has time and again reiterated that Pharmaceutical giants are keener on importing patented products and selling at high prices rather than innovating or manufacturing in the country.

³²³ Based primarily on the Bakshi Tek Chand Committee Report (1950), the Ayyangar Committee Report (1959) and *Sudip Chaudhuri*, The WTO and India's Pharmaceutical Industry, (2005) Oxford University Press.

³²⁴ *Sudip Chaudhary* (2012): 'Multinationals and Monopolies', Economic & Political Weekly, 24 March.

³²⁵ Evergreening is the practice by which MNC's such as Novartis holding patents try to block or delay competition post expiry of their

therapeutic efficacy, now a strict criterion for patent protection in India. The direct benefit of the above will be to the consumer as medicines which otherwise would have been patented having high monopoly prices will now not be patentable, thereby being affordable.

The present ruling in the Novartis case is a relief to the Indian market, as pharmaceutical companies are now essentially unable to extend the life of patents by minor, trivial modifications to their protected products. Thus it paved the way for generic companies to sell the anti-cancer drug and other drugs in the future, at a fraction of the exorbitant prices charged by Novartis and pharmaceutical giants for the product. It has been suggested, although yet to be seen, that the strict patent requirement laid down by the Apex Court would actually enhance innovation as pharmaceutical companies would have to invest more in research and development to come up with new cures rather than repackage known compounds.³²⁶

Despite the ruling receiving stiff opposition, Novartis' sceptical approach³²⁷ of withdrawing Research and Development initiatives in India and withholding the introduction of new drugs in the country is a knee-jerk reaction.³²⁸ Much can be speculated of the

patents, by getting secondary patents on minor changes to the product. This is where Section 3 (d) of the Patents Act and 'therapeutic efficacy' comes into play. As on date, the Patents Act is fully TRIPS compliant and under the same, a patent is valid for 20 years, after which competitors are permitted to manufacture the product, which naturally increased the availability of the product, leading to a fall in its price. *Schering v. Geneva*(CITATION?) is a relevant case law with regards to the same.

³²⁶<http://www.thehindu.com/opinion/lead/why-novartis-case-will-help-innovation/article4617473.ece?ref=sliderNews> (last accessed 7th January, 2014)

³²⁷RanjitShahani, vice-chairman and managing director of Novartis India Ltd is quoted as saying "This ruling is a setback for patients that will hinder medical progress for diseases without effective treatment options."

³²⁸http://www.telegraphindia.com/1130402/jsp/business/story_16736700.jsp#.UtTyttIW019 (last accessed 6th January, 2014)

impact of the refusal of the patent protection on the profits of Novartis. However, the same will be insignificant taking in to account the fact that the Indian market only accounts to a fraction of Novartis' emerging global market share.³²⁹ Further, not paying much heed to Novartis' immediate reaction, an emergent market like India is too daunting and alluring for pharmaceutical giants to disregard, regardless of the company.

The beneficial aspect of the ruling is that a rationale has been set and laid down for the grant of patents, which keeping in mind the frailty of the legislature, can only be a strong hold for the same for times to come. It is suggested that the same could possibly stimulate investment for research and innovation, which is yet to be seen. The ruling in the present case seeks to achieve a perfect balance between Patent rights and interests of the society and market, often unattainable and to be fair, does considerably well in its endeavour to do so. In developing countries such as India, especially where innovation is absent or trivial, a country is justified in denying a patent protection as striking a balance between the utility of patent protection and its impact on the market becomes difficult. In the present case, the negative effect of monopoly and price-rise is much stronger than the positive effect of the grant of the patent protection in the country, thereby justifying the stance taken by the Apex Court per se. Patent rights inevitably reduce the accessibility of a product to patients in developing economies, by virtue of their inflated prices.

It must be appreciated that at present, as per India's Economic Development Stage, India is more of a net user than a developer of such life saving drugs. Therefore, the grant of patent protection in pharmaceutical products as in Novartis' case would cause greater harm to the economy than benefit as the same would essentially bereft Indian pharmaceutical companies of the opportunity of penetrating a market deep enough to sustain and grow by handing over this opportunity to a global conglomerate. India, in my opinion has the potential to provide the market and the mechanism for literally creating a pharmaceutical giant, which once is in existence, would it be

³²⁹See <http://www.reportlinker.com/ci02257/Pharmaceutical.html>
(last accessed 27 June, 2014)

prudent to provide patent protection to cases like Novartis'. It is only at this stage once India starts manufacturing and developing such drugs and becomes a net-developer of the same, can it consider providing patent protection to cases like Novartis' the same. It is imperative that a balance is achieved between the grant of patent protection and the benefit of such grant on society, which the present ruling does quite well. The Division Bench is evidently justified in denying patent protection in the present case where incremental innovation is trivial, as of the application for a *beta crystalline* form of an already patent protected product. The relevance of the patenting and the net benefits to society is one that this ruling has laid great emphasis on, one that must be appreciated considering the prevalent patent regime in India.

10. CONCLUSION

The initial apprehension of the judgment enforcing a blanket ban on patent protection to all incremental inventions of chemical and pharmaceutical substances is a misplaced one. The ruling, albeit a narrow one, lays down the basis that a company must comply with in order to be afforded protection under the regime. With Indian law, fully compliant with the TRIPS and International standards, it would be fair to suggest that the judgment of the Supreme Court is a timely one, clearly establishing a foothold on the subject matter for the times to come in conformity to international standards.³³⁰ With the stringent patent standards set across the world, given the present Economic Development Stage of India, the extent of poverty and lack of availability of affordable medicines in the country, it is only high time that India followed suit.³³¹ The prevalence of Section 3 (d) allows competition, which is useful as it ensures that drugs will be available at a competitive price in the market.

³³⁰Protection of an innovative new product as opposed to a minor change to the product

³³¹http://www.mylaw.net/Article/Nothing_wrong_with_setting_high_standards_of_patentability/?past=Slideshow#.UtTzhdIW019 (last accessed 7th January, 2014)

The ruling, besides paving the way for easing the accessibility and availability of drugs in India, affirms and upholds the patent regime in India, thereby protecting genuine innovators in India. The impact of the judgment on other Global Pharmaceutical Companies is yet to be seen, needless to say that they would be considerably more cautious in their approach, keeping in mind the depth of the judgment in the present case. Needless to say, the repercussions of the judgment, if any, shall not be too damaging to the Indian economy, as one with the backing of a population exceeding Two Billion, shall always remain a beguiling market, which will almost impossible for Pharmaceutical corporations to overlook.

**PATENTABLE SUBJECT MATTER IN THE US AFTER
MAYO V. PROMETHEUS, 566 U. S. ____ (2012)**

- Avani Verma³³²

Abstract

Patentable subject matter has always been a matter of debate in intellectual property laws of various countries. Especially, in the United States, this topic has become a subject of much importance due to a catena of incoherent judgments. A recent judgment in *MAYO V. PROMETHEUS*, 566 U. S. ____ (2012) (“Mayo”), involving a challenge to a patent dealing with a method of optimizing therapeutic efficacy for the treatment of gastrointestinal disorder, has joined the series of previous judgments. The judgment, inter alia, discussed the patentability of claims involving laws of nature, physical phenomena, abstract ideas and the applicability of the Machine or Transformation test. This judgment has been criticized as being overly broad as the effect of the judgment entails that it would invalidate almost all method claims. On the other hand, it is applauded as incentivizing research in the pharmaceutical industries. This comment discusses the position in relation to “patentable subject matter” before Mayo and the effects on the position of the U.S. courts on “patentable subject

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matter” after the judgment in Mayo. In the subsequent parts, it evaluates the merits and adverse effects of the Mayo judgment. In the conclusion, it is argued that the judgment has firstly read the Patent Statute erroneously, and secondly failed to clarify the patent- eligibility requirements of process claims in the USA.

1. INTRODUCTION

‘Anything under the Sun that is made by man’ is patentable. This much discussed phrase was a part of the testimony on the Patent Act of 1952 of the USA, the provisions of which, remain mostly effective to this

day, as they were during the time of their enactment. However, the American judiciary has created certain exceptions and qualifiers to this statement. To enumerate one of the qualifiers –namely in relation to laws of nature, physical phenomena and abstract ideas, has recently been reiterated in the case of *Mayo Collaborative Services, Dba Mayo Medical Laboratories, Et Al v. Prometheus Laboratories, Inc.*³³³

Since, the Patent Statute(s) in the United States³³⁴ does not provide for a list of patentable subject matter, it was expected that the decision in *Mayo* would distinguish between patentable and non-patentable subject matter. However, it was disappointing when the US Supreme Court failed in making fundamental clarifications on the subject of patentability.

This article analyses the *Mayo* case in order to show that the judgment was at best a step backward in defining the patent eligibility of an invention. An attempt would be made to prove that the *Mayo* case merely reiterated the previously laid down equivocal criteria for determining the patent eligibility of an invention. The US judiciary has lost the much awaited opportunity of drawing a boundary line between patentable and non-patentable subject matter, leaving the inventors and researchers in the state of perplexity as before.

2. POSITION BEFORE MAYO

Before the *Mayo* case was decided, the issue of patentable subject matter was discussed in a series of cases. In *Gottschalk v. Benson*³³⁵, the US Supreme Court recognized that if a process claim is as abstract and sweeping as to cover both known and unknown uses of the natural law, abstract idea, or physical phenomenon, then it could not be patented. Further, the ‘transformation and reduction of an article “to a different thing”’ is the clue to the patentability of a process claim that

³³³*Mayo Collaborative Services, Dba Mayo Medical Laboratories, Et Al. v. Prometheus Laboratories, Inc.*, 566 U. S. ____ (2012) [hereinafter *Mayo*]

³³⁴U.S. Patent Law, 35 U.S.C. §§ 1 etseq (2006) [hereinafter, US Patent Law].

³³⁵*Gottschalk v. Benson*, 409 U.S. 63 (1972).

does not include particular machines.³³⁶ Here, the Court interpreted the Machine or Transformation (MoT) test, which states that for an invention to become eligible for a grant of a patent, must be either (i) tied to a particular machine or apparatus, or (ii) transform a particular article into a different state or thing.³³⁷ Thereafter, in *Parker v. Flook*,³³⁸ the US Supreme Court further observed that if a concept limits an abstract idea to one field of use or adds token post-solution components, it is not patentable. However, in a subsequent decision of, *Diamond v. Diehr*³³⁹, the Supreme Court clarified that even if the claims contain mathematical formulae/abstract ideas/natural laws, but as a whole the claim presents a valid application of a natural phenomenon or abstract idea, then the invention may be patentable. At the same time it has to be checked that the 'inventive concept cannot derive solely from the fundamental principle'³⁴⁰. In simpler words, an inquiry is to be made to make sure that the application does not seek protection on the natural phenomenon or abstract idea.

The MoT test was used by the Federal Circuit in *In Re Bilski*³⁴¹ as 'a definitive test' for patentability. In this case, the Federal Circuit denied protection to an algorithm as it was not a 'process' but an abstract idea, and therefore non-patentable. The Court held that granting a patent 'would wholly pre-empt the mathematical formula and in practical effect would be a patent on the algorithm itself'³⁴². When the same matter went to the Supreme Court,³⁴³ it reaffirmed the Federal Circuit's decision and reiterated that Natural Law, physical phenomena and abstract ideas have categorically been excluded from the purview of being patentable subject matter. They have to be treated as a part of prior art, which is already known. Until this point, the question as to

³³⁶*Ibid*, at 71-72.

³³⁷ *Ibid*.

³³⁸ *Parker v. Flook*, 437 U.S. 584 (1978) [hereinafter, Parker].

³³⁹ *Diamond v. Diehr*, 450 U.S. 175 (1981) [hereinafter, Diamond].

³⁴⁰ *Ibid*.

³⁴¹ *In Re Bilski*, 545 F.3d 943.

³⁴² *Ibid*. slip op., at 10.

³⁴³ *Bilski Et Al. v. Kappos, Under Secretary of Commerce for Intellectual Property and Director, Patent and Trademark Office*, 561 U. S. ____ (2010) [hereinafter, Bilski].

whether diagnostic methods appropriately constitute patentable subject matter remained uncertain. At one point the Court's decision in *Bilski* suggests that 'advanced diagnostic medicine techniques' might be patented. On the other hand, the Court confirmed that 'laws of nature' could not be patented and explained that broadly preemptive claims were likely non-patentable.

3. MAYO CASE: FACTS, ISSUES AND JUDGMENT

In *Mayo*, Prometheus Laboratories Inc. obtained a patent on steps of testing the proper dosages of drug treatments used to treat gastrointestinal diseases like Crohn's disease, and later sued Mayo Clinic for attempting to use similar test.³⁴⁴ A federal judge invalidated the patents, holding that the patent couldn't cover the body's reaction to drugs.³⁴⁵ The Federal Circuit observed that in addition to these natural correlations, the claimed processes also contain the steps of administering and determining. "The patents satisfied the Circuit's "Machine or Transformation Test", which the court thought sufficient to "confine the patent monopoly within rather definite bounds", thereby bringing the claims into compliance with Section 101.³⁴⁶ Therefore, the Federal Circuit overturned the District Court's decision, which was in favour of Mayo. On appeal, the Supreme Court remanded back the case to Federal Court to reconsider it in the light of *Bilski*.³⁴⁷ The Federal Circuit reaffirmed its previous decision saying that the machine or transformation is an important clue to decide patentability.³⁴⁸ An appeal was then again made to the Supreme Court.³⁴⁹

³⁴⁴ *Mayo*, Supra note 333, op., at 5-6.

³⁴⁵ *Ibid*,

³⁴⁶ *Ibid*, at 7.

³⁴⁷ *Ibid*.

³⁴⁸ *Ibid*.

³⁴⁹ *Ibid*, at 8.

In this landmark judgment delivered on 20th March 2012, by Justice Breyer for the unanimous opinion, the US Supreme Court held that the Prometheus invention identifying ‘relationships between concentrations of certain metabolites in the blood and the likelihood that a dosage of a thiopurine drug will prove [either] ineffective or cause harm’ is not patentable.³⁵⁰

Claim 1 of the Prometheus, U.S. Patent No. 6,355,623, read as ‘A method of optimizing therapeutic efficacy for treatment of an immune-mediated gastrointestinal disorder’³⁵¹, was comprised of three steps. The first step involved ‘administering’ a drug to a subject having said disorder. The second step involved ‘determination’ of the level of the drug in that subject, and thereafter, the third ‘wherein’ step involved describing the metabolite concentrations at which there is a likelihood of harmful side-effects or ineffectiveness, and informing the doctor of that metabolite concentrations.³⁵²

The claim certainly had steps in addition to the law of nature; ‘administering’ the thiopurine drug, ‘determining’ the level of the relevant metabolites, and ‘wherein’ the drug dosage should be adjusted. The issue before the court was whether the claimed processes have transformed the non-patentable natural laws into patent-eligible applications of those laws.³⁵³

The reasoning given by the court can be broadly put under two segments. Firstly, that the additional three steps were not sufficient or enough to bring the claimed invention under patentability.³⁵⁴ However, the Court never explained what ‘enough’ is, and, therefore, has left the question open again. “The threshold of “enough” will likely include adding therapeutic (such as method of treating) steps based on the diagnostic information, rather than simply detecting or considering

³⁵⁰ *Ibid*, at 24.

³⁵¹ *Ibid*, at 5.

³⁵² *Mayo*, *Supra* note 333, slip op., at 1.

³⁵³ *Mayo*, *Supra* note 333, op., at 3.

³⁵⁴ *Mayo*, *Supra* note 333, slip op., at 2.

natural phenomena³⁵⁵. According to Justice Breyer, the three steps simply ‘tell the relevant audience (the Doctors) about the laws while trusting them to use those laws appropriately where they are relevant to their decision making³⁵⁶.’The process comprised ‘understood, routine, conventional activity previously engaged in by researchers in the field’.³⁵⁷ In simpler words, the claim merely advises the audience, being the doctors who are familiar to the treatment, to use the law.

Secondly, the court was concerned with the policy impact of allowing such process to be patented.³⁵⁸ The Court pointed at the potential inhibition of further discovery by allowing patents that might preempt future and unpredicted directions in technology.³⁵⁹ A patent on inventions merely describing application of the law of nature will ‘threaten to inhibit the development of more refined treatment recommendations (like that embodied in Mayo’s test), that combine Prometheus’ correlations with later discovered features of metabolites, human physiology or individual patient characteristics.’³⁶⁰

The Court made a distinction between the claims at hand and ‘a typical patent on a new drug or new way of using an existing drug,’³⁶¹ mentioning that the latter were particular applications of natural laws.³⁶² Hence, this can be inferred that the Court did not totally rule out the possibility of patent on a new drug or new way of using an existing drug being a patentable subject matter.

On the point of application of the MoT Test, the Court was clear that it hardly has much relevance to §101 inquiry of the Patent Act of the

³⁵⁵GauriDhavan, Irene Hudson & J. Peter Fasse, “Patent Eligibility Of Method Claims: What Is The Impact Of The Supreme Court’s Prometheus Decision?”, *Industrial Biotechnology* Vol. 8, No. 3, (2012) 107-109 [hereinafter Dhawanet. al].

³⁵⁶*Mayo*, *Supra* note 333, slip op., at 9.

³⁵⁷*Ibid*, at 4.

³⁵⁸ *Mayo*, *Supra* note 333, op., at 23.

³⁵⁹ *Ibid*, at 23 et. al.

³⁶⁰*Ibid*, at 18.

³⁶¹*Ibid*, at 18.

³⁶² *Ibid*, at 18.

USA³⁶³ in as much as the biological process claims are concerned.³⁶⁴ It stated that transforming the human body by administering a drug or transforming blood is irrelevant and insufficient to conclude as to their patentability.³⁶⁵ This also indicates that the Court wanted that the future technology and inventions must be considered while deciding patent eligibility.

The US Government through an *amicus curae* argued ‘virtually any step beyond a statement of a law of nature itself should transform an non-patentable law of nature into a potentially patentable application sufficient to satisfy §101’s demands.’³⁶⁶ It further stated that this doesn’t mean that any leap ahead of natural law is patentable, but if the application satisfies the novelty (§102), non-obviousness (§103) and enablement/description (§112) requirements of the Statute, it shall be held patentable.³⁶⁷ The Court rejected this presentation by saying that this approach will make the natural law exception created by Court previously³⁶⁸ a ‘dead letter.’ Holding the inquiry for additional steps under §101 better than that given under §§102, 103, 112, the Court said that the Government’s intended approach would make the three titles do what they are not equipped to do.³⁶⁹ Further, the Government’s proposal of ignoring the novelty and non obviousness requirements of natural law will make every invention ineligible for patent as ‘all inventions can be reduced to underlying principles of nature which, once known, make their implementation obvious.’³⁷⁰

The patent is granted if the invention is novel, or differs from the subject matter disclosed by an earlier patent, publication, or other state-of-the-art knowledge³⁷¹ and non-obvious to a person having

³⁶³ US Patent Law, *Supra* note 334.

³⁶⁴ *Ibid*, at 21.

³⁶⁵ *Ibid*, at 9.

³⁶⁶ *Ibid*, at 20.

³⁶⁷ *Ibid*.

³⁶⁸ See, for instance in *Bilski*, *Supra* note 343; *Diamond*, *Supra* note 339; *Parker*, *Supra* note 338, *Gottschalk v. Benson*, *supra* note 3.

³⁶⁹ *Mayo*, *Supra* note 333, op., at 21.

³⁷⁰ *Ibid*, at 22.

³⁷¹ U.S. Patent Law, *Supra* note 334, §102.

ordinary skill in the art to which said subject matter pertains.³⁷² An invention will not be patentable even if these attributes are present but the invention is not a patentable subject matter. §101 provides that a person who ‘invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore...’.³⁷³ The US law, thus, provides for four categories of inventions which can be patented, without defining them; process, machine, manufacture, or composition of matter. However, Supreme Court precedent ‘provides three specific exceptions to § 101 ‘s broad patent-eligibility principles: laws of nature, physical phenomena, and abstract ideas’.³⁷⁴

A ‘process’, meaning ‘process, art, or method’,³⁷⁵ is patentable under the US law. Process patents claim a series of steps that may be performed to achieve a specific result. The USPTO and Courts have restricted the meaning of the term process.³⁷⁶ Patent applications involving abstract ideas, mathematical equations, or mental processes have been rejected in past. However, the patent application which seeks protection for discrete applications of such equations, abstractions, etc. can be entertained under § 101.

4. POST MAYO DECISION

4.1. ACTIONS

Right after the decision in *Mayo* was pronounced, the Deputy Commissioner for Patent Examination Policy issued a memorandum to all patent examiners, implementing a new procedure for determining whether a process claim is a patent-eligible, practical application of the law of nature or whether the claim is effectively drawn to the law of

³⁷² *Ibid*, §103.

³⁷³ *Ibid*, §101.

³⁷⁴ *Bilski*, *Supra* note 10.

³⁷⁵ U.S. Patent Law, *Supra* note 334, §100(b).

³⁷⁶ See, for instance *Cochrane v. Deener*, 94 U.S. 780, 788 (1877); *Parkar*, *Supra* note 338; *Diamond*, *Supra* note 339

nature itself, in view of *Mayo*.³⁷⁷ It recommends using the machine-or-transformation test as an investigative tool, but not as the only and conclusive test for deciding patent-eligibility.³⁷⁸ Hence, the decision was implemented in the form of this policy, making MoT a helping but not the determinative tool for deciding patentability. Also, these guidelines take within their fold both product and process claims, even though *Mayo* dealt only with the process claims.

4.2. EFFECT OF MAYO

In one scholar's³⁷⁹ views on the case, which pertained to the patentability of an invention involving a discovery, it was stated:

“The invention-discovery distinction, however, confronts an unusual feature of U.S. patent law. The patent clause in the U.S. Constitution says “Discoveries,” and Congress deliberately blurred this very distinction in its 1952 rewrite of the patent statute: “The term ‘invention’ means invention or discovery.” It does not follow, however, that the invention-discovery distinction has disappeared.”³⁸⁰

This has been reaffirmed by Justice Breyer in the *Mayo* case. He further adds that “The larger legal significance of this case, which does carry great precedential importance, is if the Supreme Court decides to revitalize the distinction between invention and discovery long dormant in Court of Appeals for Federal Circuit jurisprudence.”³⁸¹

³⁷⁷ USPTO Commissioner, ‘New Examining Procedure Related to *Mayo v. Prometheus*’ (2012), Director's Forum: A Blog from USPTO's Leadership, at http://www.uspto.gov/blog/director/entry/new_examining_procedure_related_to (last accessed 02 April 2014).

³⁷⁸ *Mayo*, *Supra* note 333 Slip op., at 18.

³⁷⁹ Robert Cook-Deegan, “Law and Science Collide Over Human Gene Patents”, *SCIENCE*, Vol. 338, (2012) 745-747.

