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Foreword

> *If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it.*
>
> \- Thomas Jefferson

It gives me great pleasure to present to you the second volume of the Indian Journal of Intellectual Property Law (IJIPL), a NALSAR University of Law publication. The journal has been conceived and guided under the leadership of the Patrons Justice Mr. U. C. Bannerjee and Prof. Veer Singh and Dr. V. K. Unni, the Editor-in-chief.

The Journal is a well endowed medium for communication between researchers, industry professionals and scholars related to the field of intellectual property. Its most striking feature that it is student run, providing a platform for the lawyers and scholars of tomorrow to interact and discuss issues on the subject.

The IJIPL enhances awareness about IP which, in India, remains a somewhat unexplored area of law. However it must not be forgotten that India is one of the most responsible members of the World Trade Organisation (WTO). Besides creating waves in global industry India has framed stringent laws for the protection of IPR in the country. In this light, it becomes extremely important to indulge ourselves in the exercise of looking at the legal, socio-political and economic consequences of Indian IP laws.

Unfortunately, legal research and legal writing in India always remains at the background and seldom comes to the fore. Writings on technical issues like IP are unknown to the masses and thus fail to become the backbone of lawmaking. This Journal is an endeavour to bring out the importance of legal writing and make it a factor guiding the process of law.

The Journal also provides a good blend of articles from scholars, lawyers and students. This makes it worthwhile and interesting to look at all the perspectives, giving the understanding of IP law a holistic outline. The articles and case comments also put forward the picture of the most recent controversies and lacunae in the law relating to all the fields of intellectual property.

A glance at the Advisory Panel would clearly indicate that the Journal seeks to create a blend of thoughts from people working in different areas of IP, providing a forum for everyone to voice their views, opinions and analysis of the existing situations; where the synthesis of thoughts for an IP regime on one hand and the left thought happens.

I wish this publication all the success in its future endeavours.

Justice C.K. Thakker
(Retired) Judge,
Supreme Court of India

Patron's Address

After the resounding success of the first volume, it gives me great pleasure to present the second volume of the Indian Journal of Intellectual Property Law, a NALSAR Publication. Proudly making new strides as an authority in the field of intellectual property law, this Journal continues to remain a student initiative ably guided by our patron, Mr. Justice U.C. Banerjee, an illustrious Advisory Panel and the Editor-in-Chief, Dr. V K Unni.

Whether in issues of research, innovation or creativity, the importance attached to intellectual property rights is indicative of the need for greater academic discussion and juristic writing about these topics. Thus, the prominence of the Journal only reflects the growing importance of intellectual property law in today's world.

Recognising the same, NALSAR University of Law has always remained a front runner in helping disseminate information as well as conducting courses in the subject. Apart from the complusory course that is taught to the students of the B.A., LL.B. (Hons.) course, the LL.M. programme as well as NALSAR-PRO, the proximate education course, all offer an in-depth study of the subject. Supplementing the same, this Journal in its second volume has undertaken a conscious effort to include a variety of upcoming and highly publicized issues, of which there has been little academic discussion within the country.

I congratulate the Editorial Board and all those involved in the publication, especially the patron Justice U.C. Banerjee and the Advisory Panel on publishing the second volume of the Journal, and wish them success in all their endeavours.

Prof. Veer Singh
Vice-Chancellor,
NALSAR University of Law,
July 2009

Editorial

The field of modern intellectual property lawmaking is one which is an odd confluence of restrictive public international law instruments and obligations coupled with national theoretical commitments that often depart radically from these norms. As a consequence, where public international law permits (knowingly or otherwise), national legislatures (especially those in developing nations) tend to honour these commitments even if they are opposed to the spirit of international law governing the field. The result is a constant stream of controversies in the field of intellectual property, which stem from the differences between international norms and national hesitation to apply them and are buttressed by developmental issues. Pharmaceutical patenting and patients' access to drugs; cross – border IP compliance; fair use / dealing of copyrights and protection of digital intellectual property are but a few of several such controversies which have plagued the field in recent times.

In such a scenario the goal of an uniform global IP regime, far from being realized, has become the source of chronic dispute between nations; usually between developing and developed nations. One *desirable* consequence of these conflicts is the high quality and large volume of academic debate and scholarship that they have generated. It thus becomes imperative that we create fora where such scholarship can be nurtured. This, along with the need for a dedicated Indian IP journal is the objective which motivates the Journal.

The first volume of the Journal generated extremely positive response from contributors as well as readers; this is evidenced by the overwhelming number of articles, essays and comments submitted for the present volume.

This Editorial is divided into three sections. The first section provides a brief overview of some significant developments which have taken place in the field of IP law during 2008 – 2009. The second briefly summarises the contributions to this volume of the Journal, while the third contains our expressions of gratitude to everyone who helped prepare and present the 2009 volume of the Journal.

Recent Developments in Intellectual Property Law: 2008–09

The year 2008 – 09 has seen numerous developments in IP. While it is impossible to cover all these developments in this Editorial, we attempt to cover the high (and low) points of IP development over the past year, with special emphasis on the Indian scenario.

Though the Indian Parliament has not passed any new legislation, it would be incorrect to say that there has been no legislative action with respect to IP. Simultaneously, it must be noted that courts and the Intellectual Property Appellate Board (IPAB) have been seminal in bringing about major developments in IP law during the year gone by.

In legislative developments, the most significant one would be the proposed amendment to Trade Marks Act, 1999. The Bill, introduced in Parliament on August 23, 2007 essentially proposes the incorporation of the Madrid Protocol into Indian trademark law and thus provides for a regime in which trademark applications are analogous to Patent Cooperation Treaty (PCT) filings.

The proposed introduction of an Optical Disc Law is noteworthy as, if passed, it would be the first government driven initiative in the field of anti – piracy measures. Under the Law a license would be a prerequisite for manufacturing Compact Discs (CD) or Digital Video Discs (DVD). In addition the Law would require a tracking code on each disk in order to make the discs traceable.

India's very own version of the US Bayh – Dole Act, 1980 is also in the pipeline. The Indian version, entitled Public Funded Research and Development (Protection, Utilisation and Regulation of Intellectual Property) Bill 2007, borrows heavily from the US Act and seeks to promote technology transfer by giving universities and research institutions ownership of patents resulting from state funded research.

A draft version of the National Innovation Act, 2008 was released in October 2008 and aims to provide a fillip to public and private innovation and also codifies the law related to confidentiality and trade secrets.

While legislations and policies are merely at the draft stage, developments in other fields of IP such as patent and copyright litigation, geographical indication (GI) and trademark registration have been numerous and concrete.

Patent litigation between auto giants Bajaj and TVS involving the "twin spark plug" technology saw a new chapter in May 2009[1] when the Madras High Court overruled a permanent injunction granted in favour of Bajaj in March 2008[2]. The recent judgment is a welcome one since Bajaj's case was flawed on grounds of novelty (TVS produced no less than three prior patents employing the same technology). It may also be argued that the balance of convenience in the matter was in favour of TVS, though this issue was not a

1 O.S.A. Nos. 91 & 92 of 2008.
2 MIPR 2008 (1) 217.

straightforward one, since both companies had invested heavily on products incorporating the technology and were expecting large profits from the same.

Pharmaceutical patenting was another big issue which was raised time and again before the courts. Interestingly, most of these litigations involved generic major Cipla. The generic manufacturer won successive disputes at the Indian Patent Office (IPO) and the Delhi High Court. The IPO dispute against California based Gilead revolved around the drug *Tamiflu* (considered to be one of the few treatments for viruses such as Swine Flu and Bird Flu). The IPO struck down the patent application on grounds of lack of inventive step based on the requirements of Section 3 (d) (which was also the basis of the *Novartis* case). In addition, the Appellate Bench of the Delhi High Court in April 2009 rejected, pharmaceutical major, Roche's plea of a restraining order against the manufacture of the drug *Tarceva* by Cipla. The drug, manufactured by Roche was priced at three times the cost of the drug marketed by Cipla, hence the Court rejected the plea on the basis of public interest and pricing and because Roche was unable to make out a prima facie case in its favour. Finally, as late as July 2009, the Indian Patent Appellate Board (IPAB) denied a patent to Novartis' *Glivec*. Employing a two – pronged reasoning, the IPAB, in a well reasoned order, held that while the claim was novel and inventive, it still failed to meet the "enhanced efficacy" criteria under section 3 (d). Furthermore, the Board also held that the cost of the drug was such that it was out of reach of the common man and hence denied the patent.

We find a trend emerging in the field of pharmaceutical patent litigation in India; two of the three matters mentioned have been decided in favour of the generic manufacturer, (at least in part) based on the reasoning of public interest and patients' access to medicines. In our opinion, this is another contentious area wherein national commitments and the international patent regime are at odds. The theme is further developed and discussed by Ms. Divya Subramaniam in her article entitled '*Resurrecting Roscoe Pound in Section 3 (d): The Glivec Governance*' and by Ms. Tabasum Wani in her article entitled '*Patients' Access to Pills: Fight between Generic and Brand – name Drugs Continues*'.

Bollywood has been treated to its fair share of copyright issues over the past year. Shah Rukh Khan blockbuster *Om Shanti Om* ran into turbulent waters when Ajay Monga filed a suit in the Bombay High Court claiming that the film was based on a script written by him, entitled *The Silent Movie*. Though the case awaits judgment, it is interesting to note that the Film Writer's Association has found a striking similarity between the first part of the movie and Monga's script. Sony BMG sued Tips for a staggering USD 451, 953 for infringing its copyrights in a tune composed by Wang Lee Hom. The case

Warner Bros v. Harinder Kohli & Others[3] is an interesting one, wherein the Delhi High Court held that the name "Hari Puttar: A Comedy of Terrors" was not an infringement of the trademark "Harry Potter". The decision lies on shaky ground since the Court dismissed the petitioner's plea on grounds of delay in filing, even though it seems obvious to all that the impugned film is attempting to cash in on the immense popularity of the trademark. It is also interesting to note that the Court chose to distinguish between the "cognoscenti" and the "illiterates" stating that since the former was the target audience, they could easily distinguish between the two films. The standard is an inappropriate one to follow considering the fact that the target audience was children below the age of 13 years. In April 2009 Warner Bros issued a public notice in a popular daily warning Bollywood against any attempt to remake its recent film *The Curious Case of Benjamin Button*. In addition, Aamir Khan starrer *Ghajini* was slapped with a suit for interim injunction on the eve of its release. The film, which is allegedly based on the Hollywood film *Memento*, faced trouble from the producer of its Tamil version.

It is extremely interesting to note the recent barrage of cases against Bollywood films and ask after the cause of this sudden upsurge in copyright litigation in India. While it is evident that the internationalisation of Bollywood might be a growing threat to other film industries, lets face it, Bollywood hasn't always maintained high standards of originality, so why this sudden surge in litigation? In our opinion this trend, coupled with issues of movie piracy, is a natural corollary of a globalised IP regime and is yet another field of IP law which can expect numerous disputes in the near future.

Copyright Societies were given reason to rejoice due to the decisions rendered in *Entertainment Network v. Super Cassettes Ltd.*[4] and *PPL v. Hotel Gold Ltd. and Others*[5]. The judgments (the former delivered by the Supreme Court and the latter by the Delhi High Court) provide a purposive interpretation to the Copyright Act, 1957 and employ the principle of agency in order to hold that copyright societies have the right to sue on behalf of their members under Section 34 of the Act.

While these two decisions go a long way in clearing issues about the rights of copyright societies, they leave a vital question unanswered – can such a society sue on behalf of its members if it is not the exclusive holder of the copyright? The Delhi High Court failed to answer the question so we will just have to wait till the issue is raised, in due course, before the courts.

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3 2008 (38) PTC 185 (Del).

4 2008 (37) PTC 353 (SC).

5 RFA (OS) No. 57 of 2008.

On the trademark front a couple of significant developments may be noted in the Indian scenario. Firstly, the Indian Trademark Office granted India's first sound mark registration for the *Yahoo!* yodel. This development is extremely significant since it presents an opening for a variety of unconventional marks which were hitherto not recognised in India. The Trademark Office also declared *Ford* to be a well known mark in India. As a consequence, the mark is now protected for use for all classes of products.

The Geographical Indication (GI) sector has been an extremely active sector of Indian IP in the past year. Since the Act came into force, in 2003, this particular field of IP has seen numerous disputes, including disputes over GI related to HIMALAYAN water, Scotch whisky, Basmati etc. While the disputes are numerous and impossible to pen down in this Editorial, we want to note two significant developments in the field over the past year. The first is the sheer number of GIs registered over the past five years since the establishment of the GI Registry. A list from the Department of Industrial Policy and Promotion (DIPP) suggests that a total of 82 GIs have been registered till July 2008 (a more recent report is unavailable). We feel that such a large number of registered GIs, coupled with about 14 new GIs registered between 2008 and 2009, is remarkable. The second development is a failure – we find that the Act, though aimed at reviving and nurturing traditional industries in India, has failed to carry out this objective as is painfully evident from the situation in places such as Kanjeevaram where a GI registration has made little difference to the dying silk industry. Thus, in our opinion, it justifies repetition to note that the GI Act was enacted with an objective of helping traditional industries revive themselves through the medium of exclusivity and monopoly and though the number of items registered is an impressive figure, we feel that Act has yet to fulfil its objective.

In conclusion, it is interesting to note that according to various reports it is estimated that by 2010 the number of trademark filings per year is expected to rise to 150,000 and patent applications are expected to be about 100,000 a year. While most believe that these numbers signify an increased awareness regarding IP and its uses, considering the aforementioned developments, it will be extremely worthwhile to track the division between foreign and Indian applications in order to gauge whether or not India is profiting from the global IP regime. The alternative, a bleak one, is that Indian manufacturers, filmmakers, indigenous industries etc. are merely at the receiving end of globalised IP.

The Contributions

In the first article, Prof. Lawrence Lessig puts forward a viable model to protect property interests in cyberspace. The author envisages the use of code to develop a balance between private and public mechanisms of digital rights protection and then goes onto the worry about the issues which may arise due to private regulation of cyberspace. Lessig first gauges the limits of copyright law and its inability to provide a "perfect" system of protection. Then, turning towards private modes of protection, he takes the example of trusted systems and proceeds to extrapolate the example to show the disastrous impact such a perfect system will have upon the public commons, innovation and creativity. Prof. Lessig concludes by stating that private action alone, though it may provide a perfect system, has to be tempered by public modes of protection in order to keep alive a vibrant public commons and nurture creativity.

Ms. Divya Subramaniam's article employs Roscoe Pound's theory of social engineering and its accompanying jural postulates and attempts to juxtapose the same with the Indian patent regime. Subramaniam cogently argues that the Indian patent regime attempts to balance different groups of interests and elucidates the same by examining section 3 (d) of the Patents Act, 1970 and the only judicial exposition on the same - *Novartis AG & Anr. v. Union of India & Others.*[6] The author questions the yardstick laid down by the Madras High Court as the balancing metaphor and finds it to be a narrow interpretation. Being the only judicial decision on the section, it is likely that the proffered interpretation will be one which is employed in subsequent cases, unless overruled by the Apex Court; the author calls for emphatic steps to prevent the establishment of a static yardstick since, employing Pound's theory, she reaches the conclusion that a static yardstick is not desirable while balancing different interests. In conclusion, the author makes a case for an ad-hoc interpretation of the section on a case to case basis in order to ensure a fair balancing of interests. It is unfortunate that this article was written prior to the IPAB's order rejecting the patent application for *Glivec* since the same is a manifestation of Pound's theory of balancing of interests.

In his case comment on *Viacom International Inc., et al. v. YouTube Inc., et al*[7], Mr. Arun Mohan puts forward a number of questions which the case is expected to answer about the fate and course of the digital and media industry. While attempting to answer the questions he raises, the author analyses the dispute as well as the law related to the dispute with special emphasis on the safe harbour provisions of the Digital Millennium Copyright Act, 1998 (DMCA). In addition to the DMCA, Mohan also examines a number of cases

6 (2007) 4 MLJ 1153.

which are expected to be relevant to the dispute and finally attempts to project the probable legal outcome as well as the commercial repercussions the case might have on the digital media industry.

Mr. Shamnad Basheer and Ms. Mrinalini Kochupillai in their article regarding the exhaustion of patents and parallel imports in India, successfully sketch out the prevailing legal scenario in India and also provide a critical analysis of the lacunae in the same. While distinguishing between national, regional and international patent exhaustion, the authors closely examine sections 48 and 107A(b) of the Patents Act, 1970 – the former grants exclusive importing rights to the patentee while the latter allows for the import of patented products by persons other than the patentee, though conditions are attached. While concluding that these sections are conflicting with one another as per certain interpretations, the authors suggest that Indian law recognizes the distinction between repair and reconstruction (based on the doctrine of single use) and permit only repairs. In conclusion the authors propose an amendment in the form of section 107B, which will allow for repair only and hence avoid the inherent conflict in patent import rights of patentees.