³⁸⁰ *Ibid*, at 747.

³⁸¹ *Ibid*, at

A narrow interpretation of the judgment puts thousands of existing patents at peril and prevents many upcoming inventions from receiving the benefits of patent protection. For instance, a new method of applying a medicine derived from Turmeric, which is known for its anti-infectious properties, may not anymore be patentable. ‘For example, the patent eligibility of classic method of treatment claims—a method of treating disease X by administering drug Y—may be vulnerable post-Prometheus. Even when drug Y has been known in the art, a new, nonobvious, and useful method of using it has long been patentable as a method of treatment. However, under the reasoning in Prometheus, the administration of a known drug to a patient would be considered “well understood, routine, and conventional.”

The judgment is going to have an adverse impact even on the winning party in the *Mayo* dispute, let alone the world. For example, even though genetic mutation is a naturally occurring phenomenon, Mayo itself has licensed a test for a genetic mutation that predicts side-effects for a certain colon-cancer drug.³⁸² The judgment may jeopardise the validity of this, and similar patents held by Mayo as well.

On a wider interpretation, *Mayo*’s effects may stretch to even scientific, mechanical inventions, and all other inventions. For instance, ‘in a future case, it may be argued, as some computer scientists hold, that software is nothing more or less than mathematical algorithms’³⁸³. The decision ‘creates a framework for patent eligibility in which almost any method claim can be invalidated.’³⁸⁴

³⁸²“Prometheus unsound”, *The Economist*, March 24, 2012.

³⁸³ Rob Tiller, ‘Initial thoughts on Mayo v. Prometheus and Software Patents’ (2012), *International Free and Open Source Law Review*, Vol. 4, Issue 1, 63-66, 64, at <http://www.ifosslr.org/ifosslr/article/view/68> (last accessed 30 March 2014).

³⁸⁴ Robert R. Sachs, ‘Punishing Prometheus: The Supreme Court’s Blunders in Mayo v. Prometheus’ (2012), *PATENTLY-O*, at <http://www.patentlyo.com/patent/2012/03/punishingprometheus-the-supreme-courts-blunders-in-mayo-v-prometheus.html> (last accessed 30 March, 2014). (Page not found)

Natural law is ever transformative for they reiterate the physical events. In as much as the inventions involving laws of nature are concerned courts are required to look into the transformation part of MoT test, i.e, which approach has been taken in past with patent applications involving abstractions. Once the application comes out successfully out of the transformation test, the second step is to see if it is novel and not an attempt to patent a natural law on the name of the process. However, it has been also argued after this decision, that this case asserts the redundancy of the MoT test itself.³⁸⁵

Additionally, some commentators state that the case follows defined legal principles and helps maintaining crucial medical and scientific data within the public domain.³⁸⁶ However, the critics believe that the decision will negatively impact medical research in the areas of biotechnology and personalized medicine.³⁸⁷ Also, the outcome of this case may affect the financial incentives for medical research and development in the patent industry, and may also impact the cost and

³⁸⁵ Lynn C. Tyler, 'Section III of *Mayo v. Prometheus*: Better Left Unwritten?', *BN A's Trademark & Copyright Journal*, 83 PTCJ 839, (2012) at p. 2, at <http://www.btlaw.com/files/Uploads/Documents/Publications/BN A's%20Patent%20Trademark%20and%20Copyright%20Journal-L%20Tyler-April%202012.pdf> (last accessed 29 March 2014) [hereinafter Tyler].

³⁸⁶ See, American Medical Association, Statement, 'AMA Welcomes Supreme Court Decision to Invalidate *Prometheus Patents*' (2012), American Medical Association, at <http://www.ama-assn.org/ama/pub/news/news/2012-03-20-supreme-courtdecision-prometheus-patents.page>, (last accessed March 29 2014). (Page doesn't exist)

³⁸⁷ John R. Thomas, 'Mayo v. Prometheus: Implications for Patents, Biotechnology, and Personalized Medicine', *Congressional Research Service*, at <http://www.fas.org/sgp/crs/misc/R42815.pdf>, (last accessed March 30 2014).

quality of patient health care.³⁸⁸ Further, it is argued that Section III of the judgment is redundant as it:

‘(1) calls into question the status of the MoT Test as a “useful and important clue” to determining subject matter eligibility; (2) appears to reveal an inherent inconsistency in the Court’s analysis; (3) seemingly overvalues §101 compared to §§102, 103, and 112; and (4) appears inconsistent with the court’s prior opinion in *Parker v. Flook*.³⁸⁹

The Court seems to have been confused between the patent eligibility and patentability of an invention. In order to be patentable, an invention must be first patent-eligible. The threshold for patent eligibility has been provided under § 101, whereas §§ 102, 103, and 112 provide the requirements of patentability. The Court observed that even though the claim of *Mayo* did not tantamount to natural law or phenomenon, but the additional steps were not sufficient for it to be patentable. It is to be noted here that a combined study of the statute and case law suggests that as long as the claim is not on the laws of nature or physical phenomena or abstract ideas itself, the invention is patent-eligible. Its patentability is to be tested under §§ 102, 103 and 112. The Court, in the *Mayo* case, tested the patentability only on the basis of § 101, while undermining the other Sections, which certainly is not the mandate of the statute.

Further, the Court stated that the claimed process was well known among the players in the concerned field. This negates the requirement of novelty and non-obviousness, which are enquiries under §§ 112 and 113. The Court erred in reading this under § 101, which merely provides guidance as to inventions on which patent may be sought.

³⁸⁸Cheryl Blake & Jennifer Uren, ‘*Mayo Collaborative Services v. Prometheus Laboratories, Inc. (10-1150)*’ (2011) EdanShertzer ed., Cornell University Law School Legal Information institute, at <http://www.law.cornell.edu/supct/cert/10-1150> (last accessed 04 April 2014).

³⁸⁹Tyler, *Supra* note 385, at p. 3.

Furthermore, one scholar³⁹⁰ has identified that after the *Mayo* case there will be a split in the Federal Circuit. On one side will be ‘Coarse Eligibility Filter’ proponents and on the other will be ‘Abstracted Claim’ concept proponents. In the coarse eligibility approach, “the court does not presume to define “abstract” beyond a recognition that this disqualifying characteristic should exhibit itself so manifestly as to override the broad statutory categories of eligible subject matter and the statutory context that directs primary attention on the patentability criteria of the rest of the Patent Act.”³⁹¹ This approach was taken in cases such as *CLS Bank v. Alice Corp.*³⁹² and *Research Corp. v. Microsoft*.³⁹³ Whereas, the abstract claim concept approach firstly takes off the non-essential language in order to extract the basic concepts. Then the exception of natural law patentability is tested only on those underlying concepts. An example of this approach could be seen in *Bancorp v. Sun Life*³⁹⁴. This case was related to a system for administering and tracking the value of life insurance policies in separate accounts. The Court while explaining how the coarse filter approach used in *CLS Bank* case and *Research Corp* case does not apply, held the invention non-patentable.

Post-*Mayo*, the transformation involving natural laws should be looked into even more carefully to determine if they are merely incidental to the claims. If it is so, the claim, on being read in entirety, will be disqualified from patentability, since the essence is the natural law only. However, if the transformation, which took place by virtue of natural law was just an element of the invention, the transformation is novel and non-obvious, and therefore patent eligible.

³⁹⁰Stephen C. Durant, Warren D. Woessner, Robin A. Chadwick & William E. Kalweit, ‘Patentable Subject Matter Eligibility in the Aftermath of *Bilski* and *Prometheus*’ (2013), Patents4software, at: <http://www.patents4software.com/wp-content/uploads/2013/01/Patentable-Subject-Matter-101.pdf> (last accessed April 03 2014).

³⁹¹ *Research Corp. v. Microsoft*, 627 F.3d 859, at 868 [hereinafter *Research Corp*]

³⁹²*CLS Bank v. Alice Corp.*, 685 F.3d 1341 [hereinafter *CLS Bank*].

³⁹³ *Research Corp*, Supra note **Error! Bookmark not defined.**

³⁹⁴*Bancorp v. Sun Life*, 687 F.3d 1266.

In a recent Federal Circuit *CLS Bank* judgment,³⁹⁵ Judge Lourie, writing for the majority, firstly cleared the cloud of confusion between the Supreme Court's 'inventive concept' requirement for §101 patent eligibility and the requirements for patentability directive envisaged under §§102, 103, 112. He cleared 'inventive concept' must refer to a 'genuine human contribution to the claimed subject matter.'³⁹⁶ However, one of the dissenting judges, Judge Pauline Newman, argued that the requirement of §101 has been interpreted improperly so as to make it a test of patentability. According to her, 'when the subject matter is within the statutory classes in §101, eligibility is established.'³⁹⁷

4.3. SUBSEQUENT JUDGMENTS

One of the immediate impacts of the holding in *Mayo* was expected to be on a well-publicized litigation, *Association for Molecular Pathology v. U.S. Patent & Trademark Office*³⁹⁸, popularly known as *Myriad*. The outcome of this litigation determined the patent eligibility of genes/DNA.

The facts of the case are as follows:

The respondent Myriad Genetics, Inc. (Myriad), obtained several patents after discovering the precise location and sequence of the BRCA1 and BRCA2 genes, mutations of which can dramatically increase the risk of breast and ovarian cancer... If valid, Myriad's patents would give it the exclusive right to isolate an individual's BRCA1 and BRCA2 genes, and would give Myriad the exclusive right

³⁹⁵*CLS Bank International v. Alice Corporation*, Fed. Cir. May 10, 2013 *en banc*.

³⁹⁶*Ibid*, slip op., at 20.

³⁹⁷*Ibid*, slip op., at 11.

³⁹⁸*Association for Molecular Pathology v. U.S. Patent & Trademark Office*, 569 U. S. ____ (2013) [hereinafter *Myriad*].

to synthetically create BRCA cDNA. Petitioners filed suit, seeking a declaration that Myriad's patents are invalid under 35 U. S. C. § 101.³⁹⁹

The District Court granted summary judgment to petitioners as Myriad's claims were covered under products of nature. However, the Federal Circuit, by the decision given on July 29, 2011, *inter alia*, held that isolated deoxyribonucleic acid (DNA) sequences are patent-eligible subject matter under §101.⁴⁰⁰ While rejecting the claims on 'comparing' and 'analyzing' such sequences, the Federal Circuit granted protection on claims with respect to a method of screening of isolated DNA that may cause cancer.⁴⁰¹ On Myriad's petition for certiorari, the Supreme Court remanded the case to the Federal Circuit for reconsideration in view of *Mayo*.⁴⁰² This time the Federal Circuit found both isolated DNA and cDNA patent-eligible.⁴⁰³

However, following *Mayo*, the Supreme Court held that naturally occurring DNA segment being a product of nature is not patent eligible merely because it has been isolated.⁴⁰⁴ However, DNA is patent eligible because it is not naturally occurring. It observed that 'Myriad did not create anything. To be sure, it found an important and useful gene,⁴⁰⁵ the Court added, 'but separating that gene from its surrounding genetic material is not an act of invention... Groundbreaking, innovative, or even brilliant discovery does not by

³⁹⁹*Ibid*, Slip op., at 6.

⁴⁰⁰ *The Association for Molecular Pathology And Ors. v. United States Patent And Trademark Office And Myriad Genetics, Inc.,v. Directors Of The University Of Utah Research Foundation*, In Appeal From The United States District Court For The Southern District Of New York In Case No. 09-Cv-4515.

⁴⁰¹ *Ibid*, Slip op., at 54.

⁴⁰² *Ibid*, at 7.

⁴⁰³ *Ibid*, at 8.

⁴⁰⁴ *Ibid*, at 18.

⁴⁰⁵*Ibid*, , at 12.

itself satisfy the §101 inquiry.⁴⁰⁶ The judgment makes a very well distinction between ‘invention’ and ‘mere discovery’.

This outcome was expected after *Mayo*. This is so because even though there is a difference between the two claims, which is that the subject matter claimed by Prometheus is a process while Myriad claims a DNA, i.e., composition of matter, in a number of recent decisions the Federal Circuit has hardly seen process and composition claims as distinctive. Further, the claimed DNA uses the well known process of isolating human DNA, which made the distinction even smaller. Further, the decision was also in conformity with the initial ‘human ingenuity’ threshold used by the US Courts to decide patent eligibility.

Therefore, the blurred picture of patent eligibility created by the Supreme Court in *Mayo* remained so even after *Myriad*. Therefore, until patent eligibility is defined, the patent applicants should try to include, if not all, at least one claim which can’t be tagged as conventional or well known.

5. CONCLUSION

A factual analysis of the *Mayo* case shows a grim picture, in which the Court merely used the MoT Test, which may prove to be obsolete in light of the advanced technology of the present days. It is said that every patent is an invention, but every invention is not patentable. What can not patentable, is not defined by any statute in the US. The judiciary failed to fill in the legislative gap. The judgment has hit the research industry, specifically pharmaceutical, by reducing the probability of patent protection on process claims. Hence, the judgment is a deserving recipient of widespread criticism.

Another blunder that the Court made was overemphasizing on § 101, while devaluing §§102, 103, 112. The Courts supplanted § 101 for performing enquiries, which the statute drafters had equipped §§ 102,

⁴⁰⁶*Ibid.*

103, and 112 to perform. This has resulted into an obscurity between patentability and patent-eligibility.

It can also be concluded that the judgment may dissuade research by not providing incentives to development or increment over known drugs. However, howsoever divided the opinions on Mayo may be, it's undisputed that it stands as the current view on the §101 patent-eligibility requirements.

DILEMMA OVER PHOTOCOPYING OF COPYRIGHTED MATERIAL: IN LIGHT OF DELHI UNIVERSITY'S ON-GOING LITIGATION.

- Anand Narayan⁴⁰⁷ and Aditya Rajput⁴⁰⁸

ABSTRACT

This paper seeks to explore how the rampant photocopying of copyrighted material with advances in copying technology have generated a critical need for the establishment of systems that will enable users to lawfully use copyrighted works. While on one hand, the objective of copyright is to give reward to the labour of authors, on the other it is also to promote educational progress. For such promotion, one of the exceptions existing in our copyright law is in the nature of fair dealing. Even after decades of debate and confrontation, a conflict exists between the aforementioned two objectives. The on-going litigation in Delhi High Court between a group of renowned publishers and photocopying shops has again ignited the same debate regarding inclination of copyright laws. The question remains -whether copyright law is inclined to protect the interest of the user or does it lean more towards the interest of the publisher? Is this on-going litigation a case of copyright aggression? Or, is it a case where the rights of the publisher are really hampered.

This paper aims to strike a balance between copyrighted owner and users of the said material. By highlighting the economic impact of photocopying on the right holders, photocopying to a certain extent (i.e. within the realm of fair dealing) has been portrayed in good light. The work of various stakeholders, i.e. the publishers, teachers and students is at stake due to such litigation and the question that keeps reverting to all the stakeholders is that 'how much photocopying of a book is too much' or to put it simply, what should be the 'threshold level?'. The objective of this paper is to provide cogent solutions to

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this dilemma. Reprographic Rights Organization (RRO), which acts as an intermediary between the owner and the users should be designed more efficiently so as to find a middle path. If educational photocopying crosses the threshold level as permitted under fair dealing, then RRO can intervene and collect remuneration from such unauthorized photocopying and give it to the owner in form of royalty. By such royalty, the publisher or the owner will have no issues even if photocopying is beyond the realm of fair dealing.

1. INTRODUCTORY OVERVIEW

It has become dramatically easier to make copies of printed material since the introduction of the Xerox copier in 1954. Copyright owners are alarmed by the growth of technology that eases the task of copying these properties. A need to come with appropriate legal solutions pertaining to mounting levels of unauthorized photocopying and turning it into a lawful activity by restriction of access to users and remunerations to authors and publishers has been in debate since late 1960s.⁴⁰⁹ The on-going litigation in the Delhi High Court between a group of leading publishers and a small photocopy shop named Rameswari photocopy service attached to Delhi University has generated enormous public debate regarding the extent to which user can photocopy the work of a copyright owner. The issue at hand is that Rameswari Photocopy Service attached to Delhi University regularly compiles extracts from copyrighted books and makes it available to students in form of a course pack. Subsequent to this, a group of publishers have sued this Photocopy Service for copyright infringement of their works. Hence, the dispute is whether such photocopying of copyrighted material is prejudicial to the interest of the publication house/author or is against the larger public interest which is at the very heart of our constitutional guarantee i.e. fundamental right to education for all, which the copyright law seeks to achieve.

Photocopying of copyrighted material takes place everywhere in society and if photocopying is left ungoverned and reproduction of copyrighted material takes place without the consent of publisher⁴¹⁰, it will be prejudicial to the interest of those all involved in publishing and printing of copyrighted material. However it is impossible to ask permission to photocopy the material directly from publishers from all

⁴⁰⁹ [Tseng, Henry P., 'Ethical aspects of photocopying as they pertain to the library, the user and the owner of copyright', 72 *Law Library Journal*. 86 \(1979\), available at <http://heinonline.org/HOI/LandingPage?handle=hein.journals/llj72&div=16&id=&page=> \(Last accessed on 10 May, 2014\).](#)

⁴¹⁰ [Shafer, Robert L., "Photocopy industry and copyright: section 108 of the bill", *The Journal of Law and Technology*, Vol. 4, No. 35, 1975.](#)

over the world. Then, the highly pertinent question arises- How do we regulate this rampant photocopying of copyrighted material? The answer to this question is what the paper seeks to achieve.

The idea of this paper is to highlight the role which can be played by the RRO in creating a regime where educational photocopying will be allowed even if it goes beyond the realm of fair dealing. In order to ensure that the rights of the owner are not compromised, RRO will collect remuneration from user on such photocopying which is beyond the realm of fair dealing. In this way, the conflict between author's monopoly and the user rights will be resolved.

To maintain coherence, this paper has been segmented into five parts. Part I will give an overview about the aspect of right to photocopy under Copyright Law. The economic analysis pertaining to photocopying in Copyright law is one of the focuses of this part. Judgments regarding right to photocopy across the globe will be covered in Part II of the paper. Part III of the paper would throw light on legislative context of fair dealing in Indian Copyright law regarding photocopying for education purpose. After providing this legislative angle to photocopying, Part IV will, by illustrating the nexus between public interest and copyright law, provide a justification for photocopying of copyrighted material for educational purposes. The importance of Copyright Law in promoting right to education has been dealt with in this part. In lieu of the objective set to be achieved by the paper i.e. working toward attaining copyright balance—where the interests of users, creators, owners and the general public are considered— potential solutions will be advanced in Part V of the paper. One of the solutions depicted will be in the form of strengthening the Reprographic Right Organization (RRO). The RRO was created with an aim to protect the creative works of rights holders. If regulated properly, a robust and powerhouse RRO will tackle the mentioned problem and will act as a bridge between the owner and copyright user.

2. OVERVIEW OF COPYRIGHT LAW VIS-À-VIS RIGHT TO PHOTOCOPY

Copyright law is often deemed to be taken as a balance between the rights conferred to copyright owners and the rights granted to the

users of copyrighted materials.⁴¹¹ One of the most important counterbalances to the rights granted to owners of the copyrighted material and the right guaranteed to the copyright's users is to make "fair dealing" of copyrighted material. Fair dealing is a defence to a claim of infringement provided in legislation of various countries when the copying is done for purposes such as research, teaching, news reporting and the like. The right of fair dealing shields the public from the copyright monopoly, which at times becomes so expansive that it obstructs the very progress of learning and knowledge. Copyright law is, in fact, constitutionally mandated to promote this very knowledge acquisition and learning.⁴¹²

Although copyright's fair dealing doctrine has long been targeted by criticism and complaint, in recent years critics have further raised their voices and have become more insistent. In particular, they have expressed dissatisfaction with the doctrine's ambiguity in implementation. While acknowledging that the flexibility of doctrine of fair dealing serves the purpose of courts by allowing and adapting the doctrine to new circumstances, critics are also increasingly concerned about the price and repercussions of this flexibility. It is widely believed that an ambiguity exists for those who would bank upon the doctrine of fair dealing. This ambiguity has become more disturbing as digital technology has expanded the ambit of potential uses of copyrighted works.

The fair dealing reform is in the air and the application of fair dealing pertaining to photocopy of copyrighted material is not settled despite

⁴¹¹*Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151 (3d Cir. 1975) (citing Lord Mansfield: "[We must take care to guard against two extremes equally prejudicial; the one, that men of ability, who have employed their time for the service of the community, may not be deprived of their just merits, and the reward of their ingenuity and labour; the other, that the world may not be deprived of improvements, nor the progress of the arts be retarded.]

⁴¹² Lydia Pallas Loren, "Redefining the market failure approach to fair dealing in an era of copyright permission systems", *Journal of Intellectual Property Law*, Vol. 5, No. 1, 1997.

decades of deliberation and litigation.⁴¹³ Hence, the demand is great among courts and scholars for a clear and comprehensible approach to fair dealing. As article 9⁴¹⁴ of the Berne convention and article 13⁴¹⁵ of the TRIPS prohibit the reproduction of author's work, certain exceptions can be made as regards reproduction of work but it should not conflict with the normal exploitation of the work and does not unreasonably prejudice the legitimate interest of the author. The secretariats of the permanent committee and intergovernmental copyright committee of the Berne union prepared a report in 1965⁴¹⁶ which suggested that reprographic reproduction without the permission of copyright owner should be allowed only for private, personal, non-commercial or similar purposes, for the use of educational purpose and establishment, for research or for the dissemination and preservation of culture by libraries.⁴¹⁷ As per the Berne convention, exceptions are allowed to be made in three cases⁴¹⁸ (a) in certain special cases, where the reproduction (b) does not conflict with the normal exploitation of the work and (c) does not unreasonably prejudice the legitimate interests of the author, are known as the Berne "3-step" test.⁴¹⁹ This test provides us a path forward to resolve the conflict between copyright owner and user, by laying down the the scope of permissible exceptions and limitations. In fact, this test is a general formula for determining the legality of countries' exceptions and limitations to copyright. Photocopying of

⁴¹³ Stephen M. McJohn, "Fair dealing and Privatization in Copyright", *San Diego Law Review* Vol.35 No. 61, 1998.

⁴¹⁴ *Berne Convention*, (Came into force and adopted 1886), art. 9

⁴¹⁵ *Trade Related Aspects of Intellectual Property Rights, 1995*, art. 19.

⁴¹⁶ Berne Permanent committee and intergovernmental copyright committee available at <http://unesdoc.unesco.org/images/0006/000659/065998eb.pdf> (last accessed on 10 May, 2014).

⁴¹⁷ The Photographic Reproduction of Protected Works by or on behalf of Libraries, Documentation Centres and Scientific Institutions, 19 UNESCO COPYRIGHT BULL. 63-89 (1966).