In their article related to the rights of broadcasting organizations, Mr. Girish Kumar R. and Mr. Relfi Paul outline the challenges facing the national and international legal framework due to the emergence of innovative broadcasting technology. The authors, while dwelling specifically on the broadcasting of sporting events and the recent spate of Indian cases related to the same, examine the need to provide broadcasting corporations with new forms of intellectual property over broadcasted material. The article concludes by examining the proposed Broadcasting Services Regulation Bill which, though often raised in Parliament, has yet to be passed, and makes a case for the immediate passage of the same.

Ms. Tabasum Wani's article on the fight between the generic manufacturers and patented drug innovators succinctly puts forward the impact of the Hatch-Waxman Act, which identifies the key problems faced by generic drug manufacturers and tries to fill in the inadequacies. The author examines the object of the Act in light of the surrounding developments and attempts to analyse its success or lack thereof. The discussion on the benefits and uses of various methods for protection under the Act for the manufacturers of generic drugs has been made all encompassing. The article portrays the Act as a success as it has made the use of generic drugs on day – to – day terms easier

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7 Case Number - 1:2007cv02103 (*sub judice*).

for the common man. It also strikes a balance between the interest of the branded drug companies by way of patent period that protects the drug and the generic drug companies by the benefiting provisions of the Act. The article discusses in detail the procedures and intricacies of the Act and also points out how the poor still remain at the losing end due to the ongoing fight in spite of the Act.

The article on comparative advertising by Mr. Shivaji Bhattacharya and Mr. Swaraj Paul Barooah highlights the unclear and unsatisfactory path taken by the Indian courts while considering marketing strategies in advertising. Taking a head start from the established positions in other jurisdictions, the article looks at how much of the settled has been adopted in India. It seems that the goal of such advertising (informing the consumer and increasing competition) has been lost due to the interpretation provided by the Supreme Court. The authors attempt to trace the thin line between disparagement and comparative advertising as provided by the Indian Supreme Court. Taking a cue only from the adverse effects on the manufacturer, the judgments develop in a direction which moves away from the international position. The article emphasizes the need to enhance healthy competition and thus maintain consumers' interests. The conclusion also elaborates on striking a balance between the advertiser seeking his interest and the interest of those who might be damaged because of the advertisement.

With the failure of the Doha Rounds, the interactions among the developed and developing countries became quite stringent. To bring about a uniform IP regime, various agreements came into play deciding and recommending a change in the IP laws of countries to fit the universal sphere. One such example is well brought out in Ms. Nadia Lambek's article on the USTR Special 301 Reports which describe the critiques and demands of the U.S.A about India and China between 2000 and 2008 relating to IP laws. The reports have demanded a catena of changes, for example, keeping criminal sanctions for IP infringement and greater enforcement rights. The reports are vividly shown as a counter to the fear faced by the U.S as these countries have the potential to develop alternative free trade economies. The paper sets the stage for developing markets like India to enhance their IP regime and makes it worthwhile for the IP world to look at how these countries react to the demands of the report. It also looks at how the report acts as a way for the U.S. to shape the IP laws in other countries, sometimes even leading to coercion.

The film industry and the law have always been closely connected: for the good or the bad. Piracy is one such important vein that joins the heart of the two. Mr. Lawrence Liang's article looks at the role of piracy in issues of copyright infringement from two perspectives: the technological and legal. The argument seeks to revisit and widen the formalistic nature of films as property by looking at the question of temporality and consequences of treating films as property. The concern of protecting the Asian markets of pirated VCD's and DVD's drives him to a conclusion which looks past the bad of piracy and to create a better understanding of films as having property characteristics.

Ms. Latha Nair's article cogently questions the sufficiency of the 'fair use' provisions in the Indian Copyright Act, 1957 and makes a case for reviewing the same in comparison with such provisions in other jurisdictions. The argument cuts through the article that by keeping fair use dealing provisions in the Act, the law ends up serving only one of the two purpose of copyright protection *inter alia* protecting creativity. Taking into consideration the proposed 2006 amendment, she makes an interesting case for the proposition that copyright and fair use cannot exist together and that the present law needs to be updated in light of the continuously developing scenario in the copyright world. Even in terms of the proposed amendment, the law remains far from being able to fulfill both the objectives of providing copyright protection.

An ideal portrayal of the interrelationship between the process of Merger and Acquisitions (M&A) and IP has been brought about in the article by Ms. Mandavi Singh. The article discusses the market force behind IP and other benefits attached to it that become the guiding force for M&A. The author discusses how IP plays a catalyst's role in M&A as a result of its commercial viability and its potential to create IP financing. The article very cogently describes and elaborates on issues such as accessibility and increased valuation as guiding forces for companies to acquire others. Making a case for IP based mergers; it is an interesting observation to look at the jurisdictional issues and the conflict with antitrust laws for the same.

ACKNOWLEDGEMENTS

The second volume of the Journal is an enthusiastic effort to enhance, encourage and appreciate the endeavours of intellectual property towards society and we would like to thank some people towards this effort.

First of all we extend our gratitude to Prof. Veer Singh and Prof. K.V.S. Sharma for providing unending support. The untiring efforts of the faculty and the administrative staff of NALSAR have helped make the Journal a success.

The overwhelming response from contributors to this Journal must be acknowledged. We are extremely grateful to those who sent in articles, case comments and essays for publication. The quality and volume of contributions was indeed impressive and it is unfortunate that we were able to select only a minute number of these for publication.

We are grateful to Prof. Lawrence Lessig for permitting us to print a chapter of his book, Code, Version 2. We are also extremely grateful to the teams at www.spicyipindia.blogspot.com and www.ipkitten.blgospot.com for their constant stream of updates and information which were a vital resource for the Journal.

Our special thanks to Mr. Prasan Dhar for his extended support to the Journal. The efforts, inputs and encouragement provided by the Advisory Board cannot be forgotten and we would like to record our gratitude for the same.

Finally we would like to thank the student community and alumni of NALSAR, especially Mr. Prashant Iyengar and Mr. Sourav Bhattacharya, for nurturing the Journal and playing a significant part in its success.

This volume of the Journal is dedicated to all those engaged in promoting, encouraging and spreading awareness in the field of intellectual property.

Board of Editors
July 2009

CODE: VERSION 2.0 – INTELLECTUAL PROPERTY[*]

Lawrence Lessig[**]

Harold Reeves is among the best research assistants I have had. (But alas, the law has now lost him—he's become a priest!). Early into his second year at the University of Chicago Law School, he came to me with an idea he had for a student "comment"—an article that would be published in the law review.[1] The topic was trespass law in cyberspace—whether and how the law should protect owners of space in cyberspace from the kinds of intrusions that trespass law protects against in real space. His initial idea was simple: There should be no trespass law in cyberspace.[2] The law should grant "owners" of space in cyberspace no legal protection against invasion; they should be forced to fend for themselves.

Reeves's idea was a bit nutty, and in the end, I think, wrong.[3] But it contained an insight that was quite brilliant, and that should be central to thinking about law in cyberspace.

The idea—much more briefly and much less elegantly than Reeves has put it—is this: The question that law should ask is, What means would bring about the most efficient set of protections for property interests in cyberspace? Two sorts of protections are possible. One is the traditional protection of law—the law defines a space where others should not enter and punishes people who enter nonetheless. The other protection is a fence, a technological device (a bit of code) that (among other things) blocks the unwanted from entering. In real space, of course, we have both—law, in the form of trespass law, and fences that supplement that law. Both cost money, and the return from each is not necessarily the same. From a social perspective, we would want the mix that provides optimal protection at the lowest cost.

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* The Indian Journal of Intellectual Property Law is grateful to Professor Lessig for permitting us to republish this article which was published in CODE: VERSION 2.0.

** Lawrence Lessig is a Professor of Law at the Stanford Law School. He has written extensively on law and technology, especially as it affects copyright. Professor Lessig is the author of several books including Remix, Free Culture and The Future of Ideas. He has served on the boards of the Free Software Foundation and the Electronic Frontier Foundation and is currently on the boards of Creative Commons project and iCommons, amongst numerous others.

1. Harold Smith Reeves, *Property in Cyberspace*, 63 UNIVERSITY OF CHICAGO LAW REVIEW 761 (1996).
2. This in the end was not his conclusion. He concluded instead, not that boundaries should not be protected in cyberspace, but rather that the unconventional nature of cyberspace requires that boundaries be set along nontraditional context-specific lines. This conclusion, Reeves asserts, requires the law to understand both the environment of cyberspace and the interests of those who transact in that space; *see id*., at 799.
3. Cf. Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 NEW YORK UNIVERSITY LAW REVIEW 354 (1999).

(In economics- speak, we would want a mix such that the marginal cost of an additional unit of protection is equivalent to the marginal benefit.)

The implication of this idea in real space is that it sometimes makes sense to shift the burden of protection to citizens rather than to the state. If, for example, a farmer wants to store some valuable seed on a remote part of his farm, it is better for him to bear the cost of fencing in the seed than to require the police to patrol the area more consistently or to increase the punishment for those they catch. The question is always one of balance between the costs and benefits of private protection and state protection.

Reeves's insight about cyberspace follows the same line. The optimal protection for spaces in cyberspace is a mix between public law and private fences. The question to ask in determining the mix is which protection, on the margin, costs less. Reeves argues that the costs of law in this context are extremely high–in part because of the costs of enforcement, but also because it is hard for the law to distinguish between legitimate and illegitimate uses of cyberspaces. There are many "agents" that might "use" the space of cyberspace. Web spiders, which gather data for web search engines; browsers, who are searching across the Net for stuff to see; hackers (of the good sort) who are testing the locks of spaces to see that they are locked; and hackers (of the bad sort) who are breaking and entering to steal. It is hard, ex ante, for the law to know which agent is using the space legitimately and which is not. Legitimacy depends on the intention of the person granting access.

So that led Reeves to his idea: Since the intent of the "owner" is so crucial here, and since the fences of cyberspace can be made to reflect that intent cheaply, it is best to put all the incentive on the owner to define access as he wishes. The right to browse should be the norm, and the burden to lock doors should be placed on the owner.[4]

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4. Maureen O'Rourke has extended the idea of the technological fences that cyberspace might provide, describing techniques that websites, for example, might use to control, or block, links from one site to another; *see* Maureen O'Rourke, *Fencing Cyberspace: Drawing Borders in a Virtual World*, 82 Minnesota Law Review 610, 645 – 47 (1998). See, e.g., Thrifty-Tel, Inc. v. Bezenek, 46 Cal. App. 4th 1559 (Cal. Ct. App. 1996) (Trespass to chattel claim involving defendant's children hacking plaintiff 's confidential code to make long distance phone calls); Intel v. Hamidi, 30 Cal. 4th 1342 (Cal. 2003) (Trespass to chattels claim involving Hamidi, a former employee, using Intel's employee list-serve to send e-mails to employees); eBay v. Bidder's Edge, 100 F. Supp. 2d 1058 (D. Cal. 2000) (eBay sought to prevent Bidder's Edge, an Internet-based auction aggregation site, from use of an automated query function without eBay's authorization); Register.com v. Verio, 356 F. 3d 393 (2d. Cir. 2004) (Register.com sought to prevent Verio from using its trademark or online databases to solicit business from lists provided on the Register.com website); America Online, Inc. v. IMS, 1998 U.S. Dist. LEXIS 20645 (D.Va. 1998) (America Online alleged that IMS was sending unsolicited bulk e-mail advertisements to its members in violation of the Lanham Act, 15 U.S.C.S 1125).

Now put Reeves's argument aside, and think for a second about something that will seem completely different but is very much the same idea. Think about "theft" and the protections that we have against it.

- I have a stack of firewood behind my house. No one steals it. If I left my bike out overnight, it would be gone.
- A friend told me that, in a favorite beach town, the city used to find it impossible to plant flowers—they would immediately be picked. But now, he proudly reports, after a long "community spirit" campaign, the flowers are no longer picked.
- There are special laws about the theft of automobiles, planes, and boats. There are no special laws about the theft of skyscrapers. Cars, planes, and boats need protection. Skyscrapers pretty much take care of themselves.

Many things protect property against theft—differently. The market protects my firewood (it is cheaper to buy your own than it is to haul mine away); the market is a special threat to my bike (which if taken is easily sold). Norms sometimes protect flowers in a park; sometimes they do not. Nature sometimes conspires with thieves (cars, planes, and boats) and sometimes against them (skyscrapers).

These protections are not fixed. I could lock my bike and thereby use real-space code to make it harder to steal. There could be a shortage of firewood; demand would increase, making it harder to protect. Public campaigns about civic beauty might stop flower theft; selecting a distinctive flower might do the same. Sophisticated locks might make stolen cars useless; sophisticated bank fraud might make skyscrapers vulnerable. The point is not that protections are given, or unchangeable, but that they are multiplied and their modalities different.

Property is protected by the sum of the different protections that law, norms, the market, and real-space code yield. From the point of view of the state, we need law only when the other three modalities leave property vulnerable. From the point of view of the citizen, real-space code (such as locks) is needed when laws and norms alone do not protect enough. Understanding how property is protected means understanding how these different protections work together.

Reeves's idea and these reflections on firewood and skyscrapers point to the different ways that law might protect "property" and suggest the range of kinds of property that law might try to protect. They also invite a question that has been asked by Justice Stephen Breyer and many others: Should law protect some kinds of property—in particular, intellectual property—at all?[5]

Among the kinds of property law might protect, my focus in this chapter will be on the property protected by copyright.[6] Of all the different types of property, this type is said to be the most vulnerable to the changes that cyberspace will bring. Many believe that intellectual property cannot be protected in cyberspace. And in the terms that I've sketched, we can begin to see why one might think this, but we will soon see that this thought must be wrong.

ON THE REPORTS OF COPYRIGHT'S DEMISE

Roughly put, copyright gives a copyright holder certain exclusive rights over the work, including, most famously, the exclusive right to copy the work. I have a copyright in this book. That means, among other rights, and subject to some important exceptions, you cannot copy this book without my permission. The right is protected to the extent that laws (and norms) support it, and it is threatened to the extent that technology makes it easy to copy. Strengthen the law while holding technology constant, and the right is stronger. Proliferate copying technology while holding the law constant, and the right is weaker.

In this sense, copyright has always been at war with technology. Before the printing press, there was not much need to protect an author's interest in his creative work. Copying was so expensive that nature itself protected that interest. But as the cost of copying decreased, and the spread of technologies for copying increased, the threat to the author's control increased. As each generation has delivered a technology better than the last, the ability of the copyright holder to protect her intellectual property has been weakened.

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5. *See, for example*, Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 Harvard Law Review 281 (1970).
6. There is a ferocious debate about whether these separate forms of regulation—copyright, patent, and trademark—should be referred to together as "Intellectual Property." I myself have gone both ways on this question, but currently believe it is harmful not to refer to these distinct bodies of law as "intellectual property." Though of course these domains are different, calling them by the same name doesn't necessarily confuse (no one is confused about the difference between a tiger and a kitty cat, even if they're both called "cats"). More importantly, by not calling them by the same name, we lose a chance to point out inconsistencies in the way these different forms of property are treated. For example, both patent and trademark benefit from significant formalities built into each system; when you notice those formalities are absent from "copyright," one is led to wonder why one form of "intellectual property" is free of formalities, while the other two are not.

Until recently, the law's response to these changes has been measured and gradual. When technologies to record and reproduce sound emerged at the turn of the last century, composers were threatened by them. The law responded by giving composers a new, but limited, right to profit from recordings. When radio began broadcasting music, the composers were held to be entitled to compensation for the public performance of their work, but performers were not compensated for the "performance" of their recordings. Congress decided not to remedy that problem. When cable television started rebroadcasting television broadcasts, the copyright holders in the original broadcasts complained their work was being exploited without compensation. Congress responded by granting the copyright holders a new, but limited, right to profit from the rebroadcasts. When the VCR made it simple to record copyrighted content from off the air, copyright holders cried "piracy." Congress decided not to respond to that complaint. Sometimes the change in technology inspired Congress to create new rights, and sometimes not. But throughout this history, new technologies have been embraced as they have enabled the spread of culture.

During the same period, norms about copyrighted content also evolved. But the single, defining feature of these norms can perhaps be summarized like this: that a consumer could do with the copyrighted content that he legally owned anything he wanted to do, without ever triggering the law of copyright. This norm was true almost by definition until 1909, since before then, the law didn't regulate "copies." Any use the consumer made of copyrighted content was therefore highly unlikely to trigger any of the exclusive rights of copyright. After 1909, though the law technically regulated "copies," the technologies to make copies were broadly available. There was a struggle about Xerox machines, which forced a bit of reform,[7] but the first real conflict that copyright law had with consumers happened when cassette tapes made it easy to copy recorded music. Some of that copying was for the purpose of making a "mixed tape," and some was simply for the purpose of avoiding the need to buy the original recording. After many years of debate, Congress decided not to legislate a ban on home taping. Instead, in the Audio Home Recording Act, Congress signaled fairly clear exemptions from copyright for such consumer activity. These changes reinforced the norm among consumers that they were legally free to do

7. Paul Goldstein, Copyright's Highway: From Gutenberg to the Celestial Jukebox 64, 103 (Stanford University Press 2003): "Little did I realize at the time that this was all going to have its effect on television and motion pictures and VCRs, and the whole gamut of things which are affected by copyright law, which of course weren't even thought of when we made our move. We were dealing with a fairly simple operation—Xerox. Now it's become horribly complicated."

whatever they wanted with copyrighted work. Given the technologies most consumers had access to, the stuff they wanted to do either did not trigger copyright (e.g., resell their books to a used bookstore), or if it did, the law was modified to protect it (e.g., cassette tapes).