⁴¹⁸ N. Caddick, QC, G. Davies and G. Harbottle, *Copinger And Skone James on Copyright*, Thomson sweet & Maxwell, Vol. 1, London, 2013.

⁴¹⁹ *Id.*

copyrighted material within the realm of fair dealing will indeed qualify the above mentioned tests.

3. POTENTIAL ECONOMIC IMPACTS OF PHOTOCOPYING ON REVENUE OF COPYRIGHT OWNER

Unlike trademark and patent law, a copyright provides protection only against copying; unintended re-creation of copyrighted work is not actionable. While at policy level, it is generally assumed that unauthorized copying must be harmful to copyright owners, as per mauthors' understanding unauthorized photocopying of any copyright work to a certain extent (i.e. within the realm of fair dealing) will have no adverse impact on the revenue of the right holders. The elusive, judicial doctrine of 'fair use', allows a reasonable portion of a copyrighted work to be reproduced without permission when necessary for a legitimate purpose which is not competitive with the copyright owner's market for his work.⁴²⁰ What, however, is a 'reasonable portion?' And, when is a purpose "not competitive with copyright owner's market"?

The right holders see photocopying of their product as an infringement of their property rights and, more importantly, as a drain of demand and revenues. However, this issue of photocopying has two other important effects, which are generally not acknowledged: (1) Because the materials can be inexpensively copied, there is an increased demand for them as against copyable originals (i.e., the demand of copiers can be indirectly appropriated by copyright owners), and (2) the total value of the copyrighted good may be dramatically altered.⁴²¹ Because of these two effects, photocopying need not always have a detrimental impact on the revenues of copyright holders. The debate between owners and users of copyrighted materials pertaining to revenue may be misplaced.

⁴²⁰ Ruth Towse and Rudi Holzhauser, *The Economics of Intellectual Property*, Edward Elgar Publishing Limited, UK, 2002.

A. ⁴²¹ William M. Landes and The Honorable Richard A. Posner, *The Economic Structure of Intellectual Property Law*, Belknap Press, UK, 2003.

Copyright is only one of the several methods whereby authors or publishers can appropriate revenue from those who use intellectual property. The other potential form appropriation concerns the ability of authors to appropriate revenues indirectly from users who do not directly pay the authors for the right to use their creation. The profits of copyright holder are threatened when his ability to appropriate revenues is reduced. The substitution for copying for purchase has generally been viewed as decreasing the potential ability to appropriate, as held by copyright owners.⁴²² Yet it is certainly not the case that direct payment need to be made to sellers of products in order for them to appropriate revenue from users. The copyright owner sells a certain number of authorized copies, from which unauthorized copies are made. The users of unauthorized copies may be indirectly paying the copyright owner for their unauthorized copies if the owners of authorized copies take the “resale” value of the authorized copies into account when they purchase them.⁴²³ Therefore, it is incorrect to conclude that miniscule level of unauthorized copying will have a detrimental impact on the revenue of the owner.

4. FAIR USE UNDER THE COPYRIGHT LAW OF THE UNITED STATES OF AMERICA

As per section 107⁴²⁴ of the U.S Copyright Act, in determining whether the use made of a work in any particular case is a fair use, certain factors are considered.⁴²⁵ The consideration includes “purpose and character of the use” which means whether such use is of a commercial nature or non-commercial nature i.e. for non-profit educational purposes,⁴²⁶ and “the consequences of the use upon the potential market of the copyrighted work which means the gravity in which the use may affect the sale, or lessen the profit, or surpass the objects of the original work.”⁴²⁷ When the Copyright Act of 1957 was

⁴²² *Id.*

⁴²³ *Supra* note 12.

⁴²⁴ *U.S. Copyright Act*, 1976, s. 107.

⁴²⁵ Harry N. Rosenfield, “Customary use as “fair dealing” in copyright law”, *Buff. Law Review*. Vol.25 No. 119, 1975.

⁴²⁶ *Supra* note 10.

⁴²⁷ *Folsom v. Marsh*, 9 F. Cas. 342 (C.C.D. Mass. 1841).

enacted, it made the rights of copyright owners "subject to" the rights of fair dealings. It judicially codified the doctrine of fair dealing as a right that is against the rights granted to copyright owners."⁴²⁸ But unlike the position in the United States, there is no statutory criteria of "fairness" under the United Kingdom and India copyrighted law and since a long time, an objective test is applied in order to determine the fairness; it is adjudged by the objective standard of whether a honest and fair-minded individual would have dealt with the copyrighted work of the author in the manner in which the defendant did, for the relevant purposes.⁴²⁹

Our Judiciary has relied on such objective test, to determine the legality of any use of a copyright work. With the advancement of technology, the judiciary in USA has had the occasion to address the issues related to various facets of fair dealing in some detail. In recent years, India has seen tremendous technological advancement; however we have witnessed limited exposure to fair dealing issues. Our High Court has got the opportunity to deal extensively with the principles of fair dealing in the on-going litigation, by settling the dispute between the copyright owner and user.

5. FAIR DEALING UNDER THE COPYRIGHT LAW OF CANADA

Canadian copyright law follows the fair dealing doctrine. The Canadian Copyright Act was introduced for the first time in 1921. In 2004, the Supreme Court of Canada in *CCH Canadian Ltd v. Law Society of Upper Canada*⁴³⁰ established criteria to adjudge the doctrine of fair dealing. A two-step test was set up:⁴³¹ In this case it was laid down that the 1st step would be to determine whether the copyrighted work is

⁴²⁸ *Id.*

⁴²⁹ *Hyde Park Residence Ltd. v. Yelland* [2001] Ch. 143 [1999] R.P.C. 655; *Newspaper Licensing Agency Ltd. v. Marks and Spencer plc* [2001] Ch. 257 [2001] R.P.C. 76.

⁴³⁰ *CCH Canadian Ltd. v. Law Society of Upper Canada*, [2004] 1 S.C.R. 339.

⁴³¹ [Blackwell, Thomas E.](#), "[Law of copyright and the fair dealing doctrine](#)", *J.C. & U.L.* Vol.1 No. 222 1974.

being used for the purpose of private study, research, education etcetera; then the second step is taken up.⁴³² The 2nd step would be to check the (1) Purpose – Commercial Purpose or Non-commercial Purpose, (2) Character i.e. Plan to make a single copy or multiple copies or will the copy be destroyed after the use? (3) Amount - Examine the amount and significance of copied portion, (4) Alternatives - Is a non-copyrighted equivalent available? (5) Nature: Is the work private, confidential? Unpublished? If unpublished seen as more 'fair' since copyright has a goal of dissemination, (6) Effect i.e. affecting the potential market of copyrighted work.

These steps are akin to the criteria stated in Section 107 of U.S Copyright Act. The difference being that in the USA, the condition to deal with fair dealing has been statutorily codified whereas in Canada, the condition has been laid down by the judiciary. Going by these conditions, one may say that educational photocopying is permitted but once it goes against the realm of fair dealing then the real conflict arises between the copyright owner and the user.

6. ANALYSIS OF CASES VIS-À-VIS RIGHT TO PHOTOCOPY

At this juncture, the cases across various jurisdictions pertaining to educational photocopy will be critically analysed. The opinion expressed by each of the court is of immense importance since it will provide a comprehensive view of the judicial treatment of fair dealing in relation to right to photocopy.

Twentieth Century Music Corp. v. Aiken⁴³³

In this case, the Court expressed that the public need is the primary purpose and object behind copyright, that purpose can be achieved by securing for the copyright owner "a fair return for an author's creative labour".⁴³⁴ But the ultimate public aim is to encourage artistic creativity

⁴³² *Id.*

⁴³³ *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151.

⁴³⁴ *Id.*

for the public good. The court laid down the following points in order to deal with the fair dealing in relation to research:⁴³⁵

- 1- There must be fair dealing;
- 2- The research must be non-commercial
- 3- The use must be for the purpose of research;
- 4- Sufficient acknowledgment must be given to the source of the material which has been used.

Basic Books, Inc. v. Kinko's Graphic Corp⁴³⁶

In this case, Kinko's was held to be liable for infringement of copyrighted work when it photocopied book chapters for selling to students as "course packs" for their university classes.⁴³⁷

Purpose: The copying was not for education purpose but for commercial purposes, hence this purpose weighed against the fair dealing.⁴³⁸

Nature: Most of the works were factual i.e. pertaining to history, sociology etc.—hence, this factor weighed in favour of fair dealing.⁴³⁹

Amount: Percentage of copied portion was analysed by the court, and it was found that copying of 25 percent of the original full book was excessive, because the copied portions were substantial and each of the chapters of the book could stand alone.

⁴³⁵Paul Torremans, *Holyoak & Torremans Intellectual Property Law*, Oxford University Press, London, 2010.

⁴³⁶ *Basic Books, Inc. v. Kinko's Graphic Corp.*, 758 F. Supp. 1522.

⁴³⁷ *Id.*

⁴³⁸ *Id.*

⁴³⁹ *Id.*

Effect: It was found by the court that it would directly affect the market of the books, because the course packs assigned for the students competed directly with the potential sales of the original books.⁴⁴⁰

Conclusion: Three out of the four factors were against fair dealing hence the court specifically found that all course packs are infringements.⁴⁴¹

Princeton University Press v. Michigan Document Services, Inc.⁴⁴²

In this case, a private copy shop sold “course packs” under circumstances very much similar to the Kinko’s case. In this case also, court came to the conclusion that the photocopy shop have acted outside the ambit of fair dealing.⁴⁴³

Purpose: The fact that the use was commercial- This factor to weigh against fair dealing.

Nature: In this case they were non-fiction materials but copied portions contained some degree of creative expression, which is leaning against fair dealing.

Amount: Defendant used between 30 percent of each work. This factor went against fair dealing.

Effect: In this case, the court gave emphasis on the affect of photocopy on the market of copyrighted material. The court found that potential licensing opportunities existed for all copied works, and it was also found that the other commercial copy shops have routinely

⁴⁴⁰ *Id.*

⁴⁴¹ *Princeton University Press v. Michigan Document Services, Inc.*, 99 F.3d 1381 (6th Cir. 1996)

⁴⁴² *Id.*

⁴⁴³ *Id.*

requested permission to reproduce copyrighted works. Such licensing system was weighed heavily against fair dealing.⁴⁴⁴

Conclusion: This case was by heard by 13 judges of the court of appeals for the sixth circuit, out of 13, 8 judges rules against the fair dealing and 5 judges ruled that copying was fair dealing. Court rules that such photocopying by a commercial copy shop does not constitute fair dealing. Court rules that obtain permission through licensing system was simple in this case and held that there was a way to pay for the use but the defendant did not pay the licensee fee and because of this the plaintiff suffered market harm.⁴⁴⁵

Significance of the Case: Under this market failure view of fair dealing, if an owner of copyrighted material can establish a "permission system" to collect licensee fees for a certain kind of use, then the copyright owner will be able to overpower a claim of fair dealing.⁴⁴⁶ Hence, this market failure has the potential to allow owners of copyright to guard *all* uses of their works which can result in elimination of the necessary "breathing space" in copyright law.⁴⁴⁷ In this case, Court under the 1st factor applies a presumption of unfairness for commercial uses: i.e. if a copying of work is found to be commercial, the use is said to be presumptively unfair.⁴⁴⁸

American Geophysical Union v. Texaco Inc.,⁴⁴⁹

In this case, the court held that photocopying of individual journal articles by a Texaco scientist for their professional research needs was not fair dealing.

⁴⁴⁴ *Id.*

⁴⁴⁵ *Id.*

⁴⁴⁶ Lydia Pallas Loren, "Redefining the market failure approach to fair dealing in an era of copyright permission systems", *Journal of Intellectual Property Law.*, Vol. 5, No.1, 1998.

⁴⁴⁷ *Id.*

⁴⁴⁸ *Los Angeles News Serv. v. Tullio*, 973 F.2d 791, 798, 24 U.S.P.Q. 2d (BNA) 1026, 1033 (9th Cir. 1992).

⁴⁴⁹ *American Geophysical Union v. Texaco Inc.*, 60 F.3d 913 (2d Cir. 1994).

Purpose: A research purpose generally favours fair dealing but in this case Texaco's research was for commercial gain, and the use of copyrighted work substituted an additional subscriptions. Therefore, this factor went against fair dealing.⁴⁵⁰

Nature: In this case, the articles were factual - went in favour of fair dealing.

Amount: Here, an article was photocopied which is an independent work, so copying of the article means reproduction of a copyrighted entirely which is against the fair dealing.

Effect: The court had found that Texaco reasonably could have purchased more subscriptions of the relevant journals. Hence the photocopying directly affected the market of the copyrighted work, hence this factor weighed against fair dealing.

Conclusion: The court found that the Copyright Clearance Centre provided the mechanism for paying licensee's fees and securing permissions. Hence court found that 3 out of 4 factors weighing against the fair dealing in the corporate sector.⁴⁵¹ The Second Circuit amended its decision applies to "institutional copying and its application was on private companies and that the ruling does not reach isolated copying by independent researchers."⁴⁵²

7. RIGHT TO PHOTOCOPY FOR EDUCATIONAL PURPOSES UNDER INDIAN COPYRIGHT ACT, 1957

The Indian Copyright Act follows the notion of fair dealing. The word 'fair dealing' has not been defined under the Indian Copyright law. The Indian judiciary has on numerous occasions referred to the English case of *Hubbard v Vosper*⁴⁵³ on this matter. The following words of Lord Denning provide a pathway to understand the concept of fair dealing:

⁴⁵⁰ *Id.*

⁴⁵¹ *Id.*

⁴⁵² *Id.*

⁴⁵³ *Hubbard v. Vosper*, (1972) 1 All ER 1023.

“It is impossible to define what is "fair dealing". It must be a question of degree. You must first consider the number and extent of the quotations and extracts... then you must consider the use made of them....Next, you must consider the proportions...other considerations may come into mind also. But, after all is said.... it is a matter of impression”

Section 52 of the Copyright Act, 1957 lays down the ground on which an exception to copyright infringement can be provided. This section provides an exhaustive list and any use not falling within the statutory list is considered as an act of infringement.⁴⁵⁴ The judiciary in our country has from time and again reiterated that it is impossible to develop a ‘rule of thumb’ for cases of fair dealing as each case depends upon its own facts and circumstances.⁴⁵⁵ Under the Indian Copyright Act, there are only three sections dealing with fair dealing in an educational context i.e. 52(1)(a)(i), 52(1)(g) and 52(1)(h). 52(1)(g) provides that the *bona fide* publication of a non-copyrighted work in a collection intended for the use of educational institution would not amount to an infringement of copyright. Section 52(1) (h) of the Copyright Law, 1957 further provides that any reproduction of a literary, musical or artistic work by the teacher or pupil in the course of instruction or in answer to question asked in examination shall not amount to an infringement of copyright.⁴⁵⁶ 52(1) (a) (i) provides with a fair dealing of literary, dramatic, musical or artistic work for private use including research. The above mentioned provisions will lead us to conclude that there is no particular provision in our Act dealing with the issue of photocopying of copyrighted work for educational purposes. However, the right to photocopy will undoubtedly arise from the plain interpretation of the relevant clause of Section 52. The

⁴⁵⁴*Blackwood and Sons Ltd and Others v AN Parasuram and Ors.*, AIR 1959 Mad 410 Para 84. Also see, Vaibhavi Pandey, India: ‘Fair Dealing In Copyrights : Is The Indian Law Competent Enough To Meet The Current Challenges?’, Singh & Associates, 13 March, 2014, at <http://www.mondaq.com/india/x/299252/Copyright/Fair+Dealing+In+Copyrights+Is+The+Indian+Law+Competent+Enough+To+Meet+The+Current+Challenges> (last accessed on May 10, 2014)

⁴⁵⁵*ESPN Stars Sports v. Global Broadcast News Ltd and Ors*, 2008 (36) PTC 492(Del).

⁴⁵⁶ *Copyright Act, 1957*, s. 52(1) (h).

photocopy will fall under Section 52(1)(i), which mentions about reproduction of any work by a teacher or a pupil in course of instruction.⁴⁵⁷

Fair dealing cases had been rare in India until the recent decades which, even then, generated only a handful of cases. As stated earlier, unlike the American four factor test, our Copyright Law does not contain any list to determine the ‘fairness’. In US, it has being held that these four factors should not be dealt in isolation in each other. In the case of *Campbell v Accuff-Rose Music*⁴⁵⁸, it was held that all the four factors are to be explored and weighed together, in light of the copyright’s purposes of promoting educational welfare. Also, these factors have been perceived as non-exhaustive.⁴⁵⁹ However, Indian Courts while applying these factors have adopted an inconsistent and fractured approach, for instance applying a particular factor in isolation with other factors.⁴⁶⁰ In fact, the Calcutta High Court, in *Barbara Taylor Bradford v Sahara Media Entertainment Ltd*, has conceded to the fact that there is dearth of judicial jurisprudence on copyright matters. Our courts, rather than limiting itself to these factors, should seek to build on the distinctive characteristic of its fair dealing regime. It should introduce new grounds which shall bring the element of flexibility in Indian Copyright law.

The on-going litigation in the Delhi High Court should be resolved by the Courts by applying its own grounds rather than borrowing the US ‘factor analysis method’, thereby creating a new regime of fair dealing. The court in this on-going Delhi university litigation, can define the role of fair dealing in the scheme of copyright law, especially with respect the issue of photocopying. Educational photocopying under the umbrella of fair dealing is no doubt a necessity. However, the delineation of the role of fair dealing in the overall scheme of the copyright law is the need of the hour. Precisely, the Indian copyright jurisprudence is awaiting its equivalent of *Folsom v Marsh*⁴⁶¹, which will

⁴⁵⁷ *Copyright Act, 1957*, s. 52(1) (i).

⁴⁵⁸ *Campbell v. Accuff-Rose Music* 510 US 569(1994), pp. 577-78.

⁴⁵⁹ *Id.*

⁴⁶⁰ *Supra* Note 10.

⁴⁶¹ *Folsom v. Marsh*, 9. F.Cas. 342 (C.C.D. Mass. 1841).

address to the basic issues of the purpose, meaning and boundaries of fair dealing in Indian copyright law. This on-going Delhi university litigation can be our 'Folsom v Marsh', since it deals with issue which has remained unresolved for several years in India.

8. RATIONALE BEHIND THE INSERTION OF FAIR DEALING IN INDIAN COPYRIGHT ACT

The rationale behind the insertion of fair dealing clause in our legislature was to balance the public interest against the exclusive rights of the authors. Educational photocopying promotes education which is termed as "nation's paramount public interest".⁴⁶² Keeping the fundamental goals of copyright in mind, educational uses of copyrighted material serves an important public function. In fact, the Supreme Court in the case of *Francis Coralie Mullin v. The Administrator, Union Territory of Delhi and Ors*⁴⁶³ have laid down the foundation for the fundamental rights to education.⁴⁶⁴ One of the challenges India faces in the educational sector is the cost of the reading material and the Indian copyright law has a vital role to play in overcoming this challenge. Contrary to the popular perception, the cost of the books in

⁴⁶² Lawrence Liang, "Exception and Limitation in Indian Copyright Law for Education: An Assessment", *The Law and Development Review* Volume 3, No. 2, 2010.

⁴⁶³ *Francis Coralie Mullin v. The Administrator, Union Territory of Delhi and Ors* [1981] AIR 746.

⁴⁶⁴The Supreme Court in this case stated: "The right to life enshrined in Article 21...means something much more than just physical survival. Every limb or faculty through which life is enjoyed is thus protected by Article 21 and a fortiori, this would include the faculties of thinking and feeling. The right to life includes the right to live with human dignity and all that goes along with it, namely, the bare necessities of life such as adequate nutrition, clothing and shelter and facilities for reading, writing and expressing oneself in diverse forms." The Court's list of rights that attend the right to life do not explicitly include education, but quite clearly, as the emphasized phrases above suggest, implicate the right to adequate education.

India is not comparatively cheaper than other countries.⁴⁶⁵ Keeping this background in mind, educational photocopying has an important role to play. One of the most important ways of promoting access in the area of education is by ensuring that copyright laws have strong exceptions and limitations that enable the fair dealing of material for educational purposes.⁴⁶⁶ Educational uses of copyright material are part of public interest and photocopying falls within this aspect. This photocopying disseminates information, which in many cases is unavailable to scholars and students, due to the high price of the books. By allowing this educational photocopying, the copyright law will fulfil one of its primary goals of access to knowledge and cultural progress.

The authors' viewpoint is that the copyright defences are sufficient to cover the creation and reproduction of copyrighted books and material in the nature of educational photocopying. USA, where copyright jurisprudence has progressed a lot, has gone through the same phase of debate between public interest and exclusive rights of the owner and now the matter has taken a rest. Naturally, USA has guidelines pertaining to educational photocopying.⁴⁶⁷ In fact, this is not only limited to USA and many jurisdictions across the globe have developed their guidelines regarding this subject matter.⁴⁶⁸ The photocopying guidelines in India are yet to crystallize in some concrete form;the

⁴⁶⁵Rebecca Tushnet, 'Copy This Essay: How Fair Use Doctrine Harms Free Speech and How Copying Serves It' , 114 Yale L.J. 535-590 (2004), at <http://scholarship.law.georgetown.edu/facpub/797/> (last accessed on 10 May, 2014)

⁴⁶⁶P. B. Hugenholtz and R.L. Okediji, 'Conceiving an International Instrument on Limitations and Exception to Copyright: Final Report' (March 06, 2008), available at www.ivir.nl/.../hugenholtz/limitations_exceptions_copyright.pdf (last accessed on 10 May, 2014).

⁴⁶⁷ Stephen M. Mcjohn, "Fair Use and Privatization in Copyright" *San Diego Law Rev. Vol. 35 No. 61*, 1998.

⁴⁶⁸ Paul Goldstein, 'Fair Use in a Changing World', 50 *Journal of the Copyright Society of the U.S.A.* 133-48 (2003), at <https://www.law.stanford.edu/publications/fair-use-in-a-changing-world> (last accessed on 10 May, 2014).

reason being that the threshold level is yet to be defined either by the legislature or by the judiciary. The RRO Rights organization, which acts as intermediaries between the copyright owner and the user can act as a trouble-shooter in this regard. Apart from defining such threshold level, this organization should come into picture whenever any photocopying is done, which is not covered within the ambit of fair dealing. Eventually, by such intervention, a system will be created which will enable the user to copy lawfully from copyrighted works, even if it goes outside the realm of fair dealing.