Against the background of these gradual changes in the law, along with the practical norm that, in the main, the law didn't reach consumers, the changes of digital technology were a considerable shock. First, from the perspective of technology, digital technologies, unlike their analog sister, enabled perfect copies of an original work. The return from copying was therefore greater. Second, also from the perspective of technology, the digital technology of the Internet enabled content to be freely (and effectively anonymously) distributed across the Internet. The availability of copies was therefore greater. Third, from the perspective of norms, consumers who had internalized the norm that they could do with "their content" whatever they wanted used these new digital tools to make "their content" available widely on the Internet. Companies such as Napster helped fuel this behavior, but the practice existed both before and after Napster. And fourth, from the perspective of law, because the base technology of the Internet didn't reveal anything about the nature of the content being shared on the Internet, or about who was doing the sharing, there was little the law could do to stop this massive "sharing" of content. Thus fifth, and from the perspective of copyright holders, digital technologies and the Internet were the perfect storm for their business model: If they made money by controlling the distribution of "copies" of copyrighted content, you could well understand why they viewed the Internet as a grave threat.

Very quickly, and quite early on, the content industry responded to this threat. Their first line of defense was a more aggressive regime of regulation. Because, the predictions of cyberspace mavens notwithstanding, not everyone was willing to concede that copyright law was dead. Intellectual property lawyers and interest groups pushed early on to have law shore up the protections of intellectual property that cyberspace seemed certain to erase.

LAW TO THE RESCUE

The initial response to this push was a White Paper produced by the Commerce Department in 1995. The paper outlined a series of modifications aimed, it said, at restoring "balance" in intellectual property law. Entitled "Intellectual Property and the National Information Infrastructure," the report sought to restate existing intellectual property law in terms that anyone could understand, as well as to recommend changes in the law in response to the changes the Net would bring. But as scholars quickly pointed out, the first part was a bust.[8] The report no more "restated" existing law than Soviet historians "retold" stories of Stalin's administration. The restatement had a tilt, very definitely in the direction of increased intellectual property protection, but it pretended that its tilt was the natural lay of the land.

For our purposes, however, it is the recommendations that were most significant. The government proposed four responses to the threat presented by cyberspace.

The first response was traditional. The government proposed changes in the law of copyright to "clarify" the rights that it was to protect.[9] These changes were intended to better define the rights granted under intellectual property law and to further support these rights with clarified (and possibly greater) legal penalties for their violation.

The second response addressed norms, specifically copying norms. The report recommended increased educational efforts, both in schools and among the general public, about the nature of intellectual property and the importance of protecting it. In the terms of Chapter 7, this is the use of law to change norms so that norms will better support the protection of intellectual property. It is an indirect regulation of behavior by direct regulation of norms.

The third and fourth responses mixed technology and the market. The report called for legal support—through financial subsidies and special legal protection—of "copyright management schemes." These "schemes" were simply technologies that would make it easier to control access to and use of copyrighted material. We will explore these "schemes" at some length later

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8. U.S. Department of Commerce, Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights (1995) hereafter "White Paper." George Smirnoff III, *Copyright on the Internet: A Critique of the White Paper's Recommendation for Updating the Copyright Act and How the Courts Are Already Filling in Its Most Important Shortcoming, Online Service Provider Liability*, 44 Cleveland State Law Review 197 (1996) (criticizes the White Paper's lack of completeness, inconsistencies, and apparent lack of adequate consideration); see also Pamela Samuelson, *The Copyright Grab*, Wired, Jan. 1996 at 134, 136. By contrast, Gary W. Glisson, *A Practitioner's Defense of the White Paper*, 75 Oregon Law Review 277 (1996) (argues that the White Paper is neither a misleading summary of the state of intellectual property law nor a proposal for dramatic changes). For an extensive analysis of the copyright issues raised by cyberspace, see Trotter Hardy, Project Looking Forward: Sketching the Future of Copyright in a Networked World, U.S. Copyright Office Final Report (1998), http://www.copyright.gov/reports/thardy.pdf.
9. For a summary of the changes called for by the White Paper, see Bruce Lehman, address before the Inaugural Engelberg Conference on Culture and Economics of Participation in an International Intellectual Property Regime in 29 New York University Journal of International Law and Politics 211, 213–15 (1996–97); White Paper 17.

in this chapter, but I mention them now as another example of indirect regulation– using the market to subsidize the development of a certain software tool, and using law to regulate the properties of other software tools. Copyright management systems would be supported by government funding and by the threat of criminal sanctions for anyone deploying software to crack them.[10]

Congress followed the recommendations of the 1995 White Paper in some respects. The most important was the enactment of the Digital Millennium Copyright Act in 1998. That statute implemented directly the recommendation that "technological protection measures" be protected by law. Code that someone implements to control either access to or use of a copyrighted work got special legal protection under the DMCA: Circumvention of that code, subject to a few important exceptions, constituted a violation of the law.

We will return to the DMCA later. The point just now, however, is to recognize something important about the presumption underlying the White Paper. The 1995 package of proposals was a scattershot of techniques–some changes in law, some support for changing norms, and lots of support for changing the code of cyberspace to make it better able to protect intellectual property. Perhaps nothing better than this could have been expected in 1995–the law promised a balance of responses to deal with the shifting balance brought on by cyberspace.

Balance is attractive, and moderation seems right. But something is missing from this approach. The White Paper proceeds as if the problem of protecting intellectual property in cyberspace was just like the problem of protecting intellectual property in real space. It proceeds as if the four constraints would operate in the same proportions as in real space, as if nothing fundamental had changed.

But something fundamental has changed: the role that code plays in the protection of intellectual property. Code can, and increasingly will, displace law as the primary defense of intellectual property in cyberspace. Private fences, not public law.

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10. The most important such threat is the anticircumvention provision of the Digital Millennium Copyright Act, which makes it a crime (subject to complex exceptions) to manufacture code to circumvent a copyright protection mechanism, even if the use of the underlying material itself would be a fair use; see Pub. L. 105–304, 112 Stat 2877 (1998) (prohibiting the manufacture, importation, or distribution of "devices, products, components" that "defeat technological methods of preventing unauthorized use").

The White Paper did not see this. Built into its scattershot of ideas is one that is crucial to its approach but fundamentally incorrect—the idea that the nature of cyberspace is anarchy. The White Paper promises to strengthen law in every area it can. But it approaches the question like a ship battening down for a storm: Whatever happens, the threat to copyright is real, damage will be done, and the best we can do is ride it out.

This is fundamentally wrong. We are not entering a time when copyright is more threatened than it is in real space. We are instead entering a time when copyright is more effectively protected than at any time since Gutenberg. The power to regulate access to and use of copyrighted material is about to be perfected. Whatever the mavens of the mid-1990s may have thought, cyberspace is about to give holders of copyrighted property the biggest gift of protection they have ever known.

In such an age, the real question for law is not, how can law aid in that protection? but rather, is the protection too great? The mavens were right when they predicted that cyberspace will teach us that everything we thought about copyright was wrong.[11] But the lesson in the future will be that copyright is protected far too well. The problem will center not on copy-right but on copy-duty—the duty of owners of protected property to make that property accessible.

That's a big claim. To see it, however, and to see the consequences it entails, we need consider three examples. The first is a vision of a researcher from Xerox PARC (appropriately enough), Mark Stefik, and his idea of "trusted systems."[12] The second is an implication of a world dominated by trusted systems. The third is an unreckoned cost to the path we are now on to "protect intellectual property." The examples will throw into relief the threat that these changes present for values that our tradition considers fundamental. They should force us to make a choice about those values and about their place in our future.

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11. See John Perry Barlow, *The Economy of Ideas*, WIRED, Mar. 1994, at 129; see also John Perry Barlow, *Papers and Comments of a Symposium on Fundamental Rights on the Information Superhighway*, 1994 ANNUAL SURVEY OF AMERICAN LAW 355, 358 (1994). Barlow argues that "it is not so easy to own that which has never had any physical dimension whatsoever," unlike traditional forms of property. "We have tended to think," he adds, "that copyright worked well because it was physically difficult to transport intellectual properties without first manifesting them in some physical form. And it is no longer necessary to do that."
12. See Mark Stefik, *Shifting the Possible: How Trusted Systems and Digital Property Rights Challenge Us to Rethink Digital Publishing*, 12 BERKELEY TECHNOLOGY LAW JOURNAL 138 (1997); Mark Stefik, *Trusted Systems*, SCIENTIFIC AMERICAN, Mar. 1997, at 78; Mark Stefik, *Letting Loose the Light: Igniting Commerce in Electronic Publication*, in MARK STEFIK, INTERNET DREAMS, ARCHETYPES, MYTHS, AND METAPHORS 220–22, 226–28 (Mark Stefik ed., MIT Press 1996).

THE PROMISE FOR INTELLECTUAL PROPERTY IN CYBERSPACE

It all depends on whether you really understand the idea of trusted systems. If you don't understand them, then this whole approach to commerce and digital publishing is utterly unthinkable. If you do understand them, then it all follows easily.

Ralph Merkle, quoted in Stefik, "Letting Loose the Light" (1996).

In what we can call the first generation of digital technologies, content owners were unable to control who copied what. If you have a copy of a copyrighted photo rendered in a graphics file, you could make unlimited copies of that file with no effect on the original. When you make the one-hundredth copy nothing would indicate that it was the one-hundredth copy rather than the first. And as we've described again and again, in the original code of the Internet, there was nothing to regulate how or to whom copyrighted content was distributed. The function of "copying" as it was developed by the coders who built it, either in computers or networks, aimed at "copying"—not at "copying" with specified permissions.

This character to the function "copy" was not unique to cyberspace. We have seen a technology that presented the same problem, and I've already described how a solution was subsequently built into the technology.[13] Digital Audio Tape (DAT) technology was thought to be a threat to copyright owners. A number of solutions to this threat were proposed. Some people argued for higher penalties for illegal copying of tapes (direct regulation by law). Some, such as Richard Stallman, argued for a tax on blank tapes, with the proceeds compensating copyright holders (indirect regulation of the market by law). Some argued for better education to stop illegal copies of tapes (indirect regulation of norms by law). But some argued for a change in the code of DAT machines that would block unlimited perfect copying.

The tax and code regulators won. In late 1992, as a compromise between the technology and content industries, Congress passed the Audio Home Recording Act. The Act first imposed a tax on both recorders and blank DAT media, with the revenues to be used to compensate copyright holders for the expected copyright infringement enabled by the technology. But more interestingly, the Act required manufacturers of DAT technology to include a Serial Copy Management System, which would limit the ability

13. See Joel R. Reidenberg, *Governing Networks and Rule-Making in Cyberspace*, 45 EMORY LAW JOURNAL 911 (1996).

of DAT technology to copy. That limit was effected through a code inserted in copies made using DAT technology. From an original, the technology would always permit a copy. But from a copy made on a DAT recorder, no further digital copy could be made. (An analog copy could be made, thus degrading the quality of the copy, but not a perfect digital copy.) The technology was thus designed to break the "copy" function under certain conditions, so as to indirectly protect copyright owners. The net effect of these two changes was to minimize any harm from the technology, as well as to limit the functionality of the technology where it would be expected that functionality would encourage the violation of copyright. (Many think the net effect of this regulation also killed DAT technology.)

Something like the same idea animated Stefik's vision.[14] He was not keen to make the quality of copies decrease. Rather, his objective was to make it possible to track and control the copies of digital content that are made.[15] Think of the proposal like this. Today, when you buy a book, you may do any number of things with it. You can read it once or one hundred times. You can lend it to a friend. You can photocopy pages in it or scan it into your computer. You can burn it, use it as a paperweight, or sell it. You can store it on your shelf and never once open it.

Some of these things you can do because the law gives you the right to do them—you can sell the book, for example, because the copyright law explicitly limits the copyright owner's right to control your use of the physical book after the "first sale." Other things you can do because there is no effective way to stop you. A book seller might sell you the book at one price if you promise to read it once, and at a different price if you want to read it one hundred times, but there is no way for the seller to know whether you have obeyed the contract. In principle, the seller could tell a police officer with each book to follow you around and make sure you use the book as you promised, but the costs of this control would plainly exceed any benefit.

But what if each of these rights could be controlled, and each unbundled and sold separately? What if, that is, the software itself could regulate whether you read the book once or one hundred times; whether you could cut and paste from it or simply read it without copying; whether you could send it as an attached document to a friend or simply keep it on

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14. *See* Mark Stefik, *Shifting the Possible: How Trusted Systems and Digital Property Rights Challenge Us to Rethink Digital Publishing*, 12 Berkeley Technology Law Journal 137 (1997).

15. *Ibid*, 142–44, Stefik discusses how trusted printers combine four elements—print rights, encrypted online distribution, automatic billing for copies, and digital watermarks—in order to monitor and control the copies they make.

your machine; whether you could delete it or not; whether you could use it in another work, for another purpose, or not; or whether you could simply have it on your shelf or have it and use it as well?

Stefik describes a network that makes such unbundling of rights possible. He describes an architecture that would allow owners of copyrighted materials to sell access to those materials on the terms they want and would enforce those contracts.

The details of the system are not important here (it builds on the encryption architecture I described in Chapter 4),[16] but its general idea is easy enough to describe. As the Net is now, basic functions like copying and access are crudely regulated in an all-or-nothing fashion. You generally have the right to copy or not, to gain access or not.

But a more sophisticated system of rights could be built into the Net— not into a different Net, but on top of the existing Net. This system would function by discriminating in the intercourse it has with other systems. A system that controlled access in this more fine-grained way would grant access to its resources only to another system that controlled access in the same way. A hierarchy of systems would develop, and copyrighted material would be traded only among systems that properly controlled access.

In such a world, then, you could get access, say, to the *New York Times* and pay a different price depending on how much of it you read. The *Times* could determine how much you read, whether you could copy portions of the newspaper, whether you could save it on your hard disk, and so on. But if the code you used to access the *Times* site did not enable the control the *Times* demanded, then the *Times* would not let you onto its site at all. In short, systems would exchange information only with others that could be trusted, and the protocols of trust would be built into the architectures of the systems.

Stefik calls this "trusted systems," and the name evokes a helpful analog. Think of bonded couriers. Sometimes you want to mail a letter with something particularly valuable in it. You could simply give it to the post office, but the post office is not a terribly reliable system; it has relatively little control over its employees, and theft and loss are not uncommon. So instead of going to the post office, you could give your letter to a bonded courier. Bonded couriers are insured, and the insurance is a cost that constrains them to be reliable. This reputation then makes it possible for senders of valuable material to be assured about using their services. As Stefik writes:

16. *Ibid.*

> *with trusted systems, a substantial part of the enforcement of a digital contract is carried out by the trusted system. [T]he consumer does not have the option of disregarding a digital contract by, for example, making unauthorized copies of a work. A trusted system refuses to exercise a right that is not sanctioned by the digital contract.*[17]

This is what a structure of trusted systems does for owners of intellectual property. It is a bonded courier that takes the thing of value and controls access to and use of it according to the orders given by the principal.

Imagine for a moment that such a structure emerged generally in cyberspace.

How would we then think about copyright law?

An important point about copyright law is that, though designed in part to protect authors, the control it was designed to create was never to be perfect. As the Supreme Court noted, copyright "protection has never accorded the copyright owner complete control over all possible uses of his work."[18] Thus, the law grants only particular exclusive rights, and those rights are subject to important limitations, such as "fair use," limited terms, and the first sale doctrine. The law threatened to punish violators of copyright laws—and it was this threat that induced a fairly high proportion of people to comply— but the law was never designed to simply do the author's bidding. It had public purposes as well as the author's interest in mind.

Trusted systems provide authors with the same sort of protection. Because authors can restrict unauthorized use of their material, they can extract money in exchange for access. Trusted systems thus achieve what copyright law aims to, but they can achieve this protection without the law doing the restricting. It permits a much more fine-grained control over access to and use of protected material than the law permits, and it can do so without the aid of the law. What copyright seeks to do using the threat of law and the push of norms, trusted systems do through the code. Copyright orders others to respect the rights of the copyright holder before using his property; trusted systems give access only if rights are respected in the first place. The controls needed to regulate this access are built into the systems, and no users (except hackers) have a choice about whether to obey them. The code complements the law by codifying the rules, making them more efficient.

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17. Mark Stefik, The Internet Edge: Social, Technical, and Legal Challenges for a Networked World 91 (MIT Press 1999).
18. Sony v. Universal Studios Inc., 464 U.S. 417, 432 (1984).

Trusted systems in this sense are a privatized alternative to copyright law. They need not be exclusive; there is no reason not to use both law and trusted systems. Nevertheless, the code is effectively doing the work that the law was designed to do. It implements the law's protection, through code, far more effectively than the law did.

What could be wrong with this? We do not worry when people put double bolts on their doors to supplement the work of the neighborhood cop. We do not worry when they lock their cars and take their keys. It is not an offense to protect yourself rather than rely on the state. Indeed, in some contexts it is a virtue. Andrew Jackson's mother, for example, told him, "Never tell a lie, nor take what is not your own, nor sue anybody for slander, assault and battery. Always settle them cases yourself."[19] Self-sufficiency is strength and going to the law a sign of weakness.

There are two steps to answering this question. The first rehearses a familiar but forgotten point about the nature of "property"; the second makes a less familiar, but central, point about the nature of intellectual property. Together they suggest why perfect control is not the control that law has given owners of intellectual property. And together they suggest the potential problem that copyright law in cyberspace will create.

THE LIMITS ON THE PROTECTION OF PROPERTY

The realists in American legal history (circa 1890–1930) were scholars who (in part) emphasized the role of the state in what was called "private law."[20] At the time they wrote, it was the "private" in private law that got all the emphasis. Forgotten was the "law," as if "property" and "contract" existed independent of the state.

The realists' aim was to undermine this view. Contract and property law, they argued, gave private parties power.[21] If you breach a contract with me, I can have the court order the sheriff to force you to pay; the contract

19. See David Hackett Fischer, Albion's Seed: Four British Folkways in America 765 (Oxford University Press 1989).

20. See American Legal Realism 98–129 (William W. Fisher III et al. eds., Oxford University Press 1993); John Henry Schlegel, American Legal Realism and Empirical Social Science (University of North Carolina Press 1995). For a nice modern example of the same analysis, see Keith Aoki, *(Intellectual) Property and Sovereignty: Notes Toward a Cultural Geography of Authorship*, 48 Stanford Law Review 1293 (1996).

21. See Barbara H. Fried, The Progressive Assault on Laissez-Faire: Robert Hale and the First Law and Economics Movement 1–28 (Harvard University Press 1998); see also Joel P. Trachtman, *The International Economic Law Revolution*, 17 University of Pennsylvania Journal of International Economic Law 33, 34 (1996), (who notes that many realists and critical legal theorists have asserted that "private law" is an oxymoron).

gives me access to the state power of the sheriff. If your contract with your employer says that it may dismiss you for being late, then the police can be called in to eject you if you refuse to leave. If your lease forbids you to have cats, then the landlord can use the power of the courts to evict you if you do not get rid of the cats. These are all instances where contract and property, however grounded in private action, give a private person an entitlement to the state.

No doubt this power is justified in many cases; to call it "law" is not to call it unjust. The greatest prosperity in history has been created by a system in which private parties can order their lives freely through contract and property. But whether justified in the main or not, the realists argued that the contours of this "law" should be architected to benefit society.[22]

This is not communism. It is not an attack on private property, and it is not to say that the state creates wealth (put your Ayn Rand away). These are claims about the relationship between private law and public law, and they should be uncontroversial.

Private law creates private rights to the extent that these private rights serve some collective good. If a private right is harmful to a collective good, then the state has no reason to create it. The state's interests are general, not particular. It has a reason to create rights when those rights serve a common, rather than particular, end.

The institution of private property is an application of this point. The state has an interest in defining rights to private property because private property helps produce a general, and powerful, prosperity. It is a system for ordering economic relations that greatly benefits all members of society. No other system that we have yet devised better orders economic relations. No other system, some believe, could.[23]

But even with ordinary property—your car, or your house—property rights are never absolute. There is no property that does not have to yield at some point to the interests of the state. Your land may be taken to build a highway, your car seized to carry an accident victim to the hospital, your driveway crossed by the postman, your house inspected by health inspectors. In countless ways, the system of property we call "private property" is a

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22. Judges have also made this argument; see Lochner v. New York, 198 US 45, 74 (1905) (Justice Oliver Wendell Holmes Jr. dissenting).

23. This is the epistemological limitation discussed in much of Friedrich A. von Hayek's work; see, for example, 2 FRIEDRICH A. VON HAYEK'S, LAW, LEGISLATION, AND LIBERTY (University of Chicago Press 1978).

system that balances exclusive control by the individual against certain common state ends. When the latter conflict with the former, it is the former that yields.

This balance, the realists argued, is a feature of all property. But it is an especially important feature of intellectual property. The balance of rights with intellectual property differs from the balance with ordinary real or personal property. "Information," as Boyle puts it, "is different."[24] And a very obvious feature of intellectual property shows why.

When property law gives me the exclusive right to use my house, there's a very good reason for it. If you used my house while I did, I would have less to use. When the law gives me an exclusive right to my apple, that too makes sense. If you eat my apple, then I cannot. Your use of my property ordinarily interferes with my use of my property. Your consumption reduces mine.

The law has a good reason, then, to give me an exclusive right over my personal and real property. If it did not, I would have little reason to work to produce it. Or if I did work to produce it, I would then spend a great deal of my time trying to keep you away. It is better for everyone, the argument goes, if I have an exclusive right to my (rightly acquired) property, because then I have an incentive to produce it and not waste all my time trying to defend it.[25]

Things are different with intellectual property. If you "take" my idea, I still have it. If I tell you an idea, you have not deprived me of it.[26] An unavoidable feature of intellectual property is that its consumption, as the economists like to put it, is "non rivalrous." Your consumption does not lessen mine. If I write a song, you can sing it without making it impossible for me to sing it. If I write a book, you can read a copy of it (please do) without disabling me from reading another copy of it. Ideas, at their core, can be shared with no reduction in the amount the "owner" can consume. This difference is fundamental, and it has been understood since the founding.

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24. James Boyle, Shamans, Software, and Spleens: Law and the Construction of the Information Society 174 (Harvard University Press 1999).
25. I am hiding a great deal of philosophy in this simplified utilitarian account, but for a powerful economic grounding of the point, see Harold Demsetz, *Toward a Theory of Property Rights*, 57 American Economics Review 347 (1967).
26. For a wonderfully clear introduction to this point, as well as a complete analysis of the law, see Robert P. Merges et al., Intellectual Property in the New Technological Age Chapter 1 (Aspen Law and Business 1997).

Jefferson put it better than I:

> *If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of every one, and the receiver cannot dispossess himself of it. Its peculiar character, too, is that no one possesses the less, because every other possess the whole of it. He who receives an idea from me, receives instruction himself without lessening mine; as he who lites his taper at mine, receives light without darkening me. That ideas should freely spread from one to another over the globe, for the moral and mutual instruction of man, and improvement of his condition, seems to have been peculiarly and benevolently designed by nature, when she made them, like fire, expansible over all space, without lessening their density at any point, and like the air in which we breathe, move, and have our physical being, incapable of confinement or exclusive appropriation. Inventions then cannot, in nature, be a subject of property.*[27]

Technically, Jefferson presents two concepts: One is the possibility of excluding others from using or getting access to an idea, which he defines as "action of the thinking power . . . which an individual may exclusively possess as long as he keeps it to himself." This is the question whether ideas are "excludable"; Jefferson affirms that an idea is "excludable" until "the moment it is divulged."

The other concept is whether my use of a divulged idea lessens your use of the same idea. This is the question of whether divulged ideas are "rivalrous."[28] Again, Jefferson suggests that, once they are divulged, ideas are not "rivalrous." Jefferson believes that the act of divulging/sharing has made ideas both nonexcludable and nonrivalrous, and that there is little that man can do to change this fact.[29]

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27. Letter from Thomas Jefferson, to Isaac Mcpherson, (Aug. 13, 1813), reprinted in 6 WRITINGS OF THOMAS JEFFERSON, 1790–1826 180–81 (H. A. Washington ed., 1854) quoted in Graham v. John Deere Company, 383 US 1, 8–9 n.2 (1966).
28. For the classic discussion, see Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, in THE RATE AND DIRECTION OF INVENTIVE ACTIVITY: ECONOMIC AND SOCIAL FACTORS 609, 616 – 617 (Princeton University Press 1962).
29. For a powerfully compelling problematization of the economic perspective in this context, see James Boyle, *Intellectual Property Policy Online: A Young Person's Guide*, 10 HARVARD JOURNAL OF LAW AND TECHNOLOGY 47 (1996). Boyle's work evinces the indeterminacy that economics ought to profess about whether increasing property rights over information will also increase the production of information.

In fact, shared ideas are both nonexcludable and nonrivalrous. I can exclude people from my secret ideas or writings–I can keep them secret, or build fences to keep people out. How easily, or how effectively, I can do so is a technical question. It depends on the architecture of protection that a given context provides. But given the proper technology, there is no doubt that I can keep people out. What I cannot do is to exclude people from my shared ideas or writings simply because they are not my secrets anymore.

My shared ideas are "nonrivalrous" goods, too. No technology (that we know of) will erase an idea from your head as it passes into my head. My knowing what you know does not lessen your knowing the same thing. That fact is a given in the world, and it makes intellectual property different. Unlike apples, and unlike houses, once shared, ideas are something I can take from you without diminishing what you have.

It does not follow, however, that there is no need for property rights over expressions or inventions.[30] Just because you can have what I have without lessening what I have does not mean that the state has no reason to create rights over ideas, or over the expression of ideas.

If a novelist cannot stop you from copying (rather than buying) her book, then she may have very little incentive to produce more books. She may have as much as she had before you took the work she produced, but if you take it without paying, she has no monetary incentive to produce more.

Now, of course, the incentives an author faces are quite complex and it is not possible to make simple generalizations.[31] But generalizations do not have to be perfect to make a point: Even if some authors write for free, it is still the case that the law needs some intellectual property rights. If the law did not protect authorship at all, there would be fewer authors. The law has a reason to protect the rights of authors, at least insofar as doing so gives them an incentive to produce. With ordinary property, the law must both create an incentive to produce and protect the right of possession; with intellectual property, the law need only create the incentive to produce.

This is the difference between these two very different kinds of property, and this difference fundamentally affects the nature of intellectual

30. Some insist on calling this "property"; see Frank H. Easterbrook, *Intellectual Property Is Still Property*, 13 Harvard Journal of Law and Public Policy 108 (1990).

31. This is the message of Justice Stephen Breyer's work on copyright, for example, Stephen Breyer, *The Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 Harvard Law Review 281 (1970).

property law. While we protect real and personal property to protect the owner from harm and give the owner an incentive, we protect intellectual property to ensure that we create a sufficient incentive to produce it. "Sufficient incentive," however, is something less than "perfect control." And in turn we can say that the ideal protections of intellectual property law are something less than the ideal protections for ordinary or real property.

This difference between the nature of intellectual property and ordinary property was recognized by our Constitution, which in article I, section 8, clause 8, gives Congress the power "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Note the special structure of this clause. First, it sets forth the precise reason for the power—to promote the progress of science and useful arts. It is for those reasons and those reasons only, that Congress may grant an exclusive right. And second, note the special temporality of this right: "for limited Times." The Constitution does not allow Congress to grant authors and inventors permanent exclusive rights to their writings and discoveries, only limited rights. (Though apparently those limited times can be extended.[32]) It does not give Congress the power to give them a perpetual "property" in their writings and discoveries, only an exclusive right over them for a limited time. The Constitution's protection for intellectual property then is fundamentally different from its protection of ordinary property. I've said that all property is granted subject to the limit of the public good. But even so, if the government decided to nationalize all property after a fifteen-year term of ownership, the Constitution would require it to compensate the owners. By contrast, if Congress set the copyright term at fifteen years, there would be no claim that the government pay compensation after the fifteen years were up. Intellectual property rights are a monopoly that the state gives to producers of intellectual property in exchange for their production of it. After a limited time, the product of their work becomes the public's to use as it wants. This is Communism at the core of our Constitution's protection of intellectual property. This "property" is not property in the ordinary sense of that term.

And this is true for reasons better than tradition as well. Economists have long understood that granting property rights over information is

32. See Eldred v. Ashcroft, 537 U.S. 186 (2003).

dangerous (to say the least).[33] This is not because of leftist leanings among economists; it is because economists are consequentialists, and their objective in granting any property right is simply to facilitate production. But there is no way to know, in principle, whether increasing or decreasing the rights granted under intellectual property law will lead to an increase in the production of intellectual property. The reasons are complex, but the point is not: Increasing intellectual property's protection is not guaranteed to "promote the progress of science and useful arts"–indeed, often doing so will stifle it.

The balance that intellectual property law traditionally strikes is between the protections granted the author and the public use or access granted everyone else. The aim is to give the author sufficient incentive to produce. Built into the law of intellectual property are limits on the power of the author to control use of the ideas she has created.[34]

A classic example of these limits and of this public use dimension is the right of "fair use." Fair use is the right to use copyrighted material, regardless of the wishes of the owner of that material. A copyright gives the owner certain rights; fair use is a limitation on those rights. It gives you the right to criticize this book, cut sections from it, and reproduce them in an article attacking me. In these ways and in others, you have the right to use this book independent of how I say it should be used.

Fair use does not necessarily work against the author's interest–or more accurately, fair use does not necessarily work against the interests of authors as a class. When fair use protects the right of reviewers to criticize books without the permission of authors, then more critics criticize. And the more criticism there is, the better the information is about what books people

33. For an extensive and balanced analysis, see William M. Landes and Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 JOURNAL OF LEGAL STUDIES 325, 325 – 327, 344 - 346 (1989). These authors note that because ideas are a public good–that is, an infinite number of people can use an idea without using it up–ideas are readily appropriated from the creator by other people. Hence, copyright protection attempts to balance efficiently the benefits of creating new works with the losses from limiting access and the costs of administering copyright protection; copyright protection seeks to promote the public benefit of advancing knowledge and learning by means of an incentive system. The economic rewards of the marketplace are offered to authors in order to stimulate them to produce and disseminate new works (326). See also RICHARD POSNER, LAW AND LITERATURE 389–405 (Harvard University Press 1998); WILLIAM M. LANDES AND RICHARD POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 8 - 9 (Harvard University Press 2003).

34. These limits come from both the limits in the copyright clause, which sets its purposes out quite clearly, and the First Amendment; see, for example, Feist Publications, Inc. v. Rural Telephone Service Co., 499 US 340, 346 (1991).

should buy. The better the information is about what to buy, the more people will buy it. Authors as a whole benefit from the system of fair use, even if particular authors do not.

The law of copyright is filled with such rules. Another is the "first sale" doctrine. If you buy this book, you can sell it to someone else free of any constraint I might impose on you.[35] This doctrine differs from the tradition in, for example, Europe, where there are "moral rights" that give the creator power over subsequent use.[36] I've already mentioned another example—limited term. The creator cannot extend the term for which the law will provide protection (even if Congress can); that is fixed by the statute and runs out when the statute runs out.

Taken together, these rules give the creator significant—but not perfect—control over the use of what he produces. They give the public some access, but not complete access. They are balanced differently from the balance the law strikes for ordinary property—by design. They are constitutionally structured to help build an intellectual and cultural commons.

The law strikes this balance. It is not a balance that would exist in nature. Without the law, and before cyberspace, authors would have very little protection; with the law, they have significant, but not perfect, protection. The law gives authors something they otherwise would not have in exchange for limits on their rights, secured to benefit the intellectual commons as a whole.

PRIVATE SUBSTITUTES FOR PUBLIC LAW

So copyright law strikes a balance between control and access. What about that balance when code is the law? Should we expect that any of the limits will remain? Should we expect code to mirror the limits that the law imposes? Fair use? Limited term? Would private code build these "bugs" into its protections?

The point should be obvious: When intellectual property is protected by code, nothing requires that the same balance be struck. Nothing requires the owner to grant the right of fair use. She might allow individuals to browse

35. The "first sale" doctrine was developed under 27 of the former Copyright Act (17 USC [1970]) and has since been adopted under 109(a) of the present Copyright Act; see United States v. Goss, 803 F2d 638 (11th Cir 1989) (discussing both versions of the Copyright Act).

36. Europeans like to say that "moral rights" have been part of their system since the beginning of time, but as Professor Jane C. Ginsburg has shown with respect to France, they are actually a nineteenth-century creation; see Jane C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, 64 Tulane Law Review 991 (1990).

for free, as a bookstore does, but she might not. Whether she grants this right depends on whether it profits her. Fair use becomes contingent upon private gain. More importantly, it becomes contingent upon the private gain of authors individually rather than authors as a class.

Thus, as privatized law, trusted systems regulate in the same domain that copyright law regulates. But unlike copyright law, they do not guarantee the same limits on copyright's protection. Trusted systems give the producer maximum control over the uses of copyrighted work–admittedly at a cheaper cost, thus perhaps permitting many more authors to publish. But they give authors almost perfect control in an area in which the law did not. Code thus displaces the balance that copyright law strikes by displacing the limits the law imposes. As Daniel Benloliel puts it:

> *[D]ecentralized content providers are . . . privatizing the enforcement authority with strict technological standards, under which individuals would be banned from access and use of particular digital content in a way that might override legitimate fair use.*[37]

So far my description simply sets law against code: the law of copyright either complemented by, or in conflict with, private code. You may not yet be convinced that we should consider this a conflict, because it has always been the case that one can exercise more control over a copyrighted work than the law gives you the right to exercise over the copyright. For example, if you own a painting that is in the public domain, there's no requirement for you to let anyone see it. You could lock it in your bedroom and never let anyone see it ever. In a sense, you've thus deprived the world of the value of this painting being in the "public domain." But no one has ever thought that this interaction between the law of trespass and copyright has created any important conflict. So why should anyone be troubled if copyright owners use code to lock up their content beyond the balance the law of copyright strikes?