9. ROLE PLAYED BY REPROGRAPHIC RIGHTS ORGANIZATION

The main function of Reprographic Rights Organization (RROs) is to act as representatives of authors and publishers worldwide and to serve rights holders, users and society. Authors and publishers all over the world are committed to free access to information, but this must not be confused with free flow of information.⁴⁶⁹ As demonstrated earlier, photocopying is an exception provided fair dealing is proved. The photocopying service is entrusted with profit while photocopying such material. The profit derived from photocopying of copyrighted material which is beyond fair dealing if shared with the publishers will solve the problem existing between the publisher and the photocopy shop, in the on-going Delhi university litigation.

For reproduction of any copyrighted work, RRO as acts as an intermediary between the publishers and users of copyrighted work for decades in many countries. Any right to reproduction of the work is

469 Vnzoma, *'To Photocopy or Not to Photocopy: The Role of the Reproduction Rights Society in Kenya*, (10 April, 2013), available at <http://cipitlawstrath.wordpress.com/2013/04/10/to-photocopy-or-not-to-photocopy-the-role-of-the-reproduction-rights-society-in-kenya/> (last accessed on 10 May, 2014).

exclusively with the owner of the copyright.⁴⁷⁰ Pragmatically, it is impossible to defend certain types of use; for example, not capable to supervise the uses of his work.⁴⁷¹ In this regard, RRO can bridge the gap between the individual and the users in these key areas. RRO was established to facilitate the necessary copyright clearance between the users and owner of copyrighted material.⁴⁷² Following is a general summary of tasks of any collective management organisation, including RROs

- 1- To keep eyes on when, where and by whom, copyrighted works are being used;
- 2- Bargaining with users or their representatives
- 3- Issuing licenses against appropriate remuneration and under reasonable conditions;
- 4- Collecting remuneration;
- 5- Distribution it to rights holders.⁴⁷³

Indian Reprographic Rights Organisation (IRRO) was established in the year 2000 and has been given statutory registration by the HRD ministry in 2002 to carry out and supervise the business of reprographic rights in the field of literary works.⁴⁷⁴ Unfortunately, the

⁴⁷⁰ *The Copyright Act, 1957*, s. 14.

⁴⁷¹ [Barnum, Deborah](#) , “[Law firm library photocopying and the myth of the fair dealing excuse](#)”, *Vt. B.J. & L. Dig.* Vo. 19, No. 35, 1993.

⁴⁷² Collective Management in Reprography presented by WIPO and IFRRO, *available at* http://www.wipo.int/export/sites/www/freepublications/en/copyright/924/wipo_pub_924.pdf (last accessed on 10 May, 2014).

⁴⁷³ *Supra* note 10

⁴⁷⁴ International Federation of Reproduction Rights Organization, ‘Copyright levies and Reprography, International Federation of Reproduction Rights Organization’ *at* http://www.ifrro.org/sites/default/files/Ifirro-Levy_Publication-9.pdf (last accessed on 10 May, 2014).

IRRO in India has not been able to prove its existence and in 2013, the Government of India refused to re-register IRRO.⁴⁷⁵ Though it still carries the function of Reprographic Rights organization, but a statutory recognition will give more teeth to this organization. The publishers in the Delhi university on-going litigation has recognized that a license from the IRRO to the user (in this case Rameshwari photocopying services) will cure the entire problem⁴⁷⁶ However, as of now, IRRO has failed significantly. The publishers who are members of this organization are not known and the works which are authorized by the owner are not provided in their website.⁴⁷⁷ Recently, the Govt of India refused to re-register [IRRO](#). The need of the hour is to bring an institutional and foundational change in the functioning of Indian IRRO. The next limb of the paper will throw some light on the role which can be played by an Ideal RRO.

9.1. HOW SHOULD AN IDEAL REPROGRAPHIC RIGHT ORGANIZATION WORK?

Licensing By RRO

RRO gives licenses to copy copyrighted material on behalf of owners of copyrighted material in order to act on their behalf.⁴⁷⁸ In this case, RROs get licensing authority from all right holders through an agreement. RRO can only give license of those publishers' work that have given mandate to act on their behalf.⁴⁷⁹ Hence, it is beneficial for the RRO to have as many publishers as their members, to achieve standardization. For instance, in the United States of America, copyright clearance centre got mandates from over 10,000

⁴⁷⁵Shamnad Basheer, *Breaking News: IRRO Registration Refused*, (December 9, 2013), at <http://spicyip.com/2013/12/breaking-news-irro-registration-refused.html> (Accessed on 10 May, 2014).

⁴⁷⁶ *Id.*

⁴⁷⁷ See the website of Indian reprographic rights organization, at http://irro.org.in/?page_id=6 (Accessed on 10 May, 2014).

⁴⁷⁸ WIPO, WIPO Guide on the Licensing of Copyright and Related Rights (2005).

⁴⁷⁹ [Reitz, Norman E.](#), “[Williams & wilkins: the impact of technology on copyright](#)”, *L.A. B. Bull.* Vol. 48, No.445 1972.

publishers.⁴⁸⁰ Two main types of licensing which are prevailing in the world are

- 1- Blanket licensing –In this licensing system, permission is given to the user photocopy from any publication within the limits of the agreement. This method is commonly employed in photocopying licenses that cover large sectors.⁴⁸¹
- 2- Transactional Licensing – Permission is given to photocopy certain defined work. This method is mostly used in licensing course-packs and other similar compilations.

Remuneration by RRO

RRO collects remuneration through licensee fee and distribute equitable remuneration or fair compensation to the right holders.⁴⁸² For example, in the Netherlands, institutions working in public interest (like educational institutions) are able to photocopy for students provided fair compensation is paid to the national reproduction right organisation and the reproduction fee is set by the statute.⁴⁸³ But in Belgium, all legal persons and natural persons who are involved in work of copying have to pay remuneration in proportion to the photocopies made of copyrighted material. These are mostly copy shops, schools, enterprises etcetera.⁴⁸⁴

Monitoring the Use of Works

⁴⁸⁰ [Kallinikou, Dionysia](#), “[Balance of copyright](#)”, *RHDI* Vo. 63 No. 265 (2010).

⁴⁸¹ [Schwartz, Mortimer D.](#); Hogan, John C., “[Copyright law and the academic community: issues affecting teachers, researches, students, and libraries](#)”, *U.C. Davis L. Rev.* Vol. 17, No.2 1983.

⁴⁸² *Id.*

⁴⁸³ Report of the Copyright Law Committee on Reprographic Reproduction, Australia Govt. Service (1976).

⁴⁸⁴ *Id.*

RRO should monitor the market to know which work and where, when and by whom it is being used. This information is necessary to collect and distribute the remuneration.⁴⁸⁵

Distribution of Remuneration

In this regard, RRO should maintain sufficient accuracy in order to provide maximum remuneration to the right holders. Structure of tariff can be price per page or price per student/employees. Tariff is subjective as it depends normally on the category of users, such a business use, education use etc.⁴⁸⁶ There are many systems to determine remuneration to the owner. In some systems, the rates are determined by means of negotiations between groups of users and rights holders. In some jurisdiction, the executives' authorities take a final call in fixing the rates, after hearing the exploiting users and rights-holders⁴⁸⁷. In some jurisdictions, quasi-judicial authorities fix the rate without the involvement of the parties. Under European jurisdiction, the rates are fixed by negotiation with collecting societies; however this is subject to judicial review.⁴⁸⁸ In case of photocopying, the best way to calculate remuneration will be by way of negotiation between the users and rights holders.

10. CONCLUDING REMARKS

It is true that an individual's right should be protected for his own creation but before any creator creates anything, he learns that creativity from the culture that surrounds him. Hence, that should be taken as a consideration while maintaining balance between the rights of creators and users.

⁴⁸⁵ [Bartow Ann](#), "[Educational fair dealing in copyright: reclaiming the right to photocopy freely](#)", *U. Pitt. L. Rev.* Vol. 60 No. 149 1999.

⁴⁸⁶ [Geller, Paul Edward](#), "[Reprography and other processes of mass use](#)", *Journal of Copyright Society U.S.A.* Vol. 38 No. 21, 1991.

⁴⁸⁷ *Id.*

⁴⁸⁸ [Dillenz](#), "The Copyright Royalty Tribunals in Austria, the Federal Republic of Germany and Switzerland", *Journal of Copyright Society*, Vol. 34 No. 193, 1987.

The problem arises as to the maintenance of a just balance between the copyright owner's interest and the user's interest between the good obtained from private profit and the good obtained from public learning. But the goal of learning cannot be withheld till the copyright over a work ceases to exist. Hence there should be a balance between the interest of the users and owners of copyrighted work. In this, RROs play a major role by facilitating the access to information in inexpensive way. It should become a guardian of creativity by providing fair compensation to the owners of the copyrighted work and incentivise future creation. But without sound legislation, RRO can't effectively function in order to save the interest of both. users and rights holders. In fact, IRRO is the sole licensing authority in India in the field of literary works and grants licences on annual basis which cover books, newspapers, magazines, etc. for reprography as per law. Collective administration organisation such as RRO, if provided with organisational facilities and strength will be successfully in protecting the rights of copyright owner and user. Hence, paramount importance should be given to provide unambiguous mechanism to the RRO by framing laws in order to benefit users and right holders.

LAWS RELATING TO PATENT RIGHTS OF PRIVATE PARTIES WITH RESPECT TO OUTER SPACE ACTIVITIES

- Rohin Koolwal⁴⁸⁹ and Nikhil Bansal⁴⁹⁰

Abstract

The recent surge in the generation of intellectual property in space has led to the development of treaties and different legal regimes, along with collaborations and different tie-ups for the purpose of protection of interests in outer space. This has been accompanied with the emergence of the concept of applicability of terrestrial laws on the extended territorial limits in outer space. Of late, there has been widespread privatization of space activities with different private players plunging into the industry in order to reap maximum profits from the ever burgeoning industry. The patent rights and the income earned through the subsequent monopolization is what is acting as an incentive for the private players to undertake such billion-dollar investments. However, despite all this, the absence of a central regime for resolving conflicts arising in the intellectual property right claims in outer space proves to be a major source of risk and uncertainty for such investors. In the paper, the authors attempt to ascertain the position of private parties with respect to the current patent laws and to determine that how such rights act as an incentive for them to plunge into the industry. The authors would also suggest possible new moves that can be undertaken.

1. INTRODUCTION

“There is perhaps no better a demonstration of the folly of human conceits than this distant image of our tiny world” – Carl Sagan⁴⁹¹

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There was an underlying reasoning for the problems experienced by the eminent jurists for what they goaded themselves into understanding the essence of the intangible property as the creative and the mimetic skills⁴⁹² depending upon the mostly silent knowledge which is neither formalized nor spoken.⁴⁹³ Justice Hutcheson⁴⁹⁴ has written very vividly and broadly while discussing about infringement of patents and the difficulty faced in formulating judgments, in the former half of the previous century and the lines are worth quoting without change;

He says that the case must exhibit, “*The same imaginative response to an idea, something of that flash of genius that there is in the inventor, which all great patent judges have had, that intuitive brilliance of the imagination, that luminous quality of mind, that can give back, where there is an invention, an answering flash for flash.*”⁴⁹⁵

Laws have definitely evolved over the decades and the legal landscape has taken a new shape. Today, there are international treaties above the national laws, which heavily influence the framing of these domestic laws. With advances in science and technology, patent regimes around the world have also developed adequately and concurrently. With the extension of possibilities, humans framed laws must be adopted to govern activities in the outer space as well. The idea, through the lines above, was first expressed all the way back in the year 1928 but it holds just as much relevance even today. However, while these lines mention

⁴⁹¹ Carl Sagan, “The Pale Blue Dot image of Earth, taken by Voyager 1 spacecraft, 6 Billion Kilometers away”, *Times Magazine*, 9 January 1995 at p.27

⁴⁹² Brad Sherman and Lionel Bently, *The Making of Modern Intellectual Property Law: The British Experience*, Cambridge University Press, U.K., 2003

⁴⁹³ *Id*

⁴⁹⁴ Justice C. Hutcheson, Jr. was the Chief Judge, Fifth Circuit Court of Appeals, He has authored several judgments and articles in relation to the then existing patent laws of the United States of America.

⁴⁹⁵ Justice Hutcheson, “The Judgment Intuitive: The Function of the ‘Hunch’ in Judicial Decision”, *Cornell Law Quarterly*, Vol. 16, 1928, pp. 284.

the 'inventor', the phrases in the above expression which must acknowledge the 'investor' are conspicuous in their absence.

The principle premise which governs outer space activities is that they shall be carried out in such a way that the use of outer space by all the nations can be done on a peaceable basis⁴⁹⁶ and appropriation is highly discouraged. Thence, the usage cannot be limited. In light of the tremendous growth in the commercial activities in space,⁴⁹⁷ which include ventures involving investments worth billions of dollars, it becomes pertinent to protect the fruits of such activities through the means of intellectual property laws. It is a rather intriguing question – ***“How can the exclusive rights enjoyed by an inventor exist in consonance with the benefit clause of the outer space treaty or the non-appropriation principle?”*** Its deliberation would ideally incorporate debate over the freedom to utilize outer space and the expectations of the public and the ever-burgeoning space industry. With the increasing privatization of space activities which include anything from remote sensing using satellites to manufacturing under micro-gravity conditions, for example Inmarsat and Intelsat⁴⁹⁸, the consciousness and recognition of property owned by private parties, in both tangible as well as intangible form, has been on the rise. Taking into consideration the financial might required for such projects to take shape, the concept of collaboration between state-owned space agencies and private players is not unheard of anymore. The only incentive for private entities to continue financing such efforts is a clear cut expectation of recovery of profits from their investments in the arena of research and development for such mammoth projects. The right of private parties to ownership and security of intellectual property thus created through patent protection would betoken an optimistic return and would encourage their continued participation.

⁴⁹⁶ Craig Mackey, “The Celestial Security Dilemma: The United States, the People’s Republic of China, and the Militarization of Outer Space”, *Journal of International Service*, Vol. 21, November 2 2012, pp. 5.

⁴⁹⁷ Martin Menter and T. Stephen Cheston, “Space Stations and Habitats, Proceedings of the Annual Meeting”, *American Society of International Law*, Vol.72, 1978, pp.268-288

⁴⁹⁸ Privatization of INTELSAT, *The American Journal of International Law*, Volume 95, No. 4 (2001), pp. 893-95

The *status quo* in the field of patent laws in the outer space domain is a portrait of disarray and complexity and absent a reliable legal framework. As soon as an inter-territorial dispute arises, different national laws are deemed to govern the questions which clearly belong in an international jurisdiction, and which must be resolved through application of clearly defined international legislation pertaining to intellectual property rights. The presence of a proper legal framework would have a direct bearing upon the assurance of a fair and competitive environment when it comes to encouraging investment by private parties. The current situation, however, is such that answering questions pertaining to patent ownership rights over the inventions made or sold in outer space is akin to following the “white rabbit down the rabbit hole”, meaning thereby, that one question only leads us towards another inquiry without getting any conclusive answers.⁴⁹⁹

The growing rivalry amongst giants like Boeing, Sierra Nevada, Orbital Science and Bigelow Aerospace for the development of commercial space vehicles for operation in the Low Earth Orbit (LEO) has kindled the need to have settled laws pertaining to patent infringement in outer space. In order to obtain legal protection, the inventing party must stand in fulfillment of the legal requirements in the relevant jurisdiction, and those interested in obtaining patent rights across nations must file an application under the International Patent Cooperation Treaty. This is the extant understanding of terrestrial patent law.

As per the Outer Space Treaty and the Registration Conventions, the signatory states or the launching states could extend their national laws, which would include their respective patent protection regimes, to the registered objects in space. But there is no provision defining the position of the private parties with respect to such treaties and the power to control and enjoy their intellectual property rights, thereby rendering these questions ambiguous. The authors have attempted to substantiate the need for establishment of an international body

⁴⁹⁹ Theodore U. Ro, Matthew J. Kleiman and Kurt G. Hammerle, Patent Infringement in Outer Space in Light of 35 U.S.C. § 105 following the white rabbit down the rabbit loophole, *Journal of Science & Technology Law*, Volume 17 Issue 2, 2011, p. 202

governing issues pertaining to violation of patent rights in outer space and the position of private parties with respect to such international body.

2. PRINCIPLES GOVERNING THE OUTER SPACE AND PATENT LAWS AT CROSS ROADS

A careful look at the provisions of the outer space treaty makes it evident that the drafters of the treaty never took into consideration the possibility that space activities would be dominated in the future by private giants and not solely by State owned entities. Under Part A⁵⁰⁰ of the Outer Space Treaty⁵⁰¹ it has been very explicitly mentioned that the treaty was signed by the nations who were motivated by the “great prospects” which would ultimately benefit mankind. There was no intent to focus on the benefits which may be derived by the signatory states, or the private parties.⁵⁰² General neutrality was ushered in through the treaty.⁵⁰³ Neither would a single State derive benefit at the cost of others nor would the private parties be able to lobby and extract benefits from the internationally governing clauses.⁵⁰⁴

The current patent law principles suggest that the local regimes for patents are enforceable only within the territorial boundaries of the nations.⁵⁰⁵ Similar to the concept of high seas, outer space does not fall

⁵⁰⁰ Part A, Treaty on Principles Governing the Activities of States in the Exploration and Use of Outer Space, Including Moon and Other Celestial Bodies (1967), “*Inspired by the great prospects opening up before mankind as a result of man’s entry into outer space*” available at <http://history.nasa.gov/1967treaty.html> (Last accessed 25 March 2014).

⁵⁰¹ Treaty on Principles Governing the Activities of States in the Exploration and Use of Outer Space, Including Moon and Other Celestial Bodies (1967) [Hereinafter referred to as Outer Space Treaty] ⁵⁰¹ *Id.*

⁵⁰² *Id.*

⁵⁰³ Robert W. Jarman, *The Law of Neutrality in Outer Space, Institute of Air and Space Law*, McGill University, Canada, 2008.

⁵⁰⁴ *Id.*

⁵⁰⁵ *Patents and Space – Related Inventions*, available at,

under the jurisdiction of any particular nation, thus there cannot be any appropriation of any resource available in outer space nor can any claim lie for such appropriation.⁵⁰⁶ Thus, it stands free for exploration and utilization by all the States or nations. This is in direct continuation of the golden lines laid down in the international treaties. In the enunciated basic framework on international space law in the Outer Space Treaty, clear guidelines have been laid down with regard to the usage of celestial bodies for the purpose of research, while ensuring harmony between states and thereby reducing conflicts with respect to exploration activities, since no sovereign authority could claim to own a particular object in its entirety.⁵⁰⁷

In reference to the applicability of national patent laws, there are problems which inevitably arise with regard to their extension to extra-territorial domains, in this case outer space. However, the interests of the states need to be protected. It is clearly mentioned in the Outer Space treaty: *“The State on whose registry an object launched into outer space is carried shall retain jurisdiction and control over such object, and any personnel thereon, while in outer space.”*⁵⁰⁸

Thus, as an obvious corollary of the above, the patent laws of the respective state are also applicable on the object released in outer space. The sole requirement is that such laws be made enforceable for the particular objects coming under the jurisdiction of the respective state by way of Treaty or convention.⁵⁰⁹

http://www.esa.int/About_Us/Industry/Intellectual_Property_Rights/Patents_and_space-related_inventions (Last accessed 13 March 2014)

⁵⁰⁶Outer Space Treaty, 1967, Article 2 *“Outer space, including the Moon and other celestial bodies, is not subject to national appropriation by claim of sovereignty, by means of use or occupation, or by any other means.”*

⁵⁰⁷ *Ibid*

⁵⁰⁸ Outer Space Treaty, 1967, Principle 7, Declaration of Legal Principles Governing the Activities of States in the Exploration and Use of Outer Space,

⁵⁰⁹ *Ibid*

For example, the USA Patent Act ⁵¹⁰which states that any invention made, used or even sold in outer space while aboard the space craft or any object that has been released by it into space would fall under the jurisdiction of USA since it would be considered as sold, invented or used on Earth within the territorial limits of USA. The only other country to have taken such a step is Germany who, prior to the signing of intergovernmental agreement (IGA)⁵¹¹, extended its patent laws to objects in space which are owned by it. But this is the case, where a country has individually taken initiative.

In the case of the ISS, it is extremely difficult to determine the applicable legal regime since it is a collaborative effort and each and every part is contributed by a different partner, with each having ownership rights over them and thus, claiming jurisdiction over them.⁵¹² Technically speaking, the ISS is just an assembly of separate parts owned by different nations instead of being an international space station per se.⁵¹³

2.1. GROWTH OF PRIVATE PARTY INVESTMENTS IN OUTER SPACE

⁵¹⁰*Inventions in outer space*, 35 U.S.C. § 105 (2003), available at <http://www.bitlaw.com/source/35usc/105.html> (Last accessed 25 March 2014).

⁵¹¹ The Intergovernmental Agreement establishes the International Space Station cooperative framework. This has been signed and ratified by fourteen nations which include the United States (European Space Agency), available at http://www.esa.int/Our_Activities/Human_Spaceflight/International_Space_Station/International_Space_Station_legal_framework (Last accessed 25 March 2014)

⁵¹² *International Space Station Legal Framework, ESA*, available at, http://www.esa.int/Our_Activities/Human_Spaceflight/International_Space_Station/International_Space_Station_legal_framework (Last accessed 25 March 2014)

⁵¹³ *Patents and Space – Related Inventions*, available at, http://www.esa.int/About_Us/Industry/Intellectual_Property_Rights/Patents_and_space-related_inventions (Last accessed 23 March 2014)

It was the government of the United States which sponsored the first ever human landing on the lunar surface. The spacecraft named Apollo 11, was developed and launched by NASA, a US governmental establishment. The landing took place in 1969, which marked a historic leap in the growth of human activities in outer space. However, it wasn't until the passionate multi-billionaire Dennis Anthony Tito, who spent nearly six days in orbit as the crew member of the ISS EP-1(Soyuz TM-32) in the mid of 2001 photographing the Earth and listening to opera,⁵¹⁴ that the trend of private forays into space began gathering pace. Tito's vacation at the ISS came across as the perfect example of a viable business opportunity for private players in space.⁵¹⁵ A year later a South African named Mark Shuttleworth returned from the ISS after conducting extensive research and expressed his urge to become a frequent visitor in space. Soon after this, the X Prize Foundation came into existence with an initiative to offer monetary prizes in order to boost private investment in space adventures, aimed at spurring innovation in the guise of a competition. Rutan was the sole person responsible for designing Space Ship One, which went on to be the first privately built vehicle to be able to safely carry a pilot and two passengers of equivalent weight. Rutan accomplished this feat not only to win the Ansari X Prize of ten million dollars⁵¹⁶ but also to

⁵¹⁴ John Adolph, The Recent Boom in Private Space Development and the Necessity of an International Framework Embracing Private Property Rights to Encourage Investment, *International Lawyer*, Volume 40, No.4, (2006), pp. 961-985, available at <https://law.wustl.edu/Library/CILP/2007/cilp0413jour.html> 1226857348846 (Last accessed 17 March, 2014).