If this is where you're stuck, then let me add one more part to the story. As I mentioned above, the DMCA contains an anti-circumvention provision. That part of the law forbids the circumvention of some technical protection measures; it forbids the development of tools to circumvent technical protection as well. Most important, it forbids these circumventions regardless of the purpose of the circumvention. Thus, if the underlying use you would make of a copyrighted work–if you could get access to it–is a

37. Daniel Benoliel, *Technological Standards, Inc.: Rethinking Cyberspace Regulative Epistemology*, 92 California Law Review 1069, 1114 (2004).

"fair use," the DMCA still makes it an offense to circumvent technical protections to get access to it. Thus one part of the law of copyright grants "fair use," while another part of copyright removes at least some fair use liberty where the fair use has been removed by technical means.[38] But so what, the skeptic will ask. What the law gives, the law can take away, can't it?

No it can't, and that's the point. As the Supreme Court has indicated, copyright law is consistent with the First Amendment only because of certain important limitations built into the law. Removing those limitations would then raise important First Amendment questions. Thus, when the law acts with code to remove the law's protection for fair use, this should raise an important question—at least for those concerned about maintaining the balance that copyright law strikes.

But maybe this conflict is just temporary. Couldn't the code be changed to protect fair use?

The answer to that hopeful (and again, hopeful because my main point is about whether incentives to protect fair use exist) question is no, not directly. Fair use inherently requires a judgment about purpose, or intent. That judgment is beyond the ken of even the best computers. Indirectly, however, fair use could be protected. A system that allowed an individual to unlock the trusted system if he claimed the use was fair (perhaps marking the used work with a tag to make it possible to trace the use back to the user) could protect fair use. Or as Stefik describes, a system that granted users a "fair use license," allowing them to unlock the content and use insurance backing the license to pay for any misuse, might also protect fair use.[39] But these alternatives again rely on structures beyond code. With the code itself, there is no way adequately to police fair use.

Some will respond that I am late to the party: Copyright law is already being displaced, if not by code then by the private law of contract. Through the use of click-wrap, or shrink-wrap, licenses, authors are increasingly demanding that purchasers, or licensees, waive rights that copyright law gave them. If copyright law gives the right to reverse-engineer, then these contracts might extract a promise not to reverse-engineer. If copyright law gives the right to dispose of the book however the purchaser wants after the first sale, then a contract might require that the user waive that right. And if these terms in the contract attached to every copyright work are enforceable merely

38. See Universal Studios, Inc. v. Corley, 273 F.3d 429 (2d Cir. 2001).
39. Stefik, The Internet Edge, 99–100.

by being "attached" and "knowable," then already we have the ability through contract law to rewrite the balance that copyright law creates.

I agree that this race to privatize copyright law through contract is already far along, fueled in particular by decisions such as Judge Frank Easterbrook's in *ProCD v. Zeidenberg*. But contracts are not as bad as code. Contracts are a form of law. If a term of a contract is inconsistent with a value of copyright law, you can refuse to obey it and let the other side get a court to enforce it. In some cases, courts have expressly refused to follow a contract term precisely because it is inconsistent with a copyright law value.[40] The ultimate power of a contract depends upon the decision by a court to enforce the contract or not. Although courts today are relatively eager to find ways to enforce these contracts, there is at least hope that if the other side makes its case very clear, courts could shift direction again.[41] As Stefik writes, trusted systems "differ from an ordinary contract in critical ways."

> *[I]n an ordinary contract, compliance is not automatic; it is the responsibility of the agreeing parties. There may be provisions for monitoring and checking on compliance, but the actual responsibility for acting in accordance with the terms falls on the parties. In addition, enforcement of the contract is ultimately the province of the courts.*[42]

The same is not true of code. Whatever problems there are when contracts replace copyright law, the problems are worse when code displaces copyright law. Again—where do we challenge the code? When the software protects without relying in the end on the state, where can we challenge the nature of the protection? Where can we demand balance when the code takes it away?

I don't mean to enter the extremely contentious debate about whether this change in control is good or appropriate. I've said too much about that elsewhere.[43] For our purposes here, the point is simply to recognize a significant change. Code now makes possible increasingly perfect control over how culture is spread. Regulations have "been fairly consistent . . . on the side of expanding the power of the owners to control the use of their products."[44] And these regulations invite a demand for perfect control over how culture is spread.

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40. See, e.g., People v. Network Associates, Inc., 195 Misc. 2d 384 (N.Y.Misc. 2003).
41. See William W. Fisher III, *Compulsory Terms in Internet-Related Contracts*, 73 Chicago-Kent Law Review (1998). Fisher catalogs public policy restrictions on freedom of contract, which he characterizes as "ubiquitous."
42. Stefik, The Internet Edge, 91–7.
43. See Lawrence Lessig, Free Culture: The Nature and Future of Creativity xiv–xvi (Penguin 2004).
44. Yochai Benkler, *Net Regulation: Taking Stock and Looking Forward*, 71 University of Colorado Law Review 1203, 1254 (2000).

The rise of contracts qualifying copyright law and the rise of code qualifying copyright law raise a question that the law of copyright has not had to answer before. We have never had to choose whether authors should be permitted perfectly to control the use of their intellectual property independent of the law, for such control was not possible. The balance struck by the law was the best that authors could get. But now, code gives authors a better deal. The question for legal policy is whether this better deal makes public sense.

Here we confront the first latent ambiguity within the law of copyright. There are those who would say that copyright law already decides this question— whether against code-based control, or for it. But in my view, this is a choice the law has yet to make. I have my own views about how the law should decide the question. But what technology has done is force us to see a choice that was not made before. See the choice, and then make it.

Put most directly: There has always been a set of uses of copyrighted work that was unregulated by the law of copyright. Even within the boundary of uses that were regulated by the law of copyright, "fair use" kept some uses free. The core question is why? Were these transactions left free because it was too costly to meter them? Or were these transactions left free because keeping them free was an important public value tied to copyright?

This is a question the law never had to resolve, though there is support for both views.[45] Now the technology forces us to resolve it. The question, then, is how.

A nice parallel to this problem exists in one part of constitutional law. The framers gave Congress the power to regulate interstate commerce and commerce that affects interstate commerce.[46] At the founding, that was a lot

45. See Campbell v. Acuff-Rose Publishing, 510 U.S. 569 (1994). In Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUMBIA LAW REVIEW 1600 (1982) the author argues that the courts should employ fair use to permit uncompensated transfers that the market is incapable of effectuating; see also Wendy J. Gordon, *On Owning Information: Intellectual Property and Restitutionary Impulse*, 78 VIRGINIA LAW REVIEW 149 (1992). In Wendy J. Gordon, *Reality as Artifact: From Feist to Fair Use*, 55 LAW AND CONTEMPORARY PROBLEMS 93, 96 (1992), Gordon observes that, while imaginative works are creative, they may also comprise facts, which need to be widely available for public dissemination. Wendy J. Gordon, *Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problem of Private Censorship*, 57 UNIVERSITY OF CHICAGO LAW REVIEW 1009 (1990), there is a discussion of the ability of copyright holders to deny access to critics and others; see also Wendy Gordon, *An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STANFORD LAW REVIEW 1343 (1989).

46. See Gibbons v. Ogden, 22 US 1 (1824) (striking down New York's grant of a monopoly of steamboat navigation on the Hudson River as inconsistent with the federal Coasting Act of 1793); McCulloch v. Maryland, 17 US 316 (1819) (pronouncing that Congress has the power to do what is "necessary and proper" to achieve a legitimate end, like the regulation of interstate commerce).

of commerce, but because of the inefficiencies of the market, not all of it. Thus, the states had a domain of commerce that they alone could regulate.[47]

Over time, however, the scope of interstate commerce has changed so that much less commerce is now within the exclusive domain of the states. This change has produced two sorts of responses. One is to find other ways to give states domains of exclusive regulatory authority. The justification for this response is the claim that these changes in interstate commerce are destroying the framers' vision about state power.

The other response is to concede the increasing scope of federal authority, but to deny that it is inconsistent with the framing balance.[48] Certainly, at the founding, some commerce was not interstate and did not affect interstate commerce. But that does not mean that the framers intended that there must always be such a space. They tied the scope of federal power to a moving target; if the target moves completely to the side of federal power, then that is what we should embrace.[49]

In both contexts, the change is the same. We start in a place where balance is given to us by the mix of frictions within a particular regulatory domain: Fair use is a balance given to us because it is too expensive to meter all use; state power over commerce is given to us because not all commerce affects interstate commerce. When new technology disturbs the balance, we must decide whether the original intent was that there be a balance, or that the scope of one side of each balance should faithfully track the index to which it was originally tied. Both contexts, in short, present ambiguity.

Many observers (myself included) have strong feelings one way or the other. We believe this latent ambiguity is not an ambiguity at all. In the context of federal power, we believe either that the states were meant to keep a domain of exclusive authority[50] or that the federal government was

47. See Bernard C. Gavit, The Commerce Clause of the United States Constitution 84 (Principia Press 1932).

48. See Pensacola Telegraph Company v. Western Union Telegraph Company, 96 US 1, 9 (1877).

49. As one commentator put it near the turn of the century: "If the power of Congress has a wider incidence in 1918 than it could have had in 1789, this is merely because production is more dependent now than then on extra-state markets. No state liveth to itself alone to any such extent as was true a century ago. What is changing is not our system of government, but our economic organization"; Thomas Reed Powell, *The Child Labor Law, the Tenth Amendment, and the Commerce Clause*, 3 Southern Law Quarterly 175, 200–201 (1918).

50. See 1 Alexis de Tocqueville, Democracy in America 158–70 (Vintage 1990), on the idea that the framers' design pushed states to legislate in a broad domain and keep the local government active.

to have whatever power affected interstate commerce.[51] In the context of fair use, we believe that either fair use is to be a minimum of public use, guaranteed regardless of the technology,[52] or that it is just an efficient compromise in response to an inefficient technology, to be removed as soon as efficiency can be achieved.

But in both cases, this may make the problem too easy. The best answer in both contexts may be that the question was unresolved at the framing: Perhaps no one thought of the matter, and hence there is no answer to the question of what they would have intended if some central presupposition had changed. And if there was no original answer, we must decide the question by our own lights. As Stefik says of trusted systems—and, we might expect, of the implications of trusted systems—"It is a tool never imagined by the creators of copyright law, or by those who believe laws governing intellectual property cannot be enforced."[53]

The loss of fair use is a consequence of the perfection of trusted systems. Whether you consider it a problem or not depends on your view of the value of fair use. If you consider it a public value that should exist regardless of the technological regime, then the emergence of this perfection should trouble you. From your perspective, there was a value latent in the imperfection of the old system that has now been erased.

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51. See Maryland v. Wirtz, 392 US 183, 201 (1968) (Justice William O. Douglas dissenting: The majority's bringing of employees of state-owned enterprises within the reach of the commerce clause was "such a serious invasion of state sovereignty protected by the Tenth Amendment that it . . . [was] not consistent with our constitutional federalism"); State Board of Insurance v. Todd Shipyards Corporation, 370 US 451, 456 (1962) (holding that "the power of Congress to grant protection to interstate commerce against state regulation or taxation or to withhold it is so complete that its ideas of policy should prevail").
52. See Michael G. Frey, *Unfairly Applying the Fair Use Doctrine: Princeton University Press v. Michigan Document Services, 99 F3d 1381 (6th Cir 1996)*, 66 University of Cincinnati Law Review 959, 1001 (1998); Frey asserts that "copyright protection exists primarily for the benefit of the public, not the benefit of individual authors. Copyright law does give authors a considerable benefit in terms of the monopolistic right to control their creations, but that right exists only to ensure the creation of new works. The fair use doctrine is an important safety valve that ensures that the benefit to individual authors does not outweigh the benefit to the public"; Marlin H. Smith, *The Limits of Copyright: Property, Parody, and the Public Domain*, 42 Duke Law Journal 1233, 1272 (1993) (asserts that "copyright law is better understood as that of a gatekeeper, controlling access to copyrighted works but guaranteeing, via fair use, some measure of availability to the public.)"
53. Mark Stefik, *Letting Loose the Light: Igniting Commerce in Electronic Publication*, in Internet Dreams, Archetypes, Myths, and Metaphors 244 (Mark Stefik ed., MIT Press 1996). For an excellent use of the general analysis of Code to argue that the specific analysis of this chapter is mistaken, see John Tehranian, *All Rights Reserved? Reassessing Copyright and Patent Enforcement in the Digital Age*, 72 University of Cincinnati Law Review 45 (2003).

But even if you do not think that the loss of fair use is a problem, trusted systems threaten other values latent in the imperfection of the real world. Consider a second.

THE ANONYMITY THAT IMPERFECTION ALLOWS

I was a student at an English university for a number of years. In the college I attended, there was a "buttery"—a shop inside the college that basically sold alcohol. During the first week I was there I had to buy a large amount of Scotch (a series of unimaginative gifts, as I remember). About a week after I made these purchases, I received a summons from my tutor to come talk with him in his office. When I arrived, the tutor asked me about my purchases. This was, to his mind, an excessive amount of alcohol, and he wanted to know whether I had a good reason for buying it.

Needless to say, I was shocked at the question. Of course, technically, I had made a purchase at the college, and I had not hidden my name when I did so (indeed, I had charged it on my college account), so, formally, I had revealed my alcohol purchases to the college and its agents. Still, it shocked me that this information would be monitored by college authorities and then checked up on. I could see why they did it, and I could see the good that might come from it. It just never would have occurred to me that these data would be used in this way.

If this was an invasion, of course, it was a small one. Later it was easy for me to hide my binges simply by buying from a local store rather than the college buttery. (Though I later learned that the local store rented its space from the college, so who knows what deal they had struck?) And in any case, I was not being punished. The college was just concerned. But the example suggests a more general point: We reveal to the world a certain class of data about ourselves that we ordinarily expect the world not to use. What happens when they use it?

Trusted systems depend on such data—they depend on the ability to know how people use the property that is being protected. To set prices most efficiently, the system ideally should know as much about individuals and their reading habits as possible. It needs to know this data because it needs an efficient way to track use and so to charge for it.[54]

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54. Efficient here both in the sense of cheap to track and in the sense of cheap to then discriminate in pricing; William W. Fisher III, *Property and Contract on the Internet*, 74 CHICAGO- KENT LAW REVIEW 1203 (1998).

But this tracking involves a certain invasion. We live now in a world where we think about what we read in just the way that I thought about what I bought as a student in England—we do not expect that anyone is keeping track. We would be shocked if we learned that the library was keeping tabs on the books that people checked out and then using this data in some monitoring way.

Such tracking, however, is just what trusted systems require. And so the question becomes: Should there be a right against this kind of monitoring? The question is parallel to the question of fair use. In a world where this monitoring could not effectively occur, there was, of course, no such right against it. But now that monitoring can occur, we must ask whether the latent right to read anonymously, given to us before by imperfections in technologies, should be a legally protected right.

Julie Cohen argues that it should, and we can see quite directly how her argument proceeds.[55] Whatever its source, it is a value in this world that we can explore intellectually on our own. It is a value that we can read anonymously, without fear that others will know or watch or change their behavior based on what we read. This is an element of intellectual freedom; it is a part of what makes us as we are.[56]

But this element is potentially erased by trusted systems. These systems need to monitor, and this monitoring destroys anonymity. We need to decide whether, and how, to preserve values from today in a context of trusted systems.

This could first be a question of translation: namely, how should changes in technology be accommodated to preserve values from an earlier context in a new context? It is the same question that Brandeis asked about wiretapping.[57] It is the question the Court answers in scores of contexts all the time. It is fundamentally a question about preserving values when contexts change.

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55. Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at 'Copyright Management' in Cyberspace*, 28 Connecticut Law Review 981, 982 (1996): Reading anonymously is "so intimately connected with speech and freedom of thought that the First Amendment should be understood to guarantee such a right". Cohen has extended her analysis in the context of technology that didn't gather private information. See Julie E. Cohen, *DRM and Privacy*, 18 Berkeley Technology Law Journal 575 (2003). See also Helen Nissenbaum, *Securing Trust Online: Wisdom or Oxymoron*, 81 Boston University Law Review 635 (2001) (describing the dynamic of trust emerging systems will evoke). For related, and powerful work, see Sonia K. Katyal, *The New Surveillance*, 54 Case Western Reserve Law Review 297 (2003).

56. "The freedom to read anonymously is just as much a part of our tradition, and the choice of reading materials just as expressive of identity, as the decision to use or withhold one's name" Julie E. Cohen, *A Right to Read Anonymously: A Closer Look at 'Copyright Management' in Cyberspace*, 28 Connecticut Law Review 981, 1012 (1996).

57. See Olmstead v. United States 277 US 438, 474 (1928) (Justice Louis Brandeis dissenting: "Can it be that the Constitution affords no protection against such invasions of individual security?").

In the context of both fair use and reading, Cohen has a consistent answer to this question of translation. She argues that there is a right to resist, or "hack," trusted systems to the extent that they infringe on traditional fair use. (Others have called this the "Cohen Theorem.") As for reading, she argues that copyright management schemes must protect a right to read anonymously–that if they monitor, they must be constructed so that they preserve anonymity. The strategy is the same: Cohen identifies a value yielded by an old architecture but now threatened by a new architecture, and then argues in favor of an affirmative right to protect the original value.

But here again we might view the question more ambiguously. I share Cohen's view, but the argument on the other side is not silly. If it's permissible to use technology to make copyrighted works available, why isn't it permissible to gather data about who uses what works? That data gathering is not part of the copyright itself; it is a byproduct of the technology. And as our tradition has never had this technical capacity before, it is hard to say a choice was made about it in the past.

PERMISSION CULTURE VS. FREE

I've already described the limits copyright law places on itself. These limits, as I argued, reflect important values. They express the balance that copyright law aims to be.

But what is too often missed in this discussion of balance is any sense of perspective. We focus on the gradual shifts in the law but miss the profound sense in which the significance of the law has changed. This change is produced by the unintended interaction between the architecture of digital technologies and the architecture of the law.

Copyright law at its core regulates "copies." In the analog world, there were very few contexts in which one produced "copies." As Jessica Litman described more than a decade ago,

> *At the turn of the century, U.S. copyright law was technical, inconsistent, and difficult to understand, but it didn't apply to very many people or very many things. If one were an author or publisher of books, maps, charts, paintings, sculpture, photographs or sheet music, a playwright or producer of plays, or a printer, the copyright law bore on one's business. Booksellers, piano-roll and phonograph record publishers, motion picture producers, musicians, scholars, members of Congress, and ordinary consumers could go about their business without ever encountering a copyright problem.*[58]

58. See Jessica Litman, *The Exclusive Right to Read*, 13 Cardozo Arts and Entertainment Law Journal 29 (1994).

Thus there were many ways in which you could use creative work in the analog world without producing a copy.

Digital technology, at its core, makes copies. Copies are to digital life as breathing is to our physical life. There is no way to use any content in a digital context without that use producing a copy. When you read a book stored on your computer, you make a copy (at least in the RAM memory to page through the book).When you do anything with digital content, you technically produce a copy.

This technical fact about digital technologies, tied to the technical architecture of the law, produces a profound shift in the scope or reach of the law of copyright that too many simply miss: While in the analog world, life was sans copyright law; in the digital world, life is subject to copyright law. Every single act triggers the law of copyright. Every single use is either subject to a license or illegal, unless deemed to be "fair use." The emergence of digital technologies has thus radically increased the domain of copyright law—from regulating a tiny portion of human life, to regulating absolutely every bit of life on a computer.

Now if all you think about is protecting the distribution of professionally created culture, this might not concern you much. If you're trying to stop "piracy," then a regime that says every use requires permission is a regime that gives you a fairly broad range of tools for stamping out piracy.

But though you wouldn't notice this listening to the debates surrounding copyright law just now, in fact, protecting the distribution of professionally created culture is not the only, or even, I suggest, the most important part of culture. And indeed, from a historical perspective, top down, professionally produced culture is but a tiny part of what makes any culture sing. The 20th century may have been an exception to this rule, but no Congress voted to make professional culture the only legal culture within our society.

Standing alongside professional culture is amateur culture—where amateur doesn't mean inferior or without talent, but instead culture created by people who produce not for the money, but for the love of what they do. From this perspective, there is amateur culture everywhere—from your dinner table, where your father or sister tell jokes that take off from the latest political scandal or the latest *Daily Show;* from your basement, where your brother and his three best friends are causing permanent damage to their eardrums as they try to become the next Rolling Stones; from your neighbors who gather each Thursday and Sunday to sing in a church choir; from your neighborhood schools, where kids and teachers create art or music in the course of learning about our culture; from the kids at your neighborhood school, who tear their pants or wear their shirts in some odd way, all as a way to express and make culture.

This amateur culture has always been with us, even if it is to us today, as Dan Hunter and Greg Lastowska put it, "hidden."[59] It is precisely how the imagination of kids develops;[60] it is how culture has always developed. As Siva Vaidhyanathan writes,

> *widespread democratic cultural production (peer-to-peer production, one might say) . . . merely echoes how cultural texts have flowed through and been revised by discursive communities everywhere for centuries. Texts often undergo a process similar to a game of "telephone," through which a text is substantially– sometimes almost unintentionally–distorted through many small revisions. . . . Such radical textual revisions have occurred in other contexts and have helped build political critiques, if not movements. For instance, historian Lawrence Levine (1988) has documented how working-class players and audiences in nineteenth-century America adapted and revised the works of William Shakespeare to their local contexts, concerns and ideologies. And historian Eric Lott (1993) has shown how Uncle Tom's Cabin was reworked by working-class white communities to aid the cause of racial dominance instead of the Christian liberationist message the book was intended to serve.*[61]

Importantly, too, this kind of cultural remix has historically been free of regulation. No one would think that as you tell a joke around your dinner table, or sing songs with your friends, or practice to become the next Rolling Stones, you need a lawyer standing next to you, clearing the rights to "use" the culture as you make your creative remix. The law of copyright, historically, has been focused on commercial life. It has left the noncommercial, or beyond commercial, creativity free of legal regulation.

59. See Dan Hunter and F. Gregory Lastowka, *Amateur-to-Amateur*, 46 William and Mary Law Review 951, 1026–27 (December 2004).

60. J.D. Lasica, Darknet: Hollywood's War Against the Digital Generation 18 (Wiley 2005). ("The director of MIT's Comparative Media Studies Program and author of nine books on popular culture, [Henry] Jenkins says that from an early age, children reimagine what you can do with characters and settings from movies and TV. They play video games that permit control over a character within limited boundaries. Newer games allow an even broader range of interactivity and behaviors. When they get online, they can share stories, and children as young as seven are posting to fan fiction sites with simple but interesting stories about Harry Potter and Pokemon.").

61. Siva Vaidhyanathan, *Remote Control: The Rise of Electronic Cultural Policy*, 597 Annals of the American Academy of Political and Social Science 122, 126 (January 2005).

All this has now changed, and digital technologies are responsible. First, and most important, digital technologies have radically expanded the scope of this amateur culture. Now the clever remix of some political event or the latest song by your favorite band are not just something you can share with your friends. Digital technologies have made it simple to capture and share this creativity with the world. The single most important difference between the Internet circa 1999 and the Internet circa today is the explosion of user generated creativity—from blogs, to podcasts, to videocasts, to mash ups; the Internet today is a space of extraordinary creativity.

Second, digital technologies have democratized creativity. Technology has given a wide range of potential creators the capacity to become real. "People are waking from their consumerist coma," one commentator describes.[62] As DJ Danger Mouse put it at the Web 2.0 conference in 2004,

> *Mashing is so easy. It takes years to learn how to play the guitar and write your own songs. It takes a few weeks of practice with a turntable to make people dance and smile. It takes a few hours to crank out something good with some software. So with such a low barrier to entry, everyone jumps in and starts immediately being creative.*[63]

But third, and directly relevant to the story of this chapter, to the extent this creativity finds its expression on the Net, it is now subject to the regulation of copyright law. To the extent it uses others' creativity, it needs the permission of others. To the extent it builds upon the creativity of others, it needs to be sure that that creativity can be built upon legally. A whole system of regulation has now been grafted upon an economy of creativity that until now has never known regulation. Amateur culture, or bottom up culture, or the culture that lives outside of commercial transactions—all of this is subject to regulation in a way that 30 years ago it was not.

A recent example of this conflict makes the point very concisely. There's a genre of digital creativity called Anime Music Videos (AMVs). AMVs are remixes of anime cartoons and music. Kids spend hundreds, sometimes thousands of hours reediting the anime cartoons to match them perfectly to music. The result is, in a word, extraordinary. It is among the most creative uses of digital technology that I have seen.

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62. J.D. Lasica, Darknet: Hollywood's War Against the Digital Generation 78 (Wiley & Sons 2005), quoting Ernest Miller.
63. From DJ Danger Mouse Web 2.0 Conference presentation "Music Is a Platform," Oct. 6, 2004, quoted in J.D. Lasica, Darknet: Hollywood's War Against the Digital Generation 211 (Wiley & Sons 2005).

While this genre of creativity is not small, it's also not huge. Basically one site dominates activity around AMVs. That site has more than 500,000 members, and some 30,000 creators upload AMV content to the site.

In November 2005, one prominent record label, Wind-Up Records, informed this website that it wanted all Wind-Up Records artists removed from the site. That was some 3,000 videos, representing at least 250,000 hours of volunteer work by creators across the world—work that would have just one real effect: to promote the underlying artists' work.

From the perspective of the law as it is, this is an easy case. What the kids are doing is making a derivative work of the anime; they are distributing full copies of the underlying music; and they are synchronizing the music to video—all without the permission of the copyright owners.

But from the perspective of culture, this should be a very hard case. The creativity demonstrated by this work is extraordinary. I can't show you that creativity in a book, but the notes point you to an example that you can see.[64] It is noncommercial, amateur creative work—precisely the sort that has never been subject to the regulation of the law, but which now, because it is living in digital context, is monitored, and regulated, by the law.

Here again, I have strong feelings about what the right answer should be. But we should recognize the latent ambiguity this conflict presents:

Because of the changes in digital technology, it is now possible for the law to regulate every single use of creative work in a digital environment. As life increasingly moves into a digital environment, this means that the law will regulate more and more of the use of culture.

Is this consistent with our values?

The answer again could be found first by trying to translate framing values into the current context. From that perspective, it would be extraordinarily difficult to imagine that the framing vision would have included the level of legal regulation that the current regime entails.

Again, that conclusion could be questioned by recognizing that the possibility of such extensive regulation didn't exist, and so the choice about whether such extensive regulation should be allowed wasn't made. That choice, when made, should recognize that while there is extensive and new regulation of amateur culture, that regulation creates new wealth for

64. See, for example, anime music videos, http://www.animemusicvideos.org/home/home.php.

professional culture. There's a choice to be made about which form of culture we should protect. That choice has not yet been made directly. It is one more choice we have yet to make.

THE PROBLEMS THAT PERFECTION MAKES

These three examples reveal a common pattern—one that will reach far beyond copyright. At one time we enjoyed a certain kind of liberty. But that liberty was not directly chosen; it was a liberty resulting from the high costs of control.[65] That was the conclusion we drew about fair use—that when the cost of control was high, the space for fair use was great. So too with anonymous reading: We read anonymously in real space not so much because laws protect that right as because the cost of tracking what we read is so great. And it was the same with amateur culture: That flourished free of regulation because regulation could not easily reach it.

When costs of control fall, however, liberty is threatened. That threat requires a choice—do we allow the erosion of an earlier liberty, or do we erect other limits to re-create that original liberty?

The law of intellectual property is the first example of this general point. As the architecture of the Internet changes, it will allow for a greater protection of intellectual property than real-space architectures allowed; this greater protection will force a choice on us that we do not need to make in real space. Should the architecture allow perfect control over intellectual property, or should we build into the architecture an incompleteness that guarantees a certain aspect of public use or a certain space for individual freedom?

Ignoring these questions will not make them go away. Pretending that the framers answered them is no solution either. In this context (and this is just the first) we will need to make a judgment about which values the architecture will protect.

CHOICES

I've argued that cyberspace will open up three important choices in the context of intellectual property: whether to allow intellectual property in effect to become completely propertized (for that is what a perfect code

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65. Peter Huber relies explicitly on the high costs of control in his rebuttal to Orwell's 1984; see PETER HUBER, ORWELL'S REVENGE: THE 1984 PALIMPSEST (Maxwell Macmillan International 1994). But this is a weak basis on which to build liberty, especially as the cost of networked control drops. FRANCES CAIRNCROSS, THE DEATH OF DISTANCE: HOW THE COMMUNICATIONS REVOLUTION WILL CHANGE OUR LIVES 194–95 (Harvard Business School Press 1997) (effectively challenges the idea as well).

regime for protecting intellectual property would do); and whether to allow this regime to erase the anonymity latent in less efficient architectures of control; and whether to allow the expansion of intellectual property to drive out amateur culture. These choices were not made by our framers. They are for us to make now.

I have a view, in this context as in the following three, about how we should exercise that choice. But I am a lawyer. Lawyers are taught to point elsewhere—to the framers, to the United Nations charter, to an act of Congress— when arguing about how things ought to be. Having said that there is no such authority here, I feel as if I ought to be silent.

Cowardly, not silent, however, is how others might see it. They say that I should say what I think. So in each of these three applications (intellectual property, privacy, and free speech), I will offer my view about how these choices should be made. But I do this under some duress and encourage you to simply ignore what I believe. It will be short, and summary, and easy to discard. It is the balance of the book—and, most importantly, the claim that we have a choice to make—that I really want to stick.

ANONYMITY

Cohen, it seems to me, is plainly right about anonymity, and the Cohen Theorem is inspirational. However efficient the alternative may be, we should certainly architect cyberspaces to ensure anonymity—or more precisely, pseudonymity — first. If the code is going to monitor what I do, then at least it should not know that it is "I" that it is monitoring. I am less troubled if it knows that "14AH342BD7" read such and such; I am deeply troubled if that number is tied back to my name.

Cohen is right for a second reason as well: All of the good that comes from monitoring could be achieved while protecting privacy. It may take a bit more coding to build in routines for breaking traceability; it may take more planning to ensure that privacy is protected. But if those rules are embedded up front, the cost would not be terribly high. It is far cheaper to architect privacy protections now rather than retrofit for them later.

THE COMMONS

By "the Commons" I mean a resource that anyone within a relevant community can use without seeking the permission of anyone else. Such permission may not be required because the resource is not subject to any legal control (it is, in other words, in the public domain). Or it may not be required because permission to use the resource has already been granted.

In either case, to use or to build upon this resource requires nothing more than access to the resource itself.[66]

In this sense, the questions about the scope and reach of copyright law ask whether our future will protect the intellectual commons that it did in the past. Again, it did so in the past because the friction of control was too great. But now that that friction is gone, will we preserve or destroy the commons that used to exist?

My view is that it ought to be preserved.

We can architect cyberspace to preserve a commons or not. (Jefferson thought that nature had already done the architecting, but Jefferson wrote before there was code.)We should choose to architect it with a commons. Our past had a commons that could not be designed away; that commons gave our culture great value. What value the commons of the future could bring us is something we are just beginning to see. Intellectual property scholars saw it—long before cyberspace came along—and laid the groundwork for much of the argument we need to have now.[67] The greatest work in the law of cyberspace has been written in the field of intellectual property. In a wide range of contexts, these scholars have made a powerful case for the substantive value of an intellectual commons.[68]

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66. LAWRENCE LESSIG, THE FUTURE OF IDEAS: THE FATE OF THE COMMONS IN A CONNECTED WORLD 19–23 (Random House 2001).

67. A founding work is David Lange, *Recognizing the Public Domain*, 44 LAW AND CONTEMPORARY PROBLEMS 147 (1981). There are many important foundations, however, to this argument. See, for example, BENJAMIN KAPLAN, AN UNHURRIED VIEW OF COPYRIGHT (Columbia University Press 1967). In Wendy J. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUMBIA LAW REVIEW 1600 (1982), Gordon argues that the courts should employ fair use to permit uncompensated transfers that the market is incapable of effectuating; see also Wendy J. Gordon, *On Owning Information: Intellectual Property and Restitutionary Impulse*, 78 VIRGINIA LAW REVIEW 149 (1992). In Wendy J. Gordon, *Reality as Artifact: From Feist to Fair Use*, 55 LAW AND CONTEMPORARY PROBLEMS 93, 96 (1992), Gordon observes that, while imaginative works are creative, they may also comprise facts, which need to be widely available for public dissemination. Wendy J. Gordon, *Toward a Jurisprudence of Benefits: The Norms of Copyright and the Problem of Private Censorship*, 57 UNIVERSITY OF CHICAGO LAW REVIEW 1009 (1990) is a discussion of the ability of copyright holders to deny access to critics and others; see also Wendy J. Gordon, *An Inquiry into the Merits of Copyright: The Challenges of Consistency, Consent, and Encouragement Theory*, 41 STANFORD LAW REVIEW 1343 (1989).