⁵¹⁵ Nicole Lenoir-Jourdan, "Watch this Space, Executive Living" (2014), available at <http://www.theaustralian.com.au/executive-living/watch-this-space/story-e6frg9zo-1226857348846> (Last accessed 17 March 2014).

⁵¹⁶ Leonard David, "Space Ship One wins \$10 million Ansari X Prize" (2004) available at <http://www.space.com/403-spaceshipone-wins-10-million-ansari-prize-historic-2nd-trip-space.html> (Last accessed 17 March 2014)

testify to the fact that the fields of space tourism and other space activities were ripe for entrepreneurs to step into.⁵¹⁷

The first successfully built space corporation is Virgin Galactic. The company has set itself a simple and coherent goal which involves constructing a space port, creating a space transport agency and enjoying the benefits arising thereof.⁵¹⁸ Serial entrepreneur Elon Musk's venture Space X, aims at planting satellites, either owned by private corporations or by the nations themselves, into the Lower Earth Orbit (LEO) and is even working upon an ambitious project of ferrying people to and from space.⁵¹⁹

The COMSAT was created by the enactment of a law⁵²⁰ in the year 1962 by the government of the United States. This was a venture between the private parties and the government itself. The UN General Assembly soon passed a resolution to the effect that the communication satellites and their facilities should be made available to all the nations as soon as it was practicable without any discrimination.⁵²¹ Similarly, in 1964, INTELSAT was formed. In this the power of governance held by each contributor depended upon the capital contributions which were made by that entity, whether private or public.⁵²² By the beginning of the new millennium, INTELSAT had almost 140 member states.⁵²³ This grew to such an extent, that competitors in the communication business began criticizing the perks enjoyed by an international organization like INTELSAT, which even

⁵¹⁷ *Id*

⁵¹⁸ Privatization of Space Industry: Changing of the Guard, TalkTank, available at <http://talktank.wordpress.com/2011/01/13/privatization-of-the-space-industry-changing-of-the-guard/> (Last accessed 17 March 2014)

⁵¹⁹ *Id*

⁵²⁰ *Communications Satellite Act*, 1969

⁵²¹ General Assembly Resolution 1721, UN GAOR, Session 16, Supp. No. 17, UN Doc. A/5100 (1962)

⁵²² Privatization of INTELSAT, *The American Journal of International Law*, Volume 95, No. 4 (2001), pp. 893-95

⁵²³ *Id*

made it immune to antitrust and tax regulations. COMSAT enjoyed the same benefits but was subsequently acquired by the private aeronautics giant, Lockheed Martin in 1999.⁵²⁴ A similar fate was inevitable for INTELSAT. President Clinton, the then President of the United States, enacted a new law abbreviated ORBIT which went on to provide for the privatization of the INTELSAT by the year 2001. All the assets and the liabilities were transferred to the Bermuda based holding company, known as Intelsat Ltd. All the operating licenses were to be held by the US Licensee, Intelsat LLC and a Delaware Incorporated subsidiary. Thus the great INTELSAT was completely privatized.

While the privatization of space activities has progressed astonishingly fast in the past few decades, there arises a very vital question as to what is the incentive, apart from the bare profits earned by private entities, to keep them active in the field of space exploration? While profit plays a major role in motivating private players who invest billions of dollars into such exploratory and research activities, the protection of their rights over the inventions that are given birth to through such research activities is the need of the hour.⁵²⁵

2.2. NEED FOR A PATENT REGIME IN OUTER SPACE: ADDRESSING THE INCENTIVE GAP

It is pertinent to ask “why is there the need to have a proper or well-defined patent regime in outer space?” The answer to this question is incidentally the same as one of the reasons for implementing a patent regime in individual nations on earth – to provide an incentive for investment of time and effort.

⁵²⁴ Lockheed Martin completes Acquisition of COMSAT Corporation, *Space and tech Flash* (2000), available at <http://www.spaceandtech.com/digest/sd2000-21/sd2000-21-005.shtml> (Last accessed 17 March 2014)

⁵²⁵ *Id*

The American High Powered Steering committee considered the possibility of space colonization and formulated a resolution⁵²⁶ wherein of the two chief issues which were intricately built from the presentation of the document the first was that which theory of natural law and the values inculcated in the United States Constitution, would be made applicable on the outer space activities. The second essential question raised was that had the technology being used for such exceptional survival deeply embedded with such values or theories.⁵²⁷ The main crux of the debate was that in whichever corner of the universe a human resides, he could not be deprived of his natural rights.⁵²⁸ A Constitution for the same was framed over a period of time, and with the gradual increase in understanding about life in such extra-terrestrial conditions and with the advancement of technology. In the same document it was stated:

*“Recognizing the responsibility of a government to protect the rights of the governed to exist and to evolve”*⁵²⁹

There was unanimous acceptance of the principle that even though such station would survive only with the support of earth, the humans residing there should be given space to evolve culturally under such conditions.⁵³⁰ In the discussion, it became very evident, that the framers had foreseen life aboard the space stations.⁵³¹ Thus the targeted problems to be faced by the governing authorities would include the protection of fragile human lives, which would be altogether alien to

⁵²⁶ George S. Robinson, “Re-Examining our Constitutional Heritage: A Declaration of First Principles for the Governance of Outer Space Societies”, *Berkeley Technology Law Journal*, Vol. 3, 1988, pp. 81.

⁵²⁷ *Id*

⁵²⁸ Kurt Anderson Baca, “Property Rights in Outer Space”, *Journal of Air Law and Competition*, Vol. 58, 1992, pp.1041

⁵²⁹ George S. Robinson, “Re-Examining our Constitutional Heritage: A Declaration of First Principles for the Governance of Outer Space Societies”, *Berkeley Technology Law Journal*, Vol. 3, 1988, pp. 81.

⁵³⁰ *Id*

⁵³¹ D Baker, “*Scientific American Inventions from Outer Space: Everyday uses for NASA Technology, 2000*”, available at, <http://ntrs.nasa.gov> (Last accessed 13 March 2014)

such conditions and to safeguard the imminent technological evolution.⁵³² Thus the bigger picture had already been envisioned by these legendary thinkers who committed themselves towards framing of such a document.

Going by the Article I.C of the document, certain fundamental rights could be deemed to have been considered essential. One was the “right to travel to, in and from outer space”.⁵³³ This right was granted to individuals and corporate entities were also included within its ambit. The same document went on to grant the right to ownership of private property. The main reason for granting the latter right was to ensure the setting of a social contract⁵³⁴ and to not let natural rights be overshadowed by governmental pressure.⁵³⁵

The thing to remember at this point is that international law related to outer space activities lays great emphasis on access to the resources available in the outer space without any discrimination whatsoever between nations, which clearly shows the equality of all nations irrespective of their sovereignty on Earth.⁵³⁶ However, while the current laws advocate equality between nations, they exclude private parties per se. As per the conclusion drawn above regarding natural law and the setting of a social contract, even the private entities must be entitled to equal access to space resources. The main reason for advocating such a point for the corporate entities is the sheer volume of investment.⁵³⁷ Each private entity or the privately owned

⁵³² George S. Robinson, “Re-Examining our Constitutional Heritage: A Declaration of First Principles for the Governance of Outer Space Societies”, *Berkeley Technology Law Journal*, Vol. 3, 1988, pp. 81.

⁵³³ George S. Robinson, “Re-Examining our Constitutional Heritage: A Declaration of First Principles for the Governance of Outer Space Societies”, *Berkeley Technology Law Journal*, Vol. 3, 1988, pp. 81.

⁵³⁴ *Id*

⁵³⁵ *Id*

⁵³⁶ Henri A. Wassen Bergh, *Principles of Outer Space Law in Hindsight*, Martinus Nijhoff Publishers, 1991.

⁵³⁷ Edwin W. Paxson, “Sharing the Benefits of Outer Space Exploration: Space Law and Economic Development”, *Michigan Journal of International Law*, Vol. 14, 1992, pp. 487.

corporations invest millions of dollars each year in the maintenance and upkeep of the instruments floating in space on their own accord.

It can be gleaned from the statistics that United States has spent approximately \$16 billion over space activities. Considering that it is a super power and not just another fish in the kettle, this figure can be used to throw into contrast the budgets of other developing or developed nations for space activities. Switzerland spent \$10 million, Mexico spent \$8.34 million and even Pakistan spent \$75.1 million over space exploration and other activities in 2012. Comparing this to the project value of Soyuz TM-32 craft, which was valued to approximately \$ 20 million in the year 2001 and then corrected for inflation in 2012 to \$36 million, it can be said that private parties have enough potential to make investments, both for recreation or for diligent research, equivalent to that of a State party.⁵³⁸

What is the degree of protection available to such private investors and inventors who put in their sweat and blood into the activities conducted by them in outer space? The applicability of the terrestrial laws of patent, which protects the counterfeiting of an invention and prevents stealing and unjust enrichment, on such extra terrestrial beings, projects one ray of hope.⁵³⁹ Interestingly, patent laws by its very nature advocate the existence, importance and priority of private rights over public access.⁵⁴⁰ As stated earlier, once territorial limits are extended to the objects owned in outer space, the national patent laws are also applicable on that object. However, this has not been

⁵³⁸ The data and figures have been retrieved from the archives maintained by the respective nations on their web pages reflecting space activities and the budgetary allocation, available at http://en.wikipedia.org/wiki/International_Space_Station_program (Last accessed 17 March 2014)

⁵³⁹ Bin Cheng, "The Legal Status of Outer Space and Relevant Issues: Delimitation of Outer Space and Definition of Peaceful Use", *Journal of Space Law*, Vol. 11, December 1983, pp. 89.

⁵⁴⁰ Lee Ann W. Lockridge, "Comment: Intellectual Property in Outer Space: International Law, National Jurisdiction, and Exclusive Rights in Geospatial Data and Databases", *Journal of Space Law*, Vol. 32, No.2, (2006), pp. 319.

mentioned explicitly anywhere in any treaty and is an understanding solely based on existing principles. Moreover, upon perusal of the TRIPS agreement, which took over from the Paris and the Berne Convention in the field of international governance of Intellectual Property Rights, it must be noted that there has been no mention of any clause relating to patent in outer space.⁵⁴¹

Article 19 of the Intergovernmental Agreement (IGA) states that each partner of the ISS is bound to share all the technical expertise and share it with all the partners, as long as such sharing is not in contravention to the national laws of the that particular transferring state. However, Article 16 of the same agreement goes on to say that a cross waiver of liability shall not be made applicable in cases involving the infringement of intellectual property rights and such other claims.⁵⁴² Thus, patent infringement claims are available as per the national laws which are applicable by the virtue of extension of national jurisdictions to space. Article 21 of the agreement covers all activities, inventions and infringement of such inventions. In clause 2, it is stated that all activities occurring in any part of the space station shall be deemed to have occurred in the territory of the State under which that part falls.⁵⁴³ Clause 3 of the same article covers all inventions and provides for applicability of the respective national laws with respect to the inventions made aboard that part of the station which is under that respective nation.⁵⁴⁴ This was with respect to nations and the protection of the intellectual property rights of the State or the nation signatory to the treaty. Keeping in mind the current position of the private parties and their capabilities, what if a private entity prefers to join as a partner in the ISS by investing billions of dollars towards development in space? All the current treaties and conventions, fail to even anticipate such a scenario. The document drafted way back in the year 1985, had incorporated the possibility of

⁵⁴¹ *Id*

⁵⁴² Space Station, Agreement between the United States of America and Other Governments 1998, Article 16(3)(d)(4)

⁵⁴³ Space Station, Agreement between the United States of America and Other Governments 1998 Article 21(2)

⁵⁴⁴ *Id*

both technological development and the advent of private parties into the fray.

As noted before in a previous chapter, there has been a rapid rise in private activities in the space. There have been huge investments involving billions of dollars by various giants in the field of communications satellites and aero-dynamics and the aforementioned provisions do not apply to such private parties.⁵⁴⁵ It is very much clear that such actions involve operation of such assets which can have serious repercussions in the economies of both the business as well as the respective nations which they belong to.⁵⁴⁶ Access to space till now was controlled by the governments of several advanced nations. However, there is a real possibility, that with the increased privatization, power wielded by private parties in this area will soon surpass national capabilities. Above all, the rampant practice of disinvestment, which is evident from the move on the privatization of INMARSAT and various others, shows that the private parties are potent enough and are in a position to gain special status in an international treaty. The protection of the natural rights of such corporations would be reiterated here as well. What was advocated in the year 1985 is much applicable to this day.

Private sector investments are themselves rather beneficial. The induced competition within the space activities market would lead to maximization of efficiency and also the increased research spending would lead to new inventions and technological advancement.⁵⁴⁷ Thus, there is a need to protect these investments and the inventions made

⁵⁴⁵ Richard Berkeley, "Space Law Versus Space Utilization: The Inhibition of Private Industry in Outer Space", *Wisconsin International Law Journal*, Vol. 15, 1996, pp. 421.

⁵⁴⁶ Irwin M. Pikus, Law and Security in Outer Space: Private Sector Interests, *Journal of Space Law*, Volume 11, No. 1&2, (1983), pp. 111.

⁵⁴⁷ TY S. Twibell, "Space Law: Legal Restraints on Commercialization and Development of Outer Space", *UMKC Law Review*, Vol. 65, 1996, pp. 589.

aboard privately owned objects in space.⁵⁴⁸ The treaties talk about the interests of the nations but do not focus upon the position of private parties and the protection of their interests in this regard.⁵⁴⁹

Now, there would, arise a question on why protecting patents? An associated question along with this would be on what are the social benefits and costs of awarding patent for inventions?⁵⁵⁰ The most plausible theory given to answer both the questions is motivating inventions.⁵⁵¹ The stricter and the clearer the patent regimes are, the better and the finer inventions a country gets.⁵⁵² Any party would yearn for the security of his intellect spent towards the invention and for the prevention of stealing of his idea.⁵⁵³ The main reason for such fear is not being able to exercise monopoly. But weighing it at the scale, it can be said that allowing practice of monopoly for a certain period of time⁵⁵⁴ is very much just and equitable⁵⁵⁵ for newer and simpler life which the society receives as a result of the hard work and investment of one individual. Thus, from the societal perspective it is

⁵⁴⁸ Roy Gibson, “Law and Security in Outer Space: International Regional Role – Focus on the European Space Agency”, *Journal of Space Law*, Volume 11, 1983, pp. 15.

⁵⁴⁹ *Id*

⁵⁵⁰ Roberto Mazzoleni and Richard R. Nelson, “Economic Theories about the Benefits and Cost of Patents”, *Journal of Economic Issues*, Vol. 32, 1998, pp. 1031- 1052.

⁵⁵¹ Roger K. Hoover, “Law and Security in Outer Space from the Viewpoint of Private Industry”, *Journal of Space Law*, Vol. 11, 1983, pp. 115.

⁵⁵² Roberto Mazzoleni and Richard R. Nelson, Economic Theories about the Benefits and Cost of Patents, *Journal of Economic Issues*, Vol. 32, 1998, pp. 1031- 1052.

⁵⁵³ Edward Finch, Jr., “Law and Security in Outer Space: Implications for Private Enterprise”, *Journal of Space Law*, Vol. 11, 1983, pp. 107

⁵⁵⁴ For Example, Indian Patent Laws allow a patent to remain protected for a period of 20 years. After this, the invention enters the public domain and is free to be used by anyone for any purpose. A re-registration or a renewal is barred.

⁵⁵⁵ John F. Duffy, “Rethinking the Prospect Theory of Patents”, *The University of Chicago Law Review*, Vol. 71, 2004, pp. 439-510.

correct and moral to have patent regimes and to allow the strictest implementation of the same.

Outer space cannot be appropriated⁵⁵⁶ and has to be mandatorily used for peaceful purposes.⁵⁵⁷ The State could be held liable for the activities of its private entities. Once a patent issued for the purpose of any invention, the patentee can restrict the rights of other people intending to use such an invention. However, the importance of having a legal regime that protects patent in space activities cannot be overstated. This helps in maintaining monopoly for the private players in order to earn maximum profits in a still nascent industry. The industry has definitely grown at breakneck speed on the national front but for private parties, it is still young. Thus the protection of their interests would act as an incentive for further investment.⁵⁵⁸

The current patent regime also mandates the disclosure of certain non-crucial information.⁵⁵⁹ Moreover, most national IP regimes include research exemptions when it comes to using patented inventions in scientific research and technological advancement. Thus the secret also

⁵⁵⁶ Outer Space Treaty 1967, Article 2 (As referred in⁵⁵⁶ Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal (, 1999)) .

⁵⁵⁷Outer Space Treaty 1967 Article 4 (As referred in Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal (1999)),⁵⁵⁷ *Id* at pp. 86 “States parties to the Treaty undertake not to place in orbit around the earth any objects carrying nuclear weapons or any other kinds of weapons of mass destruction, install such weapons on celestial bodies, or station such weapons in outer space in any other manner. The moon and other celestial bodies shall be used by all State Parties to the Treaty exclusively for peaceful purposes.

⁵⁵⁸ Roberto Mazzoleni and Richard R. Nelson, “Economic Theories about the Benefits and Cost of Patents”, *Journal of Economic Issues*, Vol. 32, 1998, pp. 1031- 1052

⁵⁵⁹ Leo B, Malagar, and Marlo Apalisok Magdoza – Malagar, *International Law of Outer Space and the Protection of Intellectual Property Rights*, *Boston University International Law Journal*, VolumeVol. 17, (1999),, pp. 311.

stands protected and the underdeveloped nations also get a fair chance of getting a hand at the technologies⁵⁶⁰ used by both private parties and the other developed nations without even indulging into wasteful infringement acts.⁵⁶¹ Thus the infringement of the patent rights could be the most likely source of conflict. The grounds for selection of appropriate forum, resolution of jurisdictional disputes, and the fixing of appropriate liabilities, seem to be dragging us down the rabbit hole.⁵⁶²

Patent law and space law intersect at the question of protection of an inventor or an investor's rights in an invention or any other activities in outer space involving exercise of his monopoly over use of that invention. All attempts to answer one question just lead to more questions resulting in an unending exercise in uncertainty.⁵⁶³ This question can be answered better with the example of the US Patent Act. The US Patent Act was passed with the very motive of extending the sovereign rights of US over the objects released in space.⁵⁶⁴ Thus any activity or invention taking place aboard would come under the jurisdiction of US and the applicable laws would be of US. However, this is not the case with all the countries. There are several other countries that haven't yet passed any legislation of this breed and there are many more countries that are yet to step into the industry of space exploration. But taking into account the rate of growth and the availability of information, in addition to the limited duration of each patent, after which it enters the public domain, the day is not far when possibly all countries will have their own legislations in this regard and more and more private parties would undertake investments in this

⁵⁶⁰ Leo B, Malagar and Marlo Apalisok Magdoza – Malagar, International Law of Outer Space and the Protection of Intellectual Property Rights, *Boston University International Law Journal*, Vol. 17, 1999, pp. 311.

⁵⁶¹ *Id*

⁵⁶² Theodore U. Ro, Matthew J. Kleiman and Kurt G. Hammerle, Patent Infringement in Outer Space in Light of 35 U.S.C. § 105 following the white rabbit down the rabbit loophole, *Journal of Science & Technology Law*, Vol. 17 Issue 2, 2011, p. 202

⁵⁶³ *Id*

⁵⁶⁴ *IbidId*

industry.⁵⁶⁵ Thus clarity in the intellectual property laws would aid in easy redressal of grievances and quicker resolution of disputes. This would also act as an incentive for the private parties to invest more and to encourage further exploration and invention. The degree of security is ultimately what determines the level of investment, taking any industry into account.⁵⁶⁶

The next question to address is “how many conflicts and difficulties arise while dealing with the protection of intellectual property in outer space, where the property upon which control is deemed to be exercised is actually outside the sovereign territory?” If a company plans to release satellites containing high end technology, it has to register it at a national as well as international level. Further, the state registering it would exercise control over the object so released. In cases of conflict, the laws of the State registering it would apply.⁵⁶⁷ Thus in case of absence of any specific provision relating to patent rights, the law of the State would apply.⁵⁶⁸ This brings to light an inevitable conflict situation between the parties claiming ownership of the patent. A central regime governing the outer space activities and the activities leading to arousal of intellectual property claims would resolve the aforementioned problem and lead to a more uniform regime of dispute settlement.⁵⁶⁹

The only question addressed is that of the determination of patent ownership. This is because all the nations answer this issue on first-to-

⁵⁶⁵ Julie D. Cromer, “How on Earth Terrestrial Laws can Protect Geospatial Data, *Journal of Space Law*”, University of Mississippi School of Law, Vol. 32, 2006, pp. 253.

⁵⁶⁶ Irwin M. Pikus, “Law and Security in Outer Space: Private Sector Interests,” *Journal of Space Law*, Volume Vol. 11, No. 1&2, 1983, pp. 111, available at <http://www.spacelaw.olemiss.edu/jsl/pdfs/back-issues/jsl-11.pdf> (Last accessed 25 March 2014)

⁵⁶⁷ Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal, 1999

⁵⁶⁸ Manfred Lachs, *The Law of Outer Space, An Experience in Contemporary Law-Making*, Martinus Nijhoff Publishers, 2010.

⁵⁶⁹ Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal, 1999

register basis. However, the question of infringement of patents currently held by a third party or the use of rights in outer space still remains unanswered.⁵⁷⁰

The lack of an international IP law jurisdiction may also lead to exploitation of the weaknesses inherent in a territorial system where IP protection is granted by National Governments, governed by national laws and enforceable within national boundaries.⁵⁷¹ Basing the outer space patent system on the application of national patent laws to registered space objects could limit the effectiveness of patent protection for space technologies.⁵⁷² A patent regime based on national jurisdiction could enable companies to circumvent patents on space technologies by registering their spacecraft in countries where these patents are not on file.⁵⁷³ The common practice of registering ships under “Flags of convenience”⁵⁷⁴ is likely to raise many of the same legal issues in space as it does at sea. However, the unique nature of outer space may further exacerbate these issues, owing to the fact that unlike cargo ships on high seas which have a destination country, in space, there is no destination and therefore the responsibility to enforce patent protection laws upon a private entity would fall upon the country where the spacecraft is registered. If the patent in question is not on file or is difficult to enforce in that country, the patent holder would be virtually powerless to protect his invention.⁵⁷⁵

⁵⁷⁰ *Id*

⁵⁷¹ Christian Brunner, “Alexander Soucek, Outer Space in Society, Politics and Law”, *Studies in Space Policy*, Vol. 8, 2011, pp. 876.

⁵⁷² Manfred Lachs, *The Law of Outer Space, An Experience in Contemporary Law-Making*, Martinus Nijhoff Publishers, 2010.