68. In the first edition to this book, in addition to Boyle, I acknowledged broadly the work that had informed my understanding, including Keith Aoki, *Foreword to Innovation and the Information Environment: Interrogating the Entrepreneur*, 75 OREGON LAW REVIEW 1 (1996); in Keith Aoki, *(Intellectual) Property and Sovereignty: Notes Toward a Cultural Geography of Authorship*, 48 STANFORD LAW REVIEW (1996), Aoki discusses the challenges to the traditional concept of property that arise from the growth of digital information technology; in Keith Aoki, *Authors, Inventors, and Trademark Owners: Private Intellectual Property and the Public Domain*, 18 COLUMBIA-VLA JOURNAL OF LAW AND THE ARTS 1 (1993), he observes the shifting boundaries in intellectual property law between "public" and "private" realms of information and argues that trends to increase the number of exclusive rights

for authors are converting the public domain into private intellectual property and constraining other types of socially valuable uses of expressive works that do not fit the "authorship" model underlying American copyright traditions; he also argues that recent expansion of trademark law has allowed trademark owners to obtain property rights in their trademarks that do not further the Lanham Act's goal of preventing consumer confusion. Yochai Benkler, *Free as the Air to Common Use: First Amendment Constraints on Enclosure of the Public Domain*, 74 New York University Law Review 354 (1999); Yochai Benkler, *Overcoming Agoraphobia: Building the Commons of the Digitally Networked Environment*, 11 Harvard Journal of Law and Technology 287 (1998); Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 Berkeley Technology Law Journal 1089 (1998); Julie E. Cohen, *Lochner in Cyberspace: The New Economic Orthodoxy of 'Rights Management*, 97 Michigan Law Review 462 (1998); Julie E. Cohen, *Some Reflections on Copyright Management Systems and Laws Designed to Protect Them*, 12 Berkeley Technology Law Journal 161, 181–82 (1997); Julie E. Cohen, *Reverse-Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of 'Lock-Out' Programs*, 68 Southern California Law Review 1091 (1995). Niva Elkin-Koren, *Contracts in Cyberspace: Rights Without Laws*, 73 Chicago-Kent Law Review 1155 (1998); Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 Berkeley Technology Law Journal 93, 107–10 (1997) (criticizing the ProCD decision); Niva Elkin-Koren, *Cyberlaw and Social Change: A Democratic Approach to Copyright Law in Cyberspace*, 14 Cardozo Arts and Entertainment Law Journal 215 (1996); in Niva Elkin-Koren, *Copyright Law and Social Dialogue on the Information Superhighway: The Case Against Copyright Liability of Bulletin Board Operators*, 13 Cardozo Arts and Entertainment Law Journal 345, 390–99 (1995), Elkin-Koren analyzes the problems created by applying copyright law in a digitized environment. In Niva Elkin-Koren, *Goodbye to All That–A Reluctant (and Perhaps Premature) Adieu to a Constitutionally Grounded Discourse of Public Interest in Copyright Law*, 29 Vanderbilt Journal of Transnational Law 595 (1996), Peter A. Jaszi advocates the development of new, policy grounded arguments and constitutionally based reasoning to battle expansionist legislative and judicial tendencies in copyright to diminish public access to the "intellectual commons"; see also Peter A. Jaszi, *On the Author Effect: Contemporary Copyright and Collective Creativity*, 10 Cardozo Arts and Entertainment Law Journal 293, 319–20 (1992); Peter A. Jaszi, *Toward a Theory of Copyright: The Metamorphoses of 'Authorship*, 1991 Duke Law Journal 455 (1991). On the misuse of copyright, see Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 California Law Review 111 (1999); Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 Texas Law Review 989, 1048–68 (1997); in Mark A. Lemley, *Intellectual Property and Shrink-wrap Licenses*, 68 Southern California Law Review 1239, 1239 (1995), Lemley notes that "software vendors are attempting en masse to 'opt out' of intellectual property law by drafting license provisions that compel their customers to adhere to more restrictive provisions than copyright . . . law would require." Jessica Litman, *The Tales That Article 2B Tells*, 13 Berkeley Technology Law Journal 931, 938 (1998) characterizes as "dubious" the notion that current law enables publishers to make a transaction into a license by so designating it. In her view, article 2B is "confusing and confused" about copyright and its relationship with that law, and would make new law. She believes that "whatever the outcome" of the debate over whether copyright makes sense in the digital environment; see Jessica Litman, *Reforming Information Law in Copyright's Image*, 22 Dayton Law Review 587, 590 (1997), "copyright doctrine is ill-adapted to accommodate many of the important interests that inform our information policy. First Amendment, privacy, and distributional issues that copyright has treated only glancingly are central to any information policy." See also Jessica Litman, *Revising Copyright Law for the Information Age*, 75 Oregon Law Review 19 (1996); and Jessica Litman, *The Exclusive Right to Read*, 13 Cardozo Arts and Entertainment Law Journal 29, 48 (1994), in which Litman states that "much of the activity on the net takes place on the mistaken assumption that any material on the Internet is free from copyright unless expressly declared to be otherwise." In Jessica Litman, *Copyright as Myth*, 53 University of Pittsburgh Law Review 235, 235–37 (1991), Litman provides a general overview of the issues of authorship and infringement in copyright law, indicating that debate continues regarding the definition of "authorship" (she defines "author" "in the copyright sense of anyone who creates copyrightable works, whether they be books, songs, sculptures, buildings, computer programs, paintings or films" [236, n.5]); she also discusses why copyright law is counterintuitive to the authorship process. See also Jessica Litman, *The Public Domain*, 39 Emory Law Journal 965, 969 (1990), James Boyle puts the case most dramatically in his extraordinary book *Shamans, Software, and Spleens*.[69] Drawing together both cyberspace and non cyberspace questions, he spells out the challenge we face in an information society—particularly the political challenge.[70] Elsewhere he identifies our need for an "environmental movement" in information policy—a rhetoric that gets people to see the broad range of values put at risk by this movement to propertize all information. Boyle's work has inspired many others to push a similar agenda of freedom.[71]

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in which Litman recommends a broad definition of the public domain ("originality is a keystone of copyright law" [974]). Neil Weinstock Netanel, *Asserting Copyright's Democratic Principles in the Global Arena*, 51 VANDERBILT LAW REVIEW 217, 232 n.48, 299 n.322 (1998); Neil Netanel, *Alienability Restrictions and the Enhancement of Author Autonomy in United States and Continental Copyright Law*, 12 CARDOZO ARTS AND ENTERTAINMENT LAW JOURNAL 1, 42–43 (1994); in Neil Weinstock Netanel, *[C]opyright and a Democratic Civil Society*, 106 YALE LAW JOURNAL 283, 288, 324–36 (1996), Netanel analyzes copyright law and policy in terms of its democracy-enhancing function: "Copyright is in essence a state measure that uses market institutions to enhance the democratic character of society." Margaret Jane Radin and Polk Wagner, *The Myth of Private Ordering: Rediscovering Legal Realism in Cyberspace*, 73 CHICAGO-KENT LAW REVIEW 1295 (1998); MARGARET JANE RADIN, REINTERPRETING PROPERTY 56–63 (University of Chicago Press 1993). Pamela Samuelson, *Encoding the Law into Digital Libraries*, 41 COMMUNICATIONS OF THE ACM 13, 13–14 (1999); Pamela Samuelson, *Intellectual Property and Contract Law for the Information Age: Foreword to a Symposium*, 87 CALIFORNIA LAW REVIEW 1 (1998); Pamela Samuelson observes in *Embedding Technical Self-Help in Licensed Software*, 40 COMMUNICATIONS OF THE ACM 13, 16 (1997) that "licensors of software or other information . . . will generally invoke self help"; see also the criticism of the European database directive in J. H. Reichman and Pamela Samuelson, *Intellectual Property Rights in Data?*, 50 VANDERBILT LAW REVIEW 51, 84–95 (1997); Pamela Samuelson, *The Copyright Grab*, WIRED 134 (January 1996). Pamela Samuelson, *Fair Use for Computer Programs and Other Copyrightable Works in Digital Form: The Implications of Sony, Galoob and Sega*, 1 JOURNAL OF INTELLECTUAL PROPERTY LAW 49 (1993). There is much more that I have learned from in the last seven years. But rather than replicating the listing style, I would point to JESSICA LITMAN, DIGITAL COPYRIGHT: PROTECTING INTELLECTUAL PROPERTY ON THE INTERNET (Prometheus Books 2000); SIVA VAIDHYANATHAN, COPYRIGHTS AND COPYWRONGS: THE RISE OF INTELLECTUAL PROPERTY AND HOW IT THREATENS CREATIVITY (New York University Press 2003); WILLIAM FISHER, PROMISES TO KEEP: TECHNOLOGY, LAW, AND THE FUTURE OF ENTERTAINMENT (Stanford University Press 2004), and YOCHAI BENKLER, THE WEALTH OF NETWORKS: HOW SOCIAL PRODUCTION TRANSFORMS MARKETS AND FREEDOM (Yale University Press 2006).

69. BOYLE, SHAMANS, SOFTWARE, AND SPLEENS. For other compelling accounts of the general movement to propertize information, see DEBORA J. HALBERT, INTELLECTUAL PROPERTY IN THE INFORMATION AGE: THE POLITICS OF EXPANDING OWNERSHIP RIGHTS (Quorum 1999). SETH SHULMAN, OWNING THE FUTURE (Houghton Mifflin, 1999) gives the story its appropriate drama. INTERNET PUBLISHING AND BEYOND: THE ECONOMICS OF DIGITAL INFORMATION AND INTELLECTUAL PROPERTY (Brian Kahin and Hal R. Varian, eds., MIT Press 2000) (Internet publishing and intellectual property). A HANDBOOK OF INTELLECTUAL PROPERTY MANAGEMENT: PROTECTING, DEVELOPING AND EXPLOITING YOUR IP ASSETS (Adam Jolly and Jeremy Philpott eds., Kogan Page 2004) (intellectual property and intangible property).

70. "We favor a move away from the author vision in two directions; first towards recognition of a limited number of new protections for cultural heritage, folkloric productions, and biological 'know-how.' Second, and in general, we favor an increased recognition and protection of the public domain by means of expansive 'fair use protections,' compulsory licensing, and narrower initial coverage of property rights in the first place"; Boyle, SHAMANS, SOFTWARE, AND SPLEENS, 169.

71. James Boyle, *A Politics of Intellectual Property: Environmentalism for the Net*, 47 DUKE LAW JOURNAL 87 (1997).

That freedom would limit the law's regulation over the use and reuse of culture. It would resist perfect control over use; it would free a wide range of reuse. It would build through affirmative protections for freedom the liberty that friction gave us before. It would do so because it believes in the values this freedom stands for, and it would demonstrate the value in that freedom by enabling the communities that freedom would itself enable.

But this freedom could be constructed either through changes in the law or voluntarily. That is, the law could be rebalanced to encourage the freedom thought important, or this property could be redeployed to effect the freedom thought important.

The second strategy was the technique of the Free Software Movement, described in Chapter 8. Using copyright law, Stallman deployed a software license that both preserved the four freedoms of free software, and also required that those modifying and distributing free software distribute the modifications freely. This license thus effects a software commons, since the software is available to all to use, and this software commons has become a critical raw material fueling the digital age.

More recently, Stallman's idea has been copied by others seeking to rebuild a commons in cyberspace. The Wikipedia project, for example, has built—to the astonishment of most—an extraordinary online encyclopedia solely through the volunteer efforts of thousands, contributing essays and edits in a public wiki. The product of that work is now protected perpetually (yes, I know, only for a "limited time," but don't correct *me* about that little detail) through a copyright license that, like the GPL, requires any modification to be distributed freely as well.

And so too has Creative Commons used private law to build an effective public commons. Again, following Stallman, Creative Commons offers copyright holders a simple way to mark their creative work with the freedoms they intend it to carry. That mark is a license which reserves to the author some rights, while dedicating to the public rights that otherwise would have been held privately. As these licenses are nonexclusive and public, they too effectively build a commons of creative resources that anyone can build upon.

Though I have spent a great deal of my time helping to build the Creative Commons, I still believe private action alone is not enough. Yet there is value in learning something from what this private action produces, as its lesson may help policy makers recraft copyright law in the future.

RESURRECTING ROSCOE POUND IN SECTION 3(D): THE GLIVEC GOVERNANCE

Divya Subramaniam[*]

INTRODUCTION

American Sociological Jurisprudence as elucidated in Roscoe Pound's theory applies to nearly all 'new modern' law today. The reason this paper uses the term 'new modern' is to emphasize that while a piece of legislation may be new in its existence, the same may not be modern in its origin, outlook or applicability. However, such a law may be implemented to meet the long-demanded need of its time[1]. Pound used a complex method, with a confluence of political and legal concepts incorporating pragmatism and pluralism in a body of merged ideas, practice, and proposal. This paper emphasizes the conflict that emerges out of such ideas that engulf the field of practice. These conflicts, no doubt, are vital to the existence of 'new modern' laws, while being determinate in realizing the 'balancing metaphor' that keeps the conflict of interests in check.

Perhaps, a perfect example of a 'new modern' law would be the Patents Act, 1970, as amended by the various Patents Amendment Act(s).[2] The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) being a fallout of the evolution in International Trade law[3], called for an amendment in the Patents Act to bring in harmony and uniformity across varied territorial intellectual property laws.

As a consequence of this, Section 3(d) of the Patents Act, 1970 also underwent an amendment, with the substitution[4] of Section 3(d) under the 2005 Amendment Act.[5] This revised Section became the bone of contention

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* Ms. Divya Subramanian is a practicing lawyer with one of India's leading intellectual property firms. Her areas of interest include intellectual property and technology law, environmental law and jurisprudence. She may be contacted at d.subramanian@rediffmail.com. She wishes to acknowledge her teacher and mentor, Dr. Alka Chawla for kindling her mind and showing her a way forward.

1. Several socio-economic legislations such as the Domestic Violence Act (No. 43 of 2005); Indecent Representation of Women (Prohibition) Act (No. 60 of 1986), the amendment in Hindu Marriage Act (No. 25 of 1955) with respect to coparcenary system were all new in their implementation, but the ideology/rationale behind them took birth much earlier.
2. Since 1970, the Patents Act, (No. 39 of 1970) has undergone amendment thrice in 1999 (w.e.f. 1st January 1999), 2002 (w.e.f. 20th May 2003) and 2005 (w.e.f. 1st January 2005).
3. International Trade Law primarily experienced evolution through the General Agreement on Trade and Tariff (1947), GATT 1994 and the consequent formation of the World Trade Organisation.
4. Patents Act, Section 3(d) (1970).
5. Patents (Amendment) Act, 2005.

in *Novartis AG & Another v. Union of India & Others.*[6] (hereinafter referred to as the *Novartis Glivec* case). The petitioners challenged the constitutionality of the Section and *'therapeutic efficacy'* as a standard to determine the *'enhanced efficacy'* requirement. The paper at hand, examines the presence of the conflict of interests in this controversial section, while attempting to view the correctness of the balancing metaphor as propounded by the Madras High Court[7] .

POUND PREVAILING IN THE INDIAN PATENT LAW

"Sociological jurisprudence theory according to Pound should ensure that the making, interpretation and applications of law take account of social facts"[8] . Propounding the task of a lawyer to be akin to engineering, Pound aimed at building a structure of society, wherein it required "the satisfaction of maximum of wants with minimum of friction and waste"[9] . Pound seemed to render a programme towards achieving the end of this jurisprudence which consisted of eight points.[10]

To fulfill his agenda of Social Engineering, Pound classified the interests protected by law, into three primary categories (and consequent sub-categories therein), namely: Individual, Public and Social interests. Individual interests are claims or demands or desires involved in and looked at from the standpoint of the individual life.[11] These include Personality, Domestic Relations and Interest of Substance. Public interests[12] on the other hand are asserted by individuals involved in or looked at from the standpoint of political life, while Social Interests[13] are looked at in terms of social life and generalized claim of a social group.'[14]

Pound's theory also renders five Jural Postulates, in his article, *A Survey of Social Interests*[15]. The Postulates as modeled by Pound may be enlisted as:

Jural Postulate I - In civilized society men must be able to assume that others will commit no intentional aggressions upon them.

6. Novartis AG & Anr. v Union of India & Others, (2007) 4 MLJ 1153.
7. Pronounced on 6th August 2007.
8. R.W.M. Dias, Jurisprudence 430 (Aditya Books Pvt. Ltd 1994).
9. Roscoe Pound, Interpretations of Legal History 156 (Harvard University Press 1946).
10. R.W.M. Dias, Jurisprudence 430 (Aditya Books Pvt. Ltd 1994).
11. *Ibid*, at 431.
12. *Id*.
13. *Id*.
14. R.W.M. Dias, Jurisprudence 430-435 (Aditya Books Pvt. Ltd 1994).
15. Roscoe Pound, *A Survey of Social Interests*, 39 Harvard Law Review 57 (1943).

Jural Postulate II- In civilized society men must be able to assume that they may control for the beneficial purposes what they have discovered and appropriated to their own use, what they have acquired under the existing social and economic order.

Jural Postulate III- In civilized society men must be able to assume that those with whom they deal in the general intercourse of society will act in good faith.

Jural Postulate IV- In civilized society men must be able to assume that those who engage in some course of conduct will act with due care not to cast an unreasonable risk of injury upon others.

Jural Postulate V- In civilized society men must be able to assume that others, who maintain things or employ agencies, harmless in the sphere of their use but harmful in their normal action elsewhere, will restrain them or keep them within their proper bounds.[16]

Looking at the scheme and jurisprudence backing Patent law as it stands today, it is evident that the various Jural Postulates are quite satisfied by its scheme. The first postulate may be satisfied by the freedom in India to work and develop inventions, and exercise claim over them, while the second is satisfied by the fact that a patent may be acquired[17] and rights[18] accruing thereof may be asserted. The third and fourth postulate are governed by the provisions to take action in the form of opposition proceedings to the grant of a patent[19], revocation of a valid patent[20], infringement[21] and the like, while the fifth Postulate is fulfilled by provisions such as those affording the grant of compulsory licenses[22] whereby conditions such as permission from the patentee for inventions which are not being worked are expected to be satisfied by the third party (others) desirous to make use of the patent in their field of operation.

Thus, it is quite evident from the scheme of the Act that the Patent Act is indeed a piece of Social Engineering. While there are rights conferred upon patentees, there are also considerations that are made by the Patent Office in granting those rights and consequently accruing an interest in them. Alongside, the fact that third parties at various points in time acquire the

16. *Ibid*.
17. The Patents Act, Chapter III (1970).
18. The Patents Act, Section 48 (1970).
19. The Patents Act, Chapter V (1970).
20. The Patents Act, Chapter XII (1970).
21. The Patents Act, Chapter XVIII (1970).
22. The Patents Act, Chapter XVI (1970).

right to oppose the application for a patent or file a suit for infringement takes care of their individual interests which, very often, are a manifestation of an interest favouring the larger society. Provisions such as those of Compulsory Licensing evidently depict a conflict between social and individual interests. On the other hand, an invention relating to Atomic energy not being patentable subject matter[23] is a depiction of a conflict between social, and public interest (interest in preservation of peace and order and maintaining general security) and individual interests.

SECTION 3(D) AS A CONFLICT OF INTERESTS

The paper in particular analyzes the latest ruling on Section 3(d). Section 3 deals with non-patentable subject matter and dedicates this particular sub-section to the patentability of derivatives and modified versions of products, processes or apparatus.

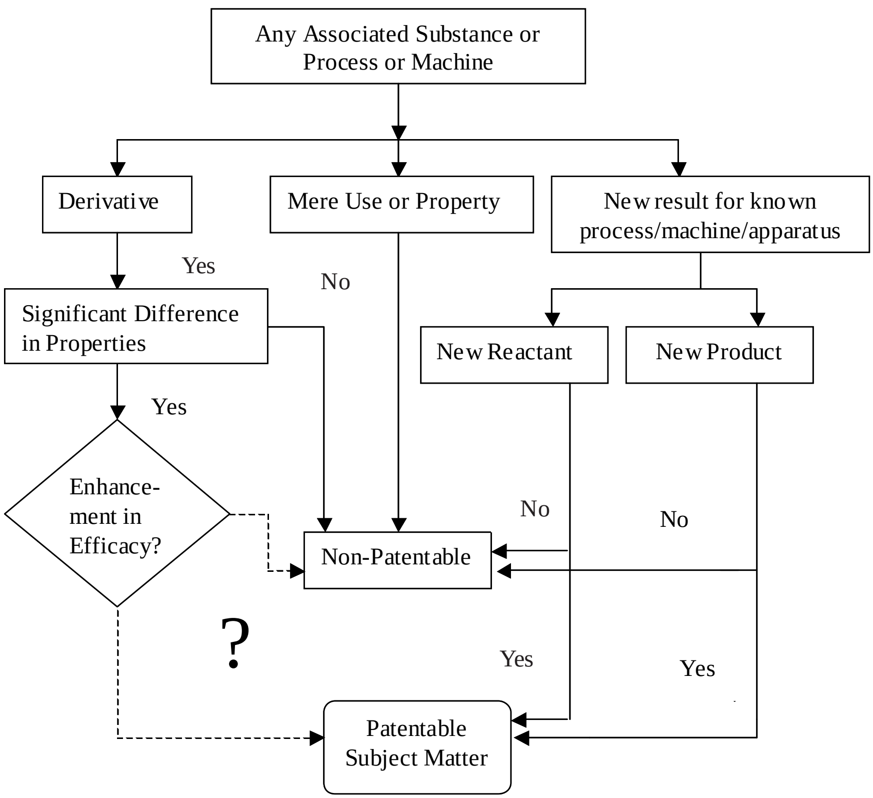
Examining the conflict of interests in Section 3(d), there exists a tug of war between individual, public and social rights. Where the question of derivative forms of chemical compounds exists, an element of similarity in properties between the derived (or modified composition) and the original composition cannot be negated. In this event, while individual interests in terms of investment in research & development, skill, labour and appending questions come under the spotlight, it is indeed necessary to determine the prevailing conflicts between other social and public interests and find the yardstick to balance the two.

Section 3(d) in terms of patentability of the derivative negates any rights to an applicant, unless and until enhanced efficacy is depicted to be existent. The public interest in doing so is the interest of the state as the guardian of social interests, which arises out of the need to conserve social interests while preserving the freedom to manufacture, trade and deal with a substance. In other words, the public interest exercised by the Patent Office, which is the State representative here, with the powers of a quasi-judicial body, protects social interests by not letting an individual rob the freedom of others in the society to use the subject-matter under contention, by granting monopoly to an individual over the same.

Inferring the intent, the section primarily seems to be aiming at preventing ever-greening amongst pharmaceutical products, assuming a high degree of physical, chemical, reactive and consequently functional similarity between various isomers and derivative forms. Further, the demand is to

23. The Patents Act, Section 4 (1970).

demonstrate to the Patent Office enhanced efficacy and hence claim one's ground to secure a patent. This factor, no doubt brings into purview the non-patentability of an incremental innovation. As a result, 'by making derivates with enhanced efficacy patentable, section 3(d) encourages the sequential development of existing products or technologies to help bring in improved products that address unmet public health needs'[24]. Inspecting a schematic flow of S. 3(d), its minutiae are revealed. For a simplistic understanding:



As represented by the schematic diagram, all the aspects appending and deciding non-patentability of the subject matter as under S. 3(d), may be arrived at in terms of an affirmative or a denial except for the aspect on enhanced efficacy for the new form of a known substance, parameters to determine which are absent in the scheme of the Act.

24. Shamnad Basheer and Prashant Reddy, *The "Efficacy" of Indian Patent Law: Ironing out the Creases in Section 3(d)*, 5 SCRIPTED 232 (2008) httpf://www.law.ed.ac.uk/ahrc/script-ed/vol5-2/basheer.asp.

Roscoe Pound's greatest criticism lies in the lack of guidelines enabling the determination of the balancing metaphor to any conflict of interests. This criticism extends itself to Section 3(d) as well. The *Novartis Glivec*[25] decision pronounced by the Madras High Court, deliberating upon the constitutionality of the section, pronounced "therapeutic efficacy" as the balancing metaphor.

GLIVEC GOVERNING THE GROUND?

The *Glivec* case needs little reiteration. While the patent dispute revolved around the patentability of the beta crystalline form of *imatinib mesylate*, Novartis claimed to have obtained around 35 patents on this polymorph across various countries[26]. Owing to the unavailability of a scheme rendering patents to drugs[27], (i.e. product patents) Novartis claimed this derivative vide a "mailbox" application[28]. In the meanwhile, an Exclusive Marketing Right (EMR) had been granted in November 2003, pending grant of a product patent.

Consequently, Novartis sued generic drug makers such as Ranbaxy and CIPLA before the High Courts of Madras and Bombay challenging the grant of the EMR. The Madras High Court upheld the EMR and restrained Ranbaxy and Cipla on account of the fact that Novartis ran a free patient access programme titled "GIPAP" (Glivec International Patients Assistance Program) and undertook to make this programme even more user friendly to patients that could not afford the drug.[29] The Court held that such a step was sufficient to take care of any "public interest" ground that might have militated against the grant of an injunction. The Bombay High Court's decision is starkly opposite to that of the Madras High Court, opining that the validity of the recently issued EMR had been seriously challenged by the defendants. Besides, the fact that the drug was more expensive and was being imported by the plaintiff (triggering fears about sustained supplies of such a critical life-saving drug in India) influenced the court to deny the grant of an injunction.[30]

25. Novartis AG & Anr. v. Union of India & Others, (2007) 4 MLJ 1153.
26. *Id.* at Para 9.
27. Unamended Patents Act, Section 5 (1970).
28. Agreement on the Trade – Related Aspects of Intellectual Property Rights art. 65, 70.9, Apr. 14, 1994, 33 I.L.M 1125.
29. See Novartis AG v. Adarsh Pharma & Anr., 2004 (29) PTC 108 (Mad). See Intas Laboratories Pvt. Ltd. v. Novartis A.G. 2005 (1) CTC 27.
30. Novartis AG v. Mehar Pharma & Anr., 2005 (30) PTC 160 (Bom).

Pursuant to the 2005 amendment to the Patents Act, the scheme for product patents in the pharmaceutical sector, was introduced and the mailbox application by Novartis, as mentioned earlier, was opened and examined. The patent consequently faced opposition[31] from several generic drug companies and an NGO, the Cancer Patients Aid Association (CPAA)) on several grounds including:

i) lack of novelty/anticipation;

ii) lack of significantly enhanced "efficacy" under section 3(d);

iii) obviousness, and;

iv) wrongful priority.

In consonance with the above grounds, the Assistant Controller of Patents rejected the patent application.[32] The grant of the EMR stood lapsed with the rejection of the patent application.[33] Aggrieved by this rejection, Novartis AG, along with its Indian subsidiary, Novartis India, instituted two writ petitions in the Madras High Court, challenging the Assistant Controller's order, as also seeking a declaration that Section 3(d) was unconstitutional[34] and in violation of India's obligations under TRIPS. Pursuant to a government notification[35], the High Court transferred the first petition to the Intellectual Property Appellate Board (IPAB) and a tribunal was established thereunder to deal with appeals from the various intellectual property offices across the country. A dispute regarding the appointment of a technical member[36] also sprung up; the same having been resolved[37] by the Apex Court's interference[38], the IPAB at the time of writing this paper is hearing the appeal.

31. Novartis AG and Anr. v. Union of India and Ors., WP No. 24759 of 2006, High Court of Judicature at Madras.
32. Novartis AG v. Natco Pharma and Others, Indian Patent Office, Application No.1602/MAS/1998.
33. The Patents Act, Section 24B (1) (1970) (as amended by the 1999 amendments). (Repealed by the 2005 Amendment Act).
34. Novartis AG and Anr v. Union of India and Ors., WP No. 24759 of 2006.
35. Notification No.12/15/2006-IPR-III, (Apr. 02, 2007), issued by the Ministry of Commerce & Industry, http://ipindia.nic.in/ipr/patent/gazetteofindia_apr2007.pdf.
36. Divya Subramanian, *Appointment Of New Technical Member To Hear Glivec Appeal*, http://www.mondaq.com/article.asp?articleid=68036.
37. Natco Pharma Ltd. v. Union of India and Ors., [Civil Appeal No.s 6004-6018 of 2008].
38. Divya Subramanian, *Appointment Of New Technical Member To Hear Glivec Appeal*, http://www.mondaq.com/article.asp?articleid=68036.

Challenging the constitutionality of Section 3(d), three issues[39] were framed. The compliance of the Section with the provisions of TRIPS was deliberated upon and affirmed. However the moot point on the validity of the amended section on the touchstone of Article 14 of the Constitution of India was deliberated and the Hon'ble Court rendered:

> *As we understand the amended section, it only declares that the very discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance, will not be treated as an invention. The position therefore is, if the discovery of a new form of a known substance must be treated as an invention, then the Patent applicant should show that the substance so discovered has a better therapeutic effect. Darland's Medical Dictionary defines the expression "efficacy" in the field of Pharmacology as "the ability of a drug to produce the desired therapeutic effect" and "efficacy" is independent of potency of the drug. Dictionary meaning of "Therapeutic", is healing of disease - having a good effect on the body." Going by the meaning for the word "efficacy" and "therapeutic" extracted above, what the patent applicant is expected to show is, how effective the new discovery made would be in healing a disease / having a good effect on the body? In other words, the patent applicant is definitely aware as to what is the "therapeutic effect" of the drug for which he had already got a patent and what is the difference between the therapeutic effect of the patented drug and the drug in respect of which patent is asked for. Therefore it is a simple exercise of, though preceded by research, - we state - for any Patent applicant to place on record what is the therapeutic effect / efficacy of a known substance and what is the enhancement in that known efficacy. The amended section not only covers the field of pharmacology but also the other fields. As we could see from the amended section, it is made applicable to even machine, apparatus or known process with a rider that mere use of a known process is not an invention unless such a known process results in a new product or employs at least one new reactant. Therefore the amended Section is a comprehensive provision covering all fields of technology, including the field of pharmacology. In our opinion, the explanation would come in aid only to understand what is meant by the expression "resulting in the enhancement of a known efficacy"*

39. Novartis AG and Anr. v. Union of India and Ors., WP No. 24759 of 2006, Para 5.

> *in the amended section and therefore we have no doubt at all that the Explanation would operate only when discovery is made in the pharmacology field.*[40]

DOES THE GLIVEC CASE FINALLY DETERMINE THE YARDSTICK?

In the absence of a challenge before the Apex Court, the judgment appears to have finally laid the standard for determining efficacy. However, the viability of this standard as a balancing metaphor is indeed questionable for a variety of reasons.

While the patentability of pharmaceutical products are vital to safeguarding public and social interests, is it sufficient to negate the existence of an individual interest, merely because the yardstick adopted to measure the strength of the interest, moves away from a pre-determinate standard? Although amongst jural circles the lack of such a standard is perhaps the greatest criticism appended to Pound's theory, it may be visualised as the greatest strength of the patent regime. While Novelty, Utility and Non-obviousness set a standard high enough to determine the patentability of an invention, it seems that the test of enhanced efficacy is more in the nature of determining if the result of the efficacy was premeditated or not. If the same is true, then the grounds of anticipation squarely hit the patentability criterion; in the absence of it, due regard to the nature of enhancement must be given.

Several examples may be quoted to elucidate other plausible yardsticks. However, looking at the case-study at hand, it seems indeed far from equity to render such a narrow interpretation to a term, that too basing the interpretation on a meaning rendered in a medical dictionary. Pound, in his theory of Social Engineering, aimed at reducing friction between conflicting interests, which would be possible only if the impact of the interests be considered on a case-to-case basis. Pharmaceuticals and its application to biology have varied determinate parameters and effects to themselves. In this light, the use of a definite, inflexible parameter may prove detrimental to the prevailing Patent system.

Like the PHOSITA test, the balancing metaphor too should be determined on a case to case basis, depending on certain quantitative and qualitative evidence. While drug trial results, conducted at Stage III/IV could be one of the primary considerations, an absence of effect on a minor segment

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40. Novartis AG and Anr. v. Union of India and Ors., WP No. 24759 of 2006, High Court of Judicature at Madras, at Para 13.

of those undergoing trials must be negated. This minority consideration, should also depend upon the spread of the disease in society, its rarity, its gravity as well as its bearing on the quality of life.

To put it differently, the view of protecting "social interests" should be looked at from a truly social standpoint. Factors such as effect on pricing, dosage, bio-availability, frequency of medication, mode of inducement and akin must be considered. In other words, efficacy should not be looked at from merely a "therapeutic" standpoint, but from one that enables improvement of the quality of life of a patient.

In my opinion, the greatest strength of Pound's theory is that the absence of a pre-determined yardstick affords to provide flexibility and helps propagate social engineering. The uniqueness of society in terms of culture, economics, genetics, anthropology and other such factors perhaps drove Pound towards rendering the concept of a yardstick. While we seem to have extrapolated his postulates and conflict of interests in an extremely sound manner to our Patent system, we seem to have ignored the flexibility needed to be inscribed into some of the provisions appended to it. The *Glivec* decision, being one of the first in the offing shall set the trend, unless an emphatic measure is taken to displace the rigidity that the decision seems to have brought, even at the stage of assessing a Patent Application.

DRAWING THE CURTAIN

The pronouncement of therapeutic efficacy as the touchstone of the validity of the provision in the ruling of the *Glivec* case must be looked beyond to accommodate other factors governing the areas, pertinently pharmacology and pharmacy. The Section undoubtedly being compliant with TRIPS is a measure to prevent "evergreening" and associated threats. However, the blind application of the judgment to all cases before the authorities may dwindle the jurisprudence behind having a progressive piece of legislation in place. The lack of a revolution imbibing factors beyond therapeutic efficacy may see the Patent system in India, crushed under the wisdom of "therapeutic efficacy", leaving almost no cure for the regime to recuperate from the social and economic damage that may accrue to drug manufacturers and patients alike.

VIACOM v. YOUTUBE:
A DISPUTE OVER THE FUTURE OF DIGITAL MEDIA

*Arun Mohan**

I. INTRODUCTION

Viacom International Inc., et al. v. YouTube Inc., et al[1] is slated to be a seminal legal dispute in defining the contours of service provider liability for copyright infringement by its users. Apart from a huge claim of US $ 1 billion in damages, the case is to determine Google-owned YouTube's liability for hosting protected video content that belongs to Viacom. However, it is important to note that the dispute goes much beyond the question of intermediary/service provider liability; the outcome in *Viacom* could chart the future course for the digital media industry. The transition from packaged media to customized viewing has been steady, and most subscribers of digital content have migrated to the shores of video-sharing platforms like YouTube. Consequently, these networks offer unmatched financial opportunities for the service provider and its parent company. At the same time, the massive user base and logistical problems in supervision make them 'litigation-laden landmines'[2]. Therefore, *Viacom* comes at a critical juncture when the digital media industry is up in arms against the gradual corrosion of their clientele.

This case comment attempts to analyse the legal intricacies involved in the dispute, specifically those concerning the safe harbour provisions enshrined in the Digital Millennium Copyright Act, 1998. Upon