⁵⁷³ *Id*

⁵⁷⁴ *What are Flags of Convenience?* available at <https://www.itfglobal.org/flags-convenience/sub-page.cfm> (Last accessed 25 March 2014)

⁵⁷⁵ Matthew J. Kleiman, “Patent rights and flags of convenience in outer space”, *The Space Review*, (2011), available at <http://www.thespacereview.com/article/1772/1> (Last accessed 25 March 2014)

In order to provide an incentive for technological advancement, the return on investment must be ensured on the billions of dollars invested by private players.⁵⁷⁶ One example of note here would be that of the company Iridium,⁵⁷⁷ who failed to gain a large share of revenue as returns on the huge investments they made.⁵⁷⁸ As a result, the desired level of commercialization was never reached and the company now stands dissolved after filing for bankruptcy.⁵⁷⁹ While this particular incident is not specifically related with patent infringement claims, according to the authors it is closely linked with the fate which may await any private player which might invest without an assurance of returns on their investment.⁵⁸⁰ Moreover, the infringement of intellectual property rights gives rise to long endless disputes which would adversely affect the business of that company, and ultimately the investments made by them may fail to reap adequate profits.⁵⁸¹

In the absence of a central international patent law regime, such measures would ultimately lead to ensuring of confidentiality of the scientific data through contractual protection since the interests of both the parties are quite important and obvious to mention that they

⁵⁷⁶ Michael Kremer and Heidi Williams, “Incentivizing Innovation: Adding to the Tool Kit”, *Innovation Policy and Economy*, Vol. 10, 2010, pp. 1-17.

⁵⁷⁷ Sydney Finkelstein and Shade H. Sanford, “Learning from Corporate Mistakes: The Rise and Fall of Iridium”, Vol. 29 Issue 2, 2000, pp. 38, available at <http://www.rentcell.com/manuals/Iridium.pdf>

⁵⁷⁸ Michael Kremer and Heidi Williams, “Incentivizing Innovation: Adding to the Tool Kit”, *Innovation Policy and Economy*, Vol. 10, 2010, pp. 1-17.

⁵⁷⁹ Sydney Finkelstein and Shade H. Sanford, “Learning from Corporate Mistakes: The Rise and Fall of Iridium”, Vol. 29 Issue 2, 2000, pp. 38, available at <http://www.rentcell.com/manuals/Iridium.pdf>

⁵⁸⁰ *Id.*

⁵⁸¹ Edwin W. Paxson, “Sharing the Benefits of Outer Space Exploration: Space Law and Economic Development”, *Michigan Journal of International Law*, Vol. 14, 1992, pp. 487.

are completely opposite to each other.⁵⁸² The players in the space industry could be narrowed down to three types, governments, institutions and private parties. These, work in collaboration with each other or they work with each other but the fulfillment of the personal interests remain a common goal.⁵⁸³ In order to prevent the secrets from being divulged, the most common tool would be in the form of a non-disclosure agreement.⁵⁸⁴

An instance of the non-fulfillment of the interests of the private players would be the adoption of a specific legislation by the US Government with respect to technology transfer.⁵⁸⁵ The Department of State overlooks all the international contractual relations being undertaken in the field of such investments, thereby exercising sufficient control over the type of the commercial operation with the intent to assure protection of national technology.⁵⁸⁶ This could develop into a major roadblock in the path to commercialization of satellites since there is a high possibility of governmental influence being too high to sustain private interests.⁵⁸⁷

Above all, granting a separate position to the private parties, and to grant them special rights to be enjoyed would amount all together a new era of formulating legislations governing nations. The statistics and other considerations of natural law, go far enough to persuade and to advocate the position of private parties with respect to outer space laws and activities.

3. CONCLUSION AND SUGGESTIONS

⁵⁸² Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal, 1999

⁵⁸³ *Ibid*

⁵⁸⁴ Lesley Jane Smith and Ingo Baumann, *Contracting for Space*, Ashgate Publishing Limited, 2011

⁵⁸⁵ Isabelle Bouvet, *Certain Aspects of Intellectual Property Rights in Outer Space*, McGill University, Montreal, 1999

⁵⁸⁶ *Id*

⁵⁸⁷ *Id*

Furthering the argument made in the last point it can be said that those countries, who are signatories to different treaties but lack domestic laws in this regard, are unable to answer such questions with regard to redressal for infringement. Thus the private parties who would be governed under those laws remain vulnerable. Thus it can be said that the presence of a central legislation or a treaty which governs the activities of every country without the need for every country to formulate extended laws, would be an appropriate move to be taken at this juncture.

Giving the private parties appropriate recognition and giving them such incentives by specific provision in international treaties would ultimately benefit mankind, which was also the motive while formulating the Outer Space Treaty.⁵⁸⁸ The amount of investment made into this is equivalent to investments which are otherwise made by the State for public good or in public interest. Thus if the private entities are entering into such arena, there should be clearly defined laws which are intended to benefit the parties to further invest and grow.

Looking at the current legal landscape it can be said that the question of territoriality or jurisdiction could be easily answered but resolution of conflicts through the introduction of an appropriate intellectual property regime still remains to be addressed with regards to the field of space law. This last point can be supported by the argument that the inventions done in outer space are not comparable to the inventions made on Earth in the sense of amount of investment and also the difference in need to protect such investments.

Additionally, looking at the statistics, it is prima facie evident that private parties have been potent enough to incur expenditure and to allocate funds as equivalently to that of a nation State or any other member country of international treaties.

⁵⁸⁸ Part A, Treaty on Principles Governing the Activities of States in the Exploration and Use of Outer Space, Including Moon and Other Celestial Bodies (1967), "*Inspired by the great prospects opening up before mankind as a result of man's entry into outer space*", available at <http://history.nasa.gov/1967treaty.html> (Last Visited March 25, 2014)

There are no treaties which explicitly deal with patent rights in outer space. The existence of certain treaties on Earth cannot be said to conclude the positive situation of governance in the outer space with the same set of legislations. It has already been stated in the document filed way back in 1985 by the United States, which went on to promote the idea of separate set of laws for the people and the community living in the Outer Space. The consideration given to this thought was the values they shared and developed in such extra terrestrial conditions would not easily match the legislations of that on Earth. They need separate governance and a set of laws. Thus, the most beneficial conclusion to be drawn here is to have a separate set of treatises concerning patent laws for outer space. This is drawn as an obvious corollary from the master class of legislation for outer space.

Considering the position of private parties and their leviathan nature of activities, it can be said that the position of private parties must first be well defined and the absence of appropriate forum addressed with the introduction of a centralized system to deal with such exceptional issues. The extended laws are applicable to only that country which brings about such an extension, but an international treaty which formulates a universally accepted patent regime in accordance with the international norms and customs must be undertaken. The separate protection to be given to the private entities have been discussed at length in the paper and is very much just and equitable within the meanings of natural law, to have such definitions created. This would ultimately benefit the society, considering the speed at which science is advancing.

“Everything is theoretically impossible, until it is done” – Robert A. Heinlein

TRADEMARK: INFRINGEMENT AND PASSING OFF

-Anamika Bhaduri⁵⁸⁹

Abstract

Trademark law protects a trademark owner's exclusive rights to use the mark, thereby preventing any unlawful use of the mark by an infringer. Trademark protects the mark from any unauthorized use of the mark which shall cause confusion in the minds of the general public. Whenever the plaintiff proves that the defendant has caused confusion in the minds of the public by using same or similar mark, a trademark infringement claim shall prevail. The purpose of trademark is to give exclusive recognition as well as protection to a trademark owner. A claim for infringement will take place in case of a registered trademark whereas common law recognizes the act of 'passing off' which prevails in the case of unregistered trademark. Whenever the trademark owner proves that the infringer's mark would cause a depreciation of value of his mark or would harm the reputation, goodwill of the prior mark, the trademark owner shall establish his right to protection of the mark. The first and foremost task of the trademark owner is to prove that the prior mark has a very high degree of reputation and the infringed mark is similar to his mark and which would cause a confusion or deception regarding the product in the market. A trademark is generally protected to get maximum protection although unregistered trademarks also get protection under other circumstances. In case of passing off, the registration of the trademark is irrelevant and it is a common law remedy which is completely dependent on the goodwill acquired by the property. The difference between infringement and passing off has been very clearly and comprehensively illustrated in

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the case of *Durga Dutt Sharma V. N.P. Laboratories*⁵⁹⁰. It was held that "An action for passing off is a Common law remedy, being in substance an action for deceit, that is, a passing off by a person of his own goods as those of another. But that is not the gist of an action of infringement. The action for infringement is a statutory remedy conferred on the registered proprietor of a registered trade mark for the vindication of the exclusive right to use the trade mark."

Keywords: Infringement, Passing off, Common law, goodwill

⁵⁹⁰ AIR 1965 SC 980

1. INTRODUCTION

A trademark is intended to serve the purpose of acknowledging the source or origin of goods or services to which that particular mark belongs. The development of trademarks can be traced back to the onset of industrial revolution which facilitated in the large scale production and distribution of goods. With the growth of globalization and e-commerce consumers started identifying their products with that of certain marks and symbols so as to distinguish these products from other similar products in the market. Over a prolonged period of usage, the products with particular marks started gaining popularity as well as recognition among consumers of goods. With advertising came the propensity to copy the well known trademarks or adopt deceptive trade marks to enhance profits and gain unscrupulous financial gain by trading on the reputation of another trade mark. Therefore with the rise of competition, the proprietors of those marks realized the need for a uniform legislation to grant registered proprietor an exclusive right to use the trade mark as prescribed under the law relating to trade marks. Therefore the most important functions of a trademark were realized to be identification, source, quality and advertising.⁵⁹¹ Trademark is the symbol of origin and source of a mark and bears the stamp of quality. The maker of a trademark would always want to protect his mark from unfair usage and also from fraud and deceit.

1.1. OBJECTIVES OF TRADE MARK LAW

Trade Mark with relation to goods and services recognizes the source and originality of the goods and conveys to the general public the quality of the product. In the case of *Cadbury India Limited v. Neeraj Food Products*⁵⁹², the Delhi High Court observed that the spirit, intendment and purpose of the trademark legislation is to protect the trader and

⁵⁹¹ JT McCarthy, *Trademarks and Unfair Competition*, Vol 1, New York, 1973, p.86

⁵⁹² (2007) 25 PTC 95 (Del),p 126.

consumer against dishonest adoption of one's trademark by another with the intention of capitalizing on the attached reputation and goodwill. Again, in another landmark judgment, the Supreme Court in the case of *Ramdev Food Products Pvt. Ltd v. Arvindbhai Rambhai Patel*⁵⁹³ held that, the purpose of trade mark was to establish a connection between the goods and the source thereof which would suggest the quality of goods. The primary object of the Trade Marks Act was decided by Bombay High Court, in the case of *Cluett Peabody & Co Inc v. Arrow Apparels*⁵⁹⁴, which was observed to be protective of the proprietary right of a registered trade mark holder.

1.2. HISTORY GOVERNING TRADE MARK LAW IN INDIA

In India, the very first legislation in respect of trade mark was the Indian Merchandise Marks Act 1889. This Act was followed by Trade Marks Act 1940. Prior to the enactment of Trade Marks Act 1940, the disputes or problems relating to infringement of trademarks and passing off were decided in the light of s. 54 of the Specific Relief Act 1877. In the year 1958, The Trade and Merchandise Marks Act was adopted which repealed the Indian Merchandise Act 1889 and the Trade Marks Act 1940. In the section 129 of the Trade and Merchandise Act 1958, it was held that any document declaring or purporting to declare the ownership or title of a person to a trade mark other than a registered trade mark, was not to be registered under the Indian Registration Act, 1908. The need to revise the existing law of the country was necessitated keeping in view the increasing trade and industry, globalization and also to encourage harmonious trading.⁵⁹⁵ The most important reason behind such a modification was

⁵⁹³ (2006) 33 PTC 281 (SC), p 300

⁵⁹⁴ (1998) 18 PTC 156 (Bom).

⁵⁹⁵ T.Ramappa, *Intellectual Property Rights law in India*, 1st edition

due to the need to comply with the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), by India on its becoming a member of WTO in 1995. It became mandatory on the part of India to bring the trade laws of the country in compliance with the provisions of the TRIPS Agreement. The Trade Marks Act 1999 was accordingly adopted on December 30 of the same year, and which came to force on 15th September 2003. In the case of Gujarat Bottling Co Ltd v Coca Cola Co⁵⁹⁶, the Supreme Court held that the first enactment whereby the machinery for registration and statutory protection of trademarks was introduced in this country was the Trade Marks Act 1940. Prior to 1940, the law relating to trade mark in India was based on common law principles that are substantially the same as was applied in England before the passing of the Trade Marks Registration Act 1875. The Trade Marks Act 1999 is an 'Act to amend and consolidate the law relating to trade marks, to provide for registration and better protection of trade marks for goods and services and for the prevention of the use of fraudulent marks.'⁵⁹⁷

1.3. INTRODUCING THE 1999 ACT⁵⁹⁸

The most important aspect of trade mark is to indicate the origin as well as the source of such goods and services which are made available to a consumer. The definition of 'mark' under the Trade Mark Act 1999⁵⁹⁹ is inclusive in nature consisting of device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colours or of any combination thereof. The 'mark' should be graphically represented, that is capable of being represented in paper form⁶⁰⁰. The definition of mark is

⁵⁹⁶ (1995) 5 SCC 545, p 556.

⁵⁹⁷ *Meghraj Biscuits Industries Ltd v CCE* (2007) 3 SCC 780, p. 788

⁵⁹⁸ *The Trade Mark Act, 1999*

⁵⁹⁹ *The Trade Mark Act, 1999*, S. 2(1)(m)

⁶⁰⁰ *Trade Marks Rules, 2002*, r 2(k).

inclusive and may include other things which may fall within the general and plain meaning of the definition. Of all the qualifications, the most important is that the trademark⁶⁰¹ should be capable of distinguishing the goods or services of one person from the goods or services of another. That is, put simply; it should have inherent qualities that would make it distinct and also capable of distinguishing the mark of one person from another. The Trade Mark Act 1999 governs registration in India.

Functions of Trade Mark, as understood from the 1999 Act

- **It identifies goods / or services and its origin:** The mark should be capable of distinguishing one product from another. The mark should be such, so as to identify the origin of the goods or services to help the public trace the product to its source. This creates a better impression of the goods/services and helps in eliminating confusion.
- **It guarantees unchanged quality:** The mark is an assurance of the quality of the product. With a particular mark, a certain amount of goodwill is attached, which helps in triggering the sale of the same. The public associates the product with the mark and is hence assured of the quality. The mark, over the time affirms quality and attracts a segment of public which is convinced of the excellence and standard of the product. Therefore mark can be said to be an indicative of the quality of a product.

⁶⁰¹ *The Trade Mark Act*, 1999 S. 2(1)(zb)

- **It advertises the goods/services:** The new Act has encouraged the traders and service providers to develop their trading. The mark is beneficial in increasing globalization as well as increasing the trans-border repute of the product. As a result of advertising, the mark becomes popular as well as known to different sections of the public, across the globe. The mark caters to the development of the product as well as helping in business to grow. With increased advertisement, the mark begins to be popular.
- **It creates an image for the goods/services.** The marks which have acquired distinctiveness as well as popularity among the public due to prolonged use help in creating an impression of the product. An image is created of the mark and hence the product is associated with the mark.

Features of the 1999 Act also include:

1. Inclusion of ‘shape of goods, packaging and combination of colours’. This has been incorporated keeping in mind changing trends of the world. It is an inclusive definition giving room to more additions. The definition of Trademark has been expanded to encompass any mark capable of distinguishing the goods and services of one, from the goods and services of another and may include any mark capable of graphical representation. As a result, even well known designs can now avail protection under trademark law.⁶⁰²

⁶⁰² <http://www.altacit.com/pdf/23-The%20New%20Indian%20Trademark%20Act.pdf> last accessed 8/7/2014

2. Scope of trademark infringement has been widened:

With the enlarged grounds for refusal of registration on “relative grounds”, the scope of law governing infringement of trade mark has been enlarged to include where the infringing use will most likely lead to confusion. Further, with the intention to keep trademarks protected, any mark which might lead to deception or turn out to be detrimental to the repute of a mark will be considered to be an infringement. Any mark which is contrary to honest practice or is likely to cause detriment to the distinctive character will constitute infringement. If the mark is capable of destroying the repute of the mark built up in the course of time, such mark will be said to be an infringed mark.

1.4. INCLUSION OF ‘SERVICE MARK’ BY
ENACTMENT OF 1999 ACT

The Bill of 1993 though was passed by Lok Sabha, it failed to get through the Rajya Sabha. After the lapse of the 1993 Bill, a new Bill titled Trade Marks Bill, 1999 was introduced in the Rajya Sabha, which eventually got an approval and was hence passed by both houses of Parliament. The Bill after getting the assent of the President in 1999, became an Act in the same year.

1.5. SERVICE MARK ADOPTED IN THE 1999 ACT

Adoption of service mark in the new act can be said to be one of the most important and significant additions to the new Act. It is the direct initiative to add services in the definition of trademark. This would enable any institution or any individual offering services to register their marks. The definition of services under the New Act is an inclusive one; therefore entities providing services of any description in

connection with business, industrial or commercial matters can get their Service marks registered⁶⁰³

Section 2(1)(z) ‘service means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, education, financing, insurance, chit funds, real estate, transport, storage material treatment, processing, supply of electrical or other energy, news or information and advertising’.

1.6. REGISTRATION OF TRADE MARK FOR SERVICES⁶⁰⁴

The new law provides for registration of trademarks for services, in addition to goods. This need was greatly felt with the growth of the service sector in the country. Whereas the 1958 Act made provision for registration of trademarks only for goods, the present Act provides facility for registration of marks for services, in addition to goods. The expression “service” has been defined comprehensively to mean service of any description, which is made available to potential users. Furthermore, it is obligatory on India to provide facility for protection of trademarks in respect of ‘services’ under the Paris Convention [Article 1(2) read with Art. 6] and for registration under the TRIPS Agreement [Article 15(4)] of which India is a member. The Act of 1999 contains a comprehensive definition of the expression ‘services’ and provides for registration of trademark for services. The definition of trademark has become enlarged so as to include services, along with shape of goods as well as their packaging to keep in pace with the changing trends of the world. The

⁶⁰³ <http://www.altacit.com/pdf/23-The%20New%20Indian%20Trademark%20Act.pdf> last accessed 8/7/2014

⁶⁰⁴K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 8

definition of ‘certification mark’ has also been modified to include services.⁶⁰⁵ Service mark can be said to be a trademark that denotes a relation with services. Services mean services of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, etc.

1.7. REGISTRATION OF TRADE MARKS

Registration enables a registered proprietor⁶⁰⁶, that is, the one who has been entered in the Register of Trade Marks as proprietor of the trade mark for the time being to sue for infringement of registered trademark irrespective of the fact whether it is used or not used. No action for infringement lies in case of unregistered trade mark. According to section 27 of the Act, it is clearly provided that no person is entitled to institute any proceeding to prevent, or to recover damages, for, the infringement of an unregistered trade mark, but recognizes the common law rights of the trade mark owner to take action against any person for passing off goods as the goods of another person or as services provided by another person or the remedies thereof⁶⁰⁷.

1.8. REGISTERED PROPRIETOR

Registration of a mark confers upon the user a monopoly right over the use of the mark. Registration will ensure that the owner has exclusive rights over the mark. Registration provides rights to the registered proprietor of the trade mark to use the trade mark in relation to the goods or services in respect of which the trade mark has been registered. Registration also enables the proprietor to obtain relief in case of infringement or unscrupulous use of the trade mark.

⁶⁰⁵ *The Trade Mark Act, 1999* S. 2(1)(e)

⁶⁰⁶ *The Trade Mark Act, 1999* S. 2(1)(v)

⁶⁰⁷ Dr B.L Wadhera, *Law Relation to Intellectual Property*, 5th Edition, p162

In *NR Dongre v Whirlpool Corporation*⁶⁰⁸, the Delhi High Court observed that according to section 28(1) of the Trade Marks Act, 1999, registration of a trademark gives exclusive right to use the same in relation to the goods in respect of which it has been registered. The Delhi High Court in *Rana Steels v Ran India Steels Pvt Ltd*⁶⁰⁹ stated that registration of a trade mark gives to the registered proprietor of the trade mark the exclusive right to the use of the trade mark 'in relation to goods and services in respect of which the mark has been registered' and to obtain relief in case of infringement of the trade mark in the manner provided in the Act. Registration of Trade Mark under the Trade Marks Act, 1999 gives statutory rights and infringement of it can invite an action for Infringement. However, even the unregistered marks are also protected as the Act itself provides that an action of passing off remedy is available for unregistered trademark.

2. THE FUNCTION OF TRADE MARK PROTECTION

Traditionally the justification of trademark protection has been to protect the trademark's function as an indicator of origin of the goods and services to which it attaches.⁶¹⁰This protection warrants both the benefit of the proprietor as well as the quality of the product.

In the case of *Bristol-Myers Squibb v Paranova* (1996), it was held by the Advocate General that: 'In so far as the trade mark protects the interest of its proprietor by enabling him to prevent competitors from taking unfair advantage of his commercial reputation, the exclusive right conferred on the proprietor are said, in the language of the Court's case law, to constitute the specific subject matter of the trade mark. In so far as the trade mark protects the interest of consumer by acting as a guarantee that all goods bearing the mark are of the same origin, this is known in the Court's terminology, as

⁶⁰⁸ AIR 1995 Del 300

⁶⁰⁹ (2008) 37 PTC 24 (Del), p34

⁶¹⁰ Jennifer Davis, *Intellectual Property Law*, 4th edition, p 200

the essential function of the trade mark. These two aspects of trade mark protection are of course two sides of the same coin.⁷

2.1. INFRINGEMENT OF REGISTERED TRADEMARK

An infringement action is based on invasion of the statutory rights.⁶¹¹ Infringement can be said to occur whenever any person other than the registered proprietor uses such a mark with intent to defraud in the course of his trade. The infringing mark may be identical with or deceptively similar to the registered mark and in relation to the goods or services in respect of which the mark is registered.⁶¹² Consequently, if the use of the mark in a manner not likely to indicate the trade origin, it may not attract the cause of action for infringement, which was held in the *Ox-cart*⁶¹³ case. Section 29 of the 1999 Act deals with infringement of trademarks and enumerate certain ways in which an infringement can take place. Under section 27(1) of the Act, it is provided that a person shall be entitled to initiate legal proceedings to prevent or recover damages for the infringement of a registered trademark.⁶¹⁴ Under section 28 of the Trademark Act, 1999, it is provided that, the proprietor of a registered trademark is the exclusive owner of the same and is entitled to obtain relief in case of infringement. Trademark infringement generally contains the issues of

- Likelihood of confusion
- Deceptive marks

⁶¹¹ VK Ahuja, *Intellectual Property Rights in India*, Vol 1

⁶¹² K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 392

⁶¹³ *Edward Young & Co. Ld v. Grierson Oldham & Co. Ltd.*, (1924) 41 RPC 548

⁶¹⁴ http://www.academia.edu/3158701/Passing-Off_and_Infringement_of_Trademark_in_India, last accessed 24/2/2014

- Identical marks
- Dilution of marks

2.2. LIKELIHOOD OF CAUSING CONFUSION

Traditionally it was held that there can be an infringement of a trade mark only when there is a likelihood of confusion as to the origin of the trade mark.⁶¹⁵ The object of affording protection to a mark, which has acquired a degree of distinctiveness, is to protect the goodwill of the trader, and at the same time assure the public and customers about the constancy of the nature of services or products they seek.⁶¹⁶ If there is no similarity of goods and services then the question of likelihood of confusion does not arise. It is not sufficient if one mark merely leads to a likelihood of recall of the other mark.⁶¹⁷ Whenever two marks are identical, there is a prima facie case of infringement due to confusion. But there are situations where the marks are not identical but are nearly similar. In those cases, the plaintiff has to establish that the mark is identical enough to cause confusion in the minds of the buyer and hence would be misleading. There needs to be an element of resemblance, so strong to cause a deception in the minds of the buyers. The ultimate judge of similarity is the consumers who would be misled into distinguishing between two marks and hence failing to compare the two.

Read with principles of section 11 of the Trade Marks Act, 1999

Registration of a mark which is merely reproduction or imitation of well known trademark should not be allowed.

⁶¹⁵ *Kearly's Law on Trade marks and Trade Names*, Sweet and Maxwell, 2001, p 360.

⁶¹⁶ *Evergreen Sweet House v. Ever Green and Others* (2008) 38 PTC 325 (Del), p 330

⁶¹⁷ *Baywatch Production Co Inc v The Home Video Channel* (1997) FSR 22

Section 11(2)(b)⁶¹⁸ seeks to provide that where the goods or services are not similar and the use of trade mark identical with or similar to an earlier trade mark without due cause would take unfair advantage of or be detrimental to the distinctive character or repute of the earlier trade mark, shall not be registered.⁶¹⁹ With respect to section 11 of the Act, the most important criteria are that there should be similarity with likelihood of confusion on the part of the public.

Section 11(2) of the Trade Marks Act, 1999

This sub-section is directed specifically to cases where the proposed mark is identical with or similar to the earlier trade mark, but where the goods and services are not similar. Further, the reputation of an earlier mark is an essential requisite in the context of sub-section (2), which is not called for in respect of sub-section (1)⁶²⁰

Section 5(3) of the UK Act provides “extensive protection to those trademarks which have a reputation...by specifying particular circumstances in which protection enjoyed by an “earlier trade mark: may be taken to extend to cases of same or similar mark”. The test laid down in section 11(2) to determine confusion is showing that the use of the latter mark is without due cause and would take unfair advantage of or be detrimental to, the distinctive character or repute of the earlier trade mark. This test is to protect marks with a reputation.⁶²¹

Unfair Competition leading to deception in the minds of public.

⁶¹⁸ *The Trade Mark Act, 1999 S. 11(2)(b)*

⁶¹⁹ K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 170

⁶²⁰ K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 196

⁶²¹ K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 197

Section 11 lays down that the existence of likelihood of confusion on the part of the public, which in other words means perception of the marks in the minds of the average consumer of the type of goods or services in question, which plays a decisive role in the matter.⁶²² The provision of section 11(2) has to be construed in the broader context of the law of unfair competition. “The unauthorized use of trademark for a competing product not only constitutes undue exploitation of the trademark owner’s goodwill, but also deceives the public as to the commercial origin of the product (and hence its characteristics)⁶²³

2.3. JUDICIAL APPROACH

To ensure the buyer that the product he intends to buy is the actual product he has his preferences in and not a different product. To clarify to the buyers regarding the source and origin, the appropriate action is to ascertain that there is no confusion in the minds of the people.

In the case of *Montblanc Simplo-GMBH v New Delhi Stationery Mart*⁶²⁴, Delhi High Court held that since both the marks are used in respect to identical goods, this court, then needs to determine whether the defendant’s adoption is likely to cause confusion in the minds of the public. It is not necessary to prove actual confusion or damage, it is sufficient if likelihood of confusion is established.

In the case of *SBL Ltd. V. Himalaya Drug Co.*⁶²⁵, The court quoted *Halsbury’s Laws of England*⁶²⁶ on establishing ‘likelihood

⁶²² *SABEL v. Puma, Rudolph Dassler Sport*, [1998] R.P.C 199, (paras 16 & 17)

⁶²³ K.C Kailasam, Ramu Vedaraman *Law of Trade Marks and Geographical Indications*, 1st Edition, p 199

⁶²⁴ (2008)38 PTC 59 (Del), pp. 68-69

⁶²⁵ AIR 1998 Del 126

⁶²⁶ *Halsbury’s Laws of England*, 4th edition, vol 48, para 163

of confusion of deception'. In this case, two factual elements were laid down:

- That a name, mark or other distinctive feature used by the plaintiff has acquired a reputation among a relevant class of persons
- That members of that class will mistakenly infer from the defendant's use of a name, mark or other feature which is the same or sufficiently similar that the defendant's goods or business are from the same source or are connected.

2.4. DECEPTIVE MARKS

A deceptive mark can be said to be such a mark which is likely to cause confusion in the minds of the buyer. The most important deciding factor while taking "Deceptive Marks" into account is that the general public with average intelligence is confused so as to the source of the product. The most important test is to look for an overall similarity. The expression 'likely to deceive' is a question largely one of first impression. It is not necessary to prove intention. It is sufficient if the Court comes to the conclusion it is likely to deceive and that conclusion must be based partly on evidence and partly upon the appeal to the eye of the judge.⁶²⁷

Deception can arise with regard to⁶²⁸:

- Deception as to goods
- Deception as to trade origin

⁶²⁷ *H.C Dixon & Sons Ltd. V. Geo Ribardson & Co. Ltd* 50 RPC 36, p 374

⁶²⁸ *Vikram Stores v. S.N. Perfumery Works*, 2008 AIHC(NOC)494(Guj)

- Deception as to trade connection

2.5. DILUTION OF TRADE MARK

Dilution of trade mark is basically weakening the trade mark by decreasing the value of the same. If another user adopts a near similar mark in respect to the same good, it will end up hurting or debasing the actual value of the trade mark.

In *Catterpillar Inc V Mehtab Ahmed and Others*⁶²⁹ it was held by Delhi High Court that, in case of doctrine of dilution, there is presumption that the relevant customer starts associating the mark or trade mark with a new and different source. This affects the link between the mark of the prior user and its goods. That is, the link between the mark and the good is blurred. This is not a fair practice that is expected in trade and commerce.

Dilution by tarnishment

It is always with the regard to well recognized, strong and famous trademarks which has the effect of diminishing or weakening the strength and identification value of the trade mark. It is done by sullyng or impairing the distinctive quality of a trade mark of a senior user. Some potential users may be confused and deceived so as to the source or affiliation while others may not be.

Dilution of trademark

It is different from traditional infringement. Infringement laws are designed to protect consumers whereas dilution statutes protect owners. A dilution claim is not based on infringement or deception. It is based on value of trademark to its owner, which has been termed the mark's 'commercial magnetism'.⁶³⁰Tarnishment is subsumed under the term

⁶²⁹ (2002) 25PTC 438 (Del)

⁶³⁰ VK Ahuja, *Intellectual Property Rights in India*, Vol 1, p. 432

‘dilution’. Trademark tarnishment not only blurs a mark’s distinctiveness but also mars a marks positive associational value.

Passing off

As Lord Halsbury has rightly put, “nobody has any right to represent his goods as the goods of somebody else”⁶³¹. The doctrine of passing off saw its inception to meet a landmark case that aid that nobody can sell any others products under the guise that it belongs to him⁶³². The Indian Trademarks Act, 1999 under section 27 recognizes the common law rights of the trademark owner to take action against any person for passing off his goods as the goods of another person or as services provided by another person or the remedies thereof⁶³³. The first instance where passing off was explained was in the case of *Singer Manufacturing co v Loog*⁶³⁴. Though initially it was only restricted to representation of one’s goods as another, it has undergone a sea change. The concept has now extended to profession as well as non trading activities as well as various forms of unfair trading where such activities causing damage or injury to the goodwill associated with the activities of another⁶³⁵ In the case of *Erven Warnink BV v J Tonnend & Sons (Hull) Ltd*⁶³⁶, Lord Diplock stated essential characteristics of a passing off action in the following words:

1. Misrepresentation, 2. Made by a person in the course of trade 3. To prospective customers of his or ultimate consumers of goods or services supplied by him 4. Which is calculated to injure the business or goodwill of another trader

⁶³¹ *Reddy v Banham*(1896)A.C. 199 p 204

⁶³² Wadlow, *The Law of Passing off*, 3rd edition, 2003

⁶³³ V.K Ahuja, *Law relating to Intellectual Property Rights*, chapter 26, p 271

⁶³⁴ (1880)18 Ch D 395

⁶³⁵ *Bata India Ltd v Pyare Lal & Co* AIR 1985 All 242

⁶³⁶ (1980)RPC 31

5. Which causes actual damage to a business or goodwill of the trader by whom the action is brought or (in a *quia timet* action) will probably do so.⁶³⁷ That nobody can represent his goods as the goods of another also included representation of services and defendant may also be liable for passing off one class of the claimant's goods as another⁶³⁸. This may constitute of misappropriating the claimant's mark, business name or get-up, or he may simply supply his own goods when he receives an order for the claimant's⁶³⁹ The seriousness of such an act lies in the very formulative and basic reasoning that the claimant would traditionally lose out on competition as well as his customer base would be weakened. The likelihood of future injury would be sufficient to cause a passing off action because the property in question is the goodwill, hard work and reputation of the claimant. The aim of Common law in protecting through passing off is goodwill between the trader and his customers which the mark helps to sustain; there is no property in the name as such.⁶⁴⁰ The action against passing off is based on the principle that "a man may not sell his own goods under the pretence that they are the goods of another man."⁶⁴¹ It is an unfair competition where one person tries to profit from the reputation of another in a business or commercial endeavor. Passing off is not a proprietary right in the name or the get-up, which has been misappropriated by the defendant⁶⁴². In case of passing off, there is no statutory protection and is completely based on goodwill and reputation of the business.

⁶³⁷ (1980) RPC 31, p. 39

⁶³⁸ Carty, in Dawson and Firth(eds), *Perspective on Intellectual Property*, Vol. 7(2000) 31

⁶³⁹ *Bostitch v McGarry*(1964) R.P.C 173

⁶⁴⁰ *Harrods v Harrods(Buenos Aires)* (1999) F.S.R 187, CA

⁶⁴¹ *N. R.Dongre v. Whirlpool Corporation*, (1996) 5 SCC 714

⁶⁴²

<http://www.majmudarindia.com/pdf/Protection%20of%20unregistered%20trademark.pdf> last accessed 2/4/2014

Section 3(a)⁶⁴³ enacts that a trademark shall not be registered if its use in India is liable to be prevented by virtue of any law, particularly the law of passing off. The essential element of passing off is that there has to be a misrepresentation, which is likely to lead to damage.

The registration of trademark is irrelevant in case of passing off action. Priority is given more to adoption and use of the trade mark and not on the registration. Generally, protection against passing off is granted where the parties are engaged in the trade of the same or similar products or closely related products and services.⁶⁴⁴ In an action for passing off, the motive of the defendant is not important. Once reputation is established by the plaintiffs, no further proof of fraudulent intention on the part of the defendants is required to be proved or established.⁶⁴⁵ Misrepresentation and loss or damage of goodwill is also essential elements for a successful passing off action.

The relief available in suits for passing off includes an injunction restraining further use of the mark, damages, an account of profits, or an order for delivery of the infringing labels and marks for destruction or erasure.

Passing off under US LAW

Section 1125 of Chapter 22 of Title 15 of the US Code forbidding false designations of origin, false description and dilution would cover cases of passing off. A civil action can be initiated against acts of passing off, action against acts in nature of dilution of famous marks.

Passing off one's own goods or services as those of another:

⁶⁴³ *Trade Marks Act, 1999*, Section 3(a)

⁶⁴⁴ *Rob Mathys v. Synthes*, 1997 PTC 669 (Del)

⁶⁴⁵ *Kirloskar Proprietary Ltd. v. Kirloskar Dimensions Pvt. Ltd.*, AIR 1997 Karnataka 1

The act of passing off one's good in another name is close to the act of infringement of trademark. Passing off is the tort of using the trade marks, trade names and such other descriptions to pass off one's own good or services as those originating from the registered proprietor.⁶⁴⁶ . The rights available against passing off isn't the same as those against infringement, since the remedies available in case of passing off is under the umbrella of Common Law. In case of Passing off, no statutory right of the owner is breached, whereas the only test to determine passing off action is whether the goodwill of the owner has been affected or not. Passing off is nothing but an encroachment on the goodwill built by the affected party. The act of passing off can be established whenever the loss on exploitation of goodwill can be proved since reputation and goodwill is a prerequisite for an action against passing off. The few factors that needs to be taken into account while deciding a passing off case were laid down in the case of *Cadila Healthcare Limited v. Cadila Pharmaceuticals Limited*⁶⁴⁷. Supreme Court in the above mentioned case held that, in case of deciding passing off action in case of deceptively similar marks, the factors that need to be considered are:

The nature of marks, that is both in case of word and label marks

- The degree of resemblance between the marks, phonetically similar and hence similar in idea
- The similarity in nature, character and performance of goods
- The nature of goods in respect of which they are used as trademarks

⁶⁴⁶ T. Ramappa, *Intellectual Property Right Law in India*, p 240

⁶⁴⁷ (2001)5SCC 73, Appeal(civil) 2372 of 2001

- The mode of purchasing the goods or placing orders for the goods⁶⁴⁸

The importance to reputation acquired by a tradename was held in the case of *Teju Singh v. Shanta Devi*⁶⁴⁹. The Court held that the goodwill acquired and the reputation owned by a trade name were important tests to be applied in the case of passing off.

2.6. THE TRADEMARK ACT: AN UNDERSTANDING

Section 27 of the Trade Marks Act provides that no infringement action will lie in respect of an unregistered trademark, but it recognizes the common law rights of the trademark owner to take action against any person for passing off goods as the goods of another person.

Sub-section 2 of the above mentioned section says that passing off action is not barred. This sub section clearly saves the rights of action against any person passing off goods.⁶⁵⁰ In case of a registered trademark, it gives an assurance of quality of the product as well as affords a better protection of the mark. In case of an unregistered trademark, the proprietor cannot sue for infringement actions as according to section 27(1) of the said Act.⁶⁵¹ An action for passing off is independent of the registration of the mark. Priority in adoption and use of trade mark is superior to priority in registration. The action cannot be infringement and can only be by way of passing off goods as the goods of another person or the remedies in respect thereof⁶⁵²

Constituents of passing off:

⁶⁴⁸ AIR 2001 SC 1952

⁶⁴⁹ AIR 1974 Andhra Pradesh 274

⁶⁵⁰ Rama Sarma, *Commentary on Intellectual Property Law*, Edition 2009, vol 2, p 2208

⁶⁵¹ *Trade Marks Act, 1999*, Section 27(1)

⁶⁵² AIR 1986 Del 329

In case of passing off, no actual deception or any actual damage be proved⁶⁵³. It is enough that the get up of a product is similar to another product and is enough to cause confusion in the minds of the general public. An element of deceit forms a strong case of passing off. Though there is no special need to mention deceit or establish actual deception, but whenever there is a scope for apprehending deception, the action for passing off is maintainable⁶⁵⁴ The action for passing off is a common law remedy unlike infringement action which is a statutory remedy.

The registration of the trademark prior in point of time to user by the plaintiff is irrelevant in an action for passing off. The proof of actual damage or fraud is also unnecessary in a passing off action. Whenever there is a likelihood of the offending trademark invading the proprietary right, a case for temporary injunction is made⁶⁵⁵

The length of the user is irrelevant, that is there is no fixed period of time provided for which exclusive prior use must be established⁶⁵⁶

In a suit for injunction to restrain the defendant from passing off goods as those of the plaintiff, the average purchaser to be taken into account for deciding the resemblance between the two marks is one who has perfect recollection of those trade marks⁶⁵⁷

To prove passing off, the most important element is to show that the goods of the plaintiff and the defendant are sufficiently alike and the goods sold by the defendant are so

⁶⁵³ AIR 1970 SC 1649

⁶⁵⁴ (2001) 91 Del LT 321

⁶⁵⁵ AIR 1984 Del 441

⁶⁵⁶ AIR 1986 Del 245

⁶⁵⁷ ILR(1962) Mad 209

similar to the plaintiff's goods as to be calculated to lead to deception⁶⁵⁸

Issues to prove passing off:

1. The name or description of the wrongful user of which the plaintiff complains, come to be associated in the public mind with the goods, business or works of the plaintiff
2. The goods are so misleading so as to cause the public into believing that they are acquiring the plaintiff's goods when in fact they are acquiring the defendant's goods.

Tests to determine entitlement to injunction⁶⁵⁹

Whether the words used in the trade name of the plaintiff were descriptive words of common use or have they come to acquire a distinctive or secondary meaning in connection with the plaintiff's business.

Whether there is a reasonable probability that the use of the name adopted by the defendant was likely to mislead the customers of the plaintiff by reason of similarity of the two trade names.

2.7. RELIEF

Relief can only be granted in case of passing off if it can be proved that the defendant has done something which is calculated to deceive. It is very essential to show that there has been a false representation. The plaintiff must show that the defendant has used the mark on the goods or in connection with them and that the mark has attained an association in the minds of the public. ⁶⁶⁰

⁶⁵⁸ ILR(1944) Lah 171

⁶⁵⁹ AIR 1981 AII 421

⁶⁶⁰ ILR(1938) Mad 466

2.8. DISTINCTION BETWEEN INFRINGEMENT
ACTION AND PASSING OFF:

1. Passing off is a common law remedy, whereas an infringement is an action for deceit.

2. Statutory remedy is the right kind of relief available in the case of registered proprietor of a registered trademark, whereas the rights available in case of an unregistered trademark is passing off.

3. The use of the mark by the defendant of the trademark of the plaintiff is not essential in any action for passing off, but it is *sine quo non* in case of infringement. An action for infringement takes place when the mark of the plaintiff has been used by the defendant.

4. The defendant may escape liability if he can show that the added matter is sufficient to distinguish his goods from those of the plaintiff.⁶⁶¹

⁶⁶¹ AIR 1965 SC 980

**INDIA'S PREDILECTION FOR SOCIAL WELFARE
OVER INVENTORS' RIGHTS: AN ANALYSIS IN
THE LIGHT OF THE MONSATO CASE**

Sanjana Chowdhry* and Shweta Singh**

Abstract

The growing use of patents to protect innovations in plants, as a result of the obligations arising from the TRIPS Agreement is drastically transforming the paradigm related to food sovereignty of nations. The TRIPS Agreement provides WTO Members with flexibilities for implementing its provisions in ways that are consistent with their agriculture and food policy objectives. These flexibilities were recently traversed by India in the case of Monsanto Technology LLC. v The Controller of Patents and Designs and The Deputy Controller of Patents and Designs (IPAB). This case comment seeks to analyse the judgement delivered in the abovementioned case in order to discern India's approach towards striking a balance between promoting food security and social welfare on the one hand, and the granting of exclusive rights on plant varieties through IP, on the other. On close scrutiny, the author finds that the Indian approach is neither the fully Westernized panacea hoped for by its pro-TRIPS advocates nor the unmitigated disaster for the Indian public predicted by its fiercest critics and thus succeeds in this delicate balancing of interests. The decision sets the bar high for qualification of a product as an invention and thus protects the agriculture sector from monopolisation by mammoth multinationals with ulterior interests while simultaneously sheltering the farmers from exploitation. In conclusion, this case comment, by analysis finds that the instant decision deserves to be lauded for demonstrating a

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fierce and unerring approach that has the potential to set a precedent for all developing nations.

1. INTRODUCTION

Arguably, the most notorious requirement of the Trade Related Intellectual Property Rights Agreement (TRIPS)⁶⁶² is that Article 27.3(b), requires that members ‘shall provide for the protection of plant varieties either by a patent or by an effective *sui generis* system or by any combination thereof’. Article 8 of the Agreement⁶⁶³, in enunciating the principles which are to animate it, provides that ‘consistent with the provisions of the Agreement’, signatories may, ‘adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development’.⁶⁶⁴ Thus it is a logical corollary that the obligation to protect plant varieties might be inconsistent with a given nations’ need for food security. Developing countries argue that because the needs and interests of their countries are different than those of developed countries, they should have flexibility in enacting intellectual property regimes that offer the proper balance for their individual situations. The debate about balancing strong IPRs and farmers rights is especially important to India given its dependence on agriculture sector.

Thus, the patentability of plants and plant varieties is one area of interface between intellectual property rights and national interest, that evokes passionate responses from both sides of the divide and renders judicial pronouncements on this point highly crucial. The recent decision of the Appellate Tribunal in, *Monsanto Technology LLC. v The Controller of Patents and Designs and The Deputy Controller of Patents and Designs* (IPAB)⁶⁶⁵,

⁶⁶² *The Trade Related Intellectual Property Rights Agreement* (adopted 15 April 1994, entered into force 1 January 1996) 1869 U.N.T.S. 299 [hereinafter TRIPS Agreement].

⁶⁶³ *Ibid*

⁶⁶⁴ *Id.* Article 8.

⁶⁶⁵ *Monsanto Technology LLC. v The Controller of Patents and Designs and The Deputy Controller of Patents and Designs* (IPAB) Order No. 146 of 2013 [hereinafter *Monsato Case*]

being a first on this issue, is a welcome step in India's patent law jurisprudence. Generating widespread interest, it is hailed by the legal fraternity and social activists as a landmark judgment, finally defining the correct position of law with respect to the patentability of plants.

This case note seeks to examine the issues that arose in the *Monsato Case*, and how they were dealt with by the Appellate Tribunal. For this purpose, the note first traces the history of the case which includes a scrutiny of the facts and then proceeds to analyse the manner in which it was dealt with by the Appellate Tribunal. Subsequently, the author would strive to acquaint the reader with the ensuing impact of this decision by way of a careful perusal of the decision.

1.1. THE BACKGROUND OF THE CASE

For centuries, Indian farmers have used ingenious methods, handed down from generations to create salt-resistant seeds for seasons when the oceans flood the country's farmland and cold-resistant seeds for years when it's too cold to grow regular crops.

Though lately at the behest of multi-national corporations like Monsanto, the global government have passed laws that has taken away the rights of naturally altered seeds from the public domain and handed them over to corporations. Furthermore in 2003, the WTO forced India to revise its patent laws to consent to corporate ownership of entire plant and animal species.⁶⁶⁶

⁶⁶⁶[Paromita Pain](http://www.truth-out.org/news/item/18337-battling-farmers-demand-end-to-gmo), 'Battling India's Monsanto Protection Act, Farmers Demand End to GMO' (2013) *Occupy.com*, available at [http://www.truth-out.org/news/item/18337-battling-](http://www.truth-out.org/news/item/18337-battling-farmers-demand-end-to-gmo)

India refused to allow patents on animals, but agreed for corporate ownership of plants. The omission of 'plants' from section 3(i) implied that a modification of a plant could now be counted as an invention and hence be patented. Consequently, Monsanto could have Bt cotton patents in India. The Amendment of 3(i) of Indian Patents Act, 1970 was termed as 'Monsanto Amendment.'⁶⁶⁷ Thus began India's long and contentious history with Monsanto, the multinational Ag-biotech Corporation.

Since then almost 270,000 farmers have committed suicide. Most of these suicides are from the cotton belt, and Monsanto controls 95% of cotton seed supply through its GMO Bt cotton. Monsanto has taken over 1000 patents on Climate Resilient crops already.⁶⁶⁸

Recently⁶⁶⁹ Monsanto sought to patent its '*Methods of Enhancing Stress Tolerance in plants and methods thereof,*' and '*A method of producing a transgenic plant, with increasing heat tolerance, salt tolerance or drought tolerance.*' Monsanto filed patent application No.2407/DEL/NP/2006 on 01/05/2006.⁶⁷⁰ However the patent application was rejected by the Patent Office. The company subsequently preferred an appeal in the

[indias-monsanto-protection-act-farmers-demand-end-to-gmo](#)
(last accessed 13 April 2014).

⁶⁶⁷Vandana Shiva, 'The Real Reasons for the Second Amendment of the Indian Patent Act' (2011) greens.org, available at <http://www.greens.org/s-r/30/30-19.html> (last accessed 12 April 2014).

⁶⁶⁸P.K Vishwanathan, N. Lalitha, 'India's Experience with Bt. Cotton' (2012) isid.ac.in, available at <http://www.isid.ac.in/~bharat/Research/tripp.pdf> (last accessed 10 April 2010).

⁶⁶⁹ May 1, 2006 (priority date of Sept. 29, 2003)

⁶⁷⁰ <http://www.iilt.in/pdf/files/Patents-Act-1970.pdf> (last accessed on 10th April 2014)

Appellate Tribunal praying for reversal of the Patent Office's decision and grant of patent.

1.2. SUBJECT MATTER OF PATENT APPLICATION

At the outset the application claimed (a) recombinant DNA (rDNA) molecule encoding a specific cold shock protein (CSP) (b) steps for inserting the rDNA into plant cells and (c) transgenic plants expressing CSP.

This invention relates to technique of increasing the biotic and abiotic stress tolerance of plants, which is of use for farmers as it reduces their losses. The method disclosed in the patent accomplishes the objective by expressing a cold shock protein(s) within the cells of said plant, or in elementary terms, by altering the cellular structure of plants.

Later, Monsanto restricted the scope of the application to '*A method of producing a transgenic plant with increased Heat Tolerance, Salt Tolerance, or Drought Tolerance*'. The claims on proteins of the 'cold shock domain' responsible for the cold tolerant properties and the resultant stress resistant plants were excluded.

1.3. CONTENTIONS RAISED BY THE APPELLANT

I. In its attempt to persuade the IPAB (Intellectual Property Appellate Board) to reverse the controller general's decision Monsanto had made 20 claims in its original application. Monsanto claimed that the prior art had been wrongly assessed and submitted various test results to refute the obviousness claim.

During the proceeding, Monsanto admitted that as of the priority date of its application, quite a number of eukaryotic and plant stress related genes were already known and had been identified in the art. However, Monsanto argued that a person trained in the art would have used eukaryotic genes to produce stress tolerant plants rather than bacterial genes as the expression of bacterial genes in plants is unforeseeable.

Consequently, on the priority date of the application, the prior art taught away from methods of producing stress tolerant plants by incorporating bacterial genes (whose function, even in the bacterial system, was unclear). And so, according to Monsanto, one skilled in the art had no reason to resort to a bacterial system for such genes.⁶⁷¹

II. Monsanto claimed the method was not a ‘new use’ of a known process but instead it involved a ‘new product’ (a transgenic plant) that altered with the prokaryotic cold stress gene that exhibited heat, salt and drought tolerance. Therefore they argued that their invention did not fall under the ambit of Section 3(d) of the Act.⁶⁷² Monsanto further argued that it had submitted ample data signifying the superiority of the new plants when compared to wild type exposed to the similar conditions of heat, salt or drought tolerance.⁶⁷³

⁶⁷¹[Latha Jishnu](http://www.downtoearth.org.in/content/saying-no-monsanto.html), ‘Saying no to Monsanto’(2013) [downtoearth.org.in](http://www.downtoearth.org.in), available at <http://www.downtoearth.org.in/content/saying-no-monsanto.html> (last accessed 13 April 2014)

⁶⁷²*The Patents Act, 1970 s. 3(d) (the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant. Explanation.—For the purposes of this clause, salts, esters, ethers, polymorphs, metabolites, pure form, particle size, isomers, mixtures of isomers, complexes, combinations and other derivatives of known substance shall be considered to be the same substance, unless they differ significantly in properties with regard to efficacy) [hereinafter Patents Act]*

⁶⁷³[Sai Vinod](http://spicyip.com), ‘3(d)-ed by IPAB, Monsanto denied patent on method of producing climate-resistant plants’ (2013) spicyip.com, available at <http://spicyip.com/2013/07/3d-ed->

III. The counsel for appellant submitted that the claims of the subject application do not fall within the scope of section 3(j) of the Patents Act as they do not constitute an essentially biological process. Monsanto tried to create an extraneous and false opposition of natural production of plants v. production based on human intervention. Monsanto argued that the production of transgenic variety involves 'substantial human intervention' in inserting the rDNA molecule into the plant cell and transforming the cell into climate resistant plant

They argued it is not possible to obtain the transgenic plants mentioned in subject application through processes which occur in nature and which do not involve human intervention. Even the selection step of the instant application does not involve 'natural selection'. Rather it is a step that entirely involves human intervention.⁶⁷⁴

1.4. ISSUES EXAMINED BY THE COURT

It can be broadly studied under three heads.

1.5. LACK OF INVENTIVE STEP

The Controller General had held that the structure and function of cold shock protein responsible for climate resistant is a 'known' and hence rejected the claim as obvious. The IPAB, rejected Monsanto's claims relying on prior art which demonstrated reasonable degree of predictability in employing CSPs in developing stress-resistant varieties. The Board agreed with the Controller findings that:

The claimed invention is related to production of transgenic plant by transformation with admittedly known cold shock protein. Claims do not define any invention under section

[by-ipab-monsanto-denied-patent-on.html](#) (last accessed 13 April 2014)

⁶⁷⁴*Ibid.*

2(1)(ja) of the Patents Act, 1970 as structure and function of cold shock protein was already known in cited prior art and it is obvious to person skilled in plant to make transgenic plant.⁶⁷⁵

1.6. SECTION 3(D): NEW USE OF KNOWN SUBSTANCE

The Board yet again rejected the Monsanto's arguments reiterating that the cold tolerant properties of CSPs were previously known. The Board held that the application in essence claims 'new use' of specific proteins from 'cold shock domain' for producing desired traits and therefore disqualified under Section 3(d)⁶⁷⁶.

The selection of particular proteins from 'cold shock domain' to attain better result in plants contributes merely to a new use of such substance. Mere application of an admittedly known substance is not allowed under section 3(d). The claim of 'surprising result' will not alter the position as it will be still be a new use of known substance even if it produces superior results. They agreed with the respondents observations i.e. "It is mere application of already known cold shock protein in producing cold stress tolerant plant and tolerant to heat, salt and drought conditions, claims fall within the scope of Section 3(d) of The Patents Act, 1970."⁶⁷⁷ Section 3(d)⁶⁷⁸ provides that a mere discovery of a new property of known substance is not considered patentable. A case in point can be

⁶⁷⁵*Monsato case, Supra* note 4.

⁶⁷⁶Vandana Shiva, 'Monsanto's Climate resilient plant patent rejected by India's Patent Office, Rejection upheld by the Intellectual Property Appellate Board' (2013) navdanya.org, available at <http://www.navdanya.org/news/360-monsantos-climate-resilient-plant-patent-rejected-by-indias-patent-office-rejection-upheld-by-the-intellectual-property-appellate-board> (last accessed 12 April 2014)

⁶⁷⁷*Monsato case, Supra* note 4.

⁶⁷⁸*Patents Act, Supra* note 11.

that of the *paracetamol*. It has antipyretic property. An additional discovery of new property of *paracetamol* as an analgesic cannot be patented.⁶⁷⁹

For instance use of *Aspirin*, originally an analgesic, for treatment of the cardio-vascular disease is not patentable. However, a new and different process for preparing Aspirin is patentable.⁶⁸⁰

The main objective of this section is to prevent pharmaceutical companies from obtaining patents on old medicines which are just a mere augmentation or trivial improvement of the known substances and also a refusal to the patent on discovery of new form or new use of old drugs. It is for the first time in this case, that section 3(d) has been applied to plant patents.

1.7. SECTION 3(j) - AN ESSENTIAL BIOLOGICAL PROCESS

Monsanto argued that the production of transgenic variety involves 'substantial human intervention'. The Controller, however, rejected the claim on the ground that the invention relates to essential biological process of regeneration and selection and hence ineligible as per Section 3(j)⁶⁸¹, and stressed Monsanto's application was not an invention but

⁶⁷⁹Suchi Rai, 'Innovation Going Turn Down' (2013) *lexology.com*, available at <http://www.lexology.com/library/detail.aspx?g=abf4f391-4e93-4489-9f74-d63ba4a73510> (last accessed 13 April 2014)

⁶⁸⁰*Ibid.*

⁶⁸¹*Patents Act, Supra* note 11, Article 3(j) (excludes from patentability 'plants and animals in whole or in any part thereof other than micro-organisms but including seeds, varieties, and species, and essentially biological processes for production or propagation of plants and animals')

based on many generic steps that are essentially biological , taken in sequence, still essentially biological.

The IPAB agreed with Monsanto's submission that the plant cell is altered as a result human intervention in the manner claimed in the application. To this degree, the Controller's findings were set aside. This is the first judgement citing section 3(j) that says plants and animals are not patentable.⁶⁸²

2. THE DECISION OF THE APPELLATE TRIBUNAL

The IPAB (Intellectual Property Appellate Board) [upheld](#) the decision of the Controller against grant of patent to Monsanto Inc. for a technique of producing plants which can endure harsh environmental conditions. They concurred with the Controller's findings on all counts except Section 3(j). The tribunal upholding the decision of the patent office refused to grant patent as it was found subject matter of claims lack inventive step in view of

(i) Willimsky Gerald Journal of bacteriology .Vol174,No 20 ,1992,6326-6335, and WO 90/09447and US 5470971.

(ii) Claims don't describe any invention under section 2(1)(ja) of the Patents Act, 1970 as composition and purpose of cold shock protein was identified in cited prior art and it is obvious to person skilled in plant to make transgenic plant.

(iii) It makes use of previously known cold shock protein in producing cold stress tolerant plant and tolerance to heat, salt and drought conditions. The claims fall within the scope of Section 3(d) of The Patents Act, 1970. ⁶⁸³

⁶⁸²Sanjay Vijayakumar, "Monsanto's Climate-Resilient Crop Patent Claims Rejected" *The Economic Times*, 10 July 2024 at p. 6.

⁶⁸³*Monsato case, Supra* note 4

2.1. IMPACT: A MILESTONE IN THE SAGA OF
FOOD SECURITY AND SEED SOVEREIGNTY

The decision in the *Monsato case* is a defining moment for India's patent regime and has far reaching implications towards strengthening India's food sovereignty and protecting it from the monopoly of profit motivated multinationals. Article 27.3 of TRIPS that mandates the protection of plant varieties is the genesis of the conflict between IPRs and food security. This was the most contested article during panel discussions⁶⁸⁴ where developing countries had strongly voiced their concern over the implications of this section. India has however been a frontrunner in fulfilling its obligations under TRIPS by enacting the Plant Varieties and Farmers' Rights Act 2001⁶⁸⁵ providing patent protection to plant varieties. However the present decision of the tribunal evinces that India's compliance with TRIPS was not at the cost of the welfare of its people.

2.2. AN EXHIBITION OF COMMITMENT TOWARDS
FOOD SOVEREIGNTY

According to Jeremy Bentham's principle of Utilitarianism, 'pain' and 'pleasure' are the sovereign masters under which every human being is bound.⁶⁸⁶ Every legislation should be capable of maximizing the pleasure and minimizing the pain of the subjects. The Benthamite perspective, instead of focussing on 'whose rights' or 'who deserves', thinks of the welfare of the largest number of people. This ideology of preferring national interest has been recognised in the

⁶⁸⁴Ashish Kothari, "Biodiversity and Intellectual Property Rights: Can the Two Coexist?", *Linkages Journal*, Vol. 4, No. 2, May 1999, pp. 142-4.

⁶⁸⁵The *Plant Varieties and Farmers' Rights Act*, 2001 (hereinafter Plant Varieties Act)

⁶⁸⁶Jeremy Bentham, *An Introduction to the Principles of Morals and Legislations*, Dover Publications, London, 2007.

Convention on Biological Diversity⁶⁸⁷ and the International Treaty on Plant Genetic Resources for Food and Agriculture⁶⁸⁸, both of which have been ratified by India. This decision cements India's position as a welfare state which has in the past been displayed through India's unique legislation, Plant Varieties and Farmers' Rights Act 2001,⁶⁸⁹ enacted to ensure India's compliance to TRIPS agreement.

Seed is the basis of the food chain, making seed sovereignty the foundation of food sovereignty. Seed sovereignty includes the farmer's rights to reserve, breed and trade seed, to have access to assorted open source seeds which can be saved and are not patented, genetically modified, owned and governed by emerging seed giants. Denial of this right means the denial of seed sovereignty and consequently of food sovereignty of the entire nation. Monsanto's patent application for climate resilient plant variety covers a extensive range of seeds, which includes soybean, barley, canola, oats, corn, rice, cotton, turf grasses, cotton and wheat making this patent very crucial for Monsanto as it could have enjoyed exclusive patent rights for all the seeds sold in India that used this technology.⁶⁹⁰ It is understood that climate resilient traits will become increasingly important in times of climate instability, thus

⁶⁸⁷*Convention on Biological Diversity* (adopted 5 June 1992, entered into force 29 December 1993) 1760 UNTS 79 (affirming a country's sovereignty over its biological resources and recognizing the need to conserve these resources).

⁶⁸⁸*International Treaty on Plant Genetic Resources for Food and Agriculture* (adopted 3 November 2001, entered into force 29 June 2004) AGP I0510, Article 1 (overall aim of the treaty is the promotion of sustainable agriculture and food security).

⁶⁸⁹The Plant Varieties Act, *Supra* note 17.

⁶⁹⁰Arjun Walia, 'Indian Government Rejects Monsanto's Climate Resilient Plant Patent' (2013) Collective Evolution.org, at <http://www.collective-evolution.com/2013/07/11/indian-government-rejects-monsantos-climate-resilient-plant-patent/> (last accessed 14 April 2014).

giving monopoly of such seeds to a multinational corporation would hamper India's food security prospects beyond repairable measures. With patents of such broad nature, corporations like Monsanto can prevent access to climate resilient seeds after climate disasters, because a patent would award them an exclusive right to manufacture, distribute and sell the patented product.

Thus, the decision of the patent office and appellate board must be applauded for its boldness and reaffirmation of India's stand to protect its' farmers rights and food sovereignty as it will have a positive impact on India's biodiversity, farmers' rights and food security.

2.3. THE CONSERVATION OF THE COMMON HERITAGE PRINCIPLE

In spite of the large formal agricultural system in India,⁶⁹¹ the majority of farmers depend on informal seed systems. The principle of 'Common heritage' or the principle of free exchange based on the view that the major food plants of the world are not owned by anyone and are a part of our human heritage governed genetic resources is the ageless belief in Indian agricultural practice. Consequently, formal sources (public and private sector) account for a minor proportion of the seed used by farmers. It is estimated that only about 1/10th of the total seed requirement of farmers in all crops is met by formal institutions. Traditional seed supply

⁶⁹¹World Bank Study 'The Growth of the Private Agricultural Sector in Developing Countries' (2001) Worldbank.org, *available at* <http://lnweb18.worldbank.org/oed/oeddoelib.nsf/DocUNIDViewForJavaSearch/EAA847661F5C30D1852567F5005D8C3D> (last accesses 10 April 2014) (there are more than 500 private seed companies, 24 of them with links to multinational seed companies, and many with their own hybrid development programs operating in India).

systems, on the other hand, are relied upon by 80 per cent of the farmers.⁶⁹²

The decision of the appellate tribunal in the present case is a sigh of relief to the farmers for a variety of reasons. Firstly, such a patent would reduce access to seeds and genetic resources to farmers and breeders in turn restricting their right of free exchange and saving of seeds. Secondly, it would also make seeds more expensive for the small farmers due to royalty payments and increased commercialisation. Once the seed is planted companies can compel the farmers to purchase new seed every year, and penalise them for saving seeds.⁶⁹³ Another danger to seed and seed sovereignty is genetic contamination of seed. India has lost its cotton seeds owing to contamination from Bt. Cotton.⁶⁹⁴ After contamination, Seed Corporations sue farmers with patent infringement cases, as happened in the infamous Canadian case of *Monsanto Canada Inc and Monsanto Company v Percy Schmeiser and Schmeiser Enterprises*.⁶⁹⁵ Also, the penalties

⁶⁹²Ministry of Finance, 'Economic Survey, 2005-06' (2006) indiabudget.nic.in, available at <http://indiabudget.nic.in/es2005-06/esmain.htm> (last accessed 10 April 2014).

⁶⁹³*Monsanto Co. v. McFarling* 302 F. 3d 1291 (Fed. Cir.2002.) (the case illustrates how (under US law) a farmer that saves a seed with patented genetic sequence faces patent infringement with severe fine impositions)

⁶⁹⁴Vandana Shiva, 'The Seed Emergency: Threat to Food and democracy' (2013) [aljazeera.com](http://www.aljazeera.com), available at <http://www.aljazeera.com/indepth/opinion/2012/02/201224152439941847.html> (last accessed 12 April 2014) (Also, Canada has lost its canola seed because of contamination from Roundup Ready canola. Mexico has lost its cotton because of contamination from Bt. Cotton).

⁶⁹⁵2001 FCT 256 (a Canadian Farmer Percy Schmeiser whose field was contaminated by genetically engineered canola has been asked to pay Monsanto around \$10,000 for licensing fees and up to \$75,000 in profits from his 1998 crop).

provided for patent infringement by the farmers, largely uneducated and unaware in the case of India, are very severe and harsh.⁶⁹⁶ The already indebted farmer could be forced to pay lakhs of rupees for infringement and face imprisonment.

Thus, if these laws and practices are transposed to India it will be a disaster for the poor farmers who primarily rely on farm saved seed and enter the market to purchase seeds once in five years and rely on the traditional age old practices of farming.

2.4. THE ENCOURAGEMENT OF CLARITY IN INDIAN PATENT LAW

India's patent law needs to be clear and reliable in order to effectuate the purpose of advancing innovation. The 2005 Amendment and Section 3(d)⁶⁹⁷ introduced considerable uncertainty into Indian patent law. Although Section 3(d)'s limitation on patenting derivatives of known substances is not without parallels in other patent regimes, the problem stems from uncertainty about how the India patent office and judiciary will interpret 'enhanced efficacy', as the 2005 Amendment⁶⁹⁸ does not define 'efficacy'.

Some clarity was obtained on this issue in the case of Novartis, this however is the first time Section 3(d) has been used on plant patents, and its implications are far reaching.

⁶⁹⁶D.S Wright, 'Monsanto loses case on Climate Resilient Crop' (2013) [firedoglake.com](http://news.firedoglake.com), *available at* <http://news.firedoglake.com/2013/07/10/monsanto-loses-patent-case-on-climate-resilient-crops/> (last accessed 12 April 2014) (according to a report by the Washington based Center for Food Safety, Monsanto had received over \$23.5 million from patent infringement lawsuits against farmers and farm business by end of 2012.).

⁶⁹⁷*Patents Act, Supra* note 11

⁶⁹⁸*The Patents (Amendment) Act, 2005*

Specifically, the Board stated that the ‘Mere use of [an] admittedly known substance is not permitted under Section 3(d).’⁶⁹⁹ The Board also stated that Monsanto’s evidence of ‘surprising’ results did not change the outcome because the invention would ‘still be a new use of [a] known [substance] even if it produces better results.’⁷⁰⁰ The judgement may set precedent for debates relating to GM crops, and the Biotechnology Regulatory Authority of India Bill⁷⁰¹ which is supposed to set rules for regulating such corps.

3. CONCLUSION

A successful intellectual property regime must strike a balance between creating incentives for innovation and protecting the national interest. The *Monsato case* is just a piece in a much larger puzzle. A patent system is meant to provide incentives for technical progress, and India may benefit from stronger patent protection. More and more domestic companies and multinationals are engaging in original research and such unfavourable decisions might discourage Research and Development and hamper innovation in the long run. India has demonstrated great commitment to the welfare of its people by maintaining an ardent stand on matters of Intellectual Property Rights by not succumbing to the pressures of mammoth multinationals and powerful foreign governments. The *Monsato Case* is to food security what the Novartis Case⁷⁰² was to public health.

In totality, in light of the above discussion, the observations made by the Appellate Tribunal in the instant case should be lauded. The decision is an attempt to prevent the practice of

⁶⁹⁹*Monsato Case*, *Supra* note 4.

⁷⁰⁰*Ibid.*

⁷⁰¹*The Biotechnology Regulatory Authority Of India (BRAI) Bill*, 2013

⁷⁰² *Novartis A.G. v. Union of India* (2007) 4 MLJ 1153

abuse of patents through biopiracy⁷⁰³, thus preventing monopolistic practices in the market. The tribunal has also laid down a very strict and high standard for the qualification of a product as an "invention", thereby emphatically upholding the principle of social welfare.

⁷⁰³Ikechi Mgbeoji, *Global Biopiracy: Patents, Plants, and Indigenous Knowledge*, UBC Press, Chicago, 2005 (Biopiracy is defined as The practice of commercially exploiting naturally occurring biochemical or genetic material, especially by obtaining patents that restrict its future use, while failing to pay fair compensation to the community from which it originates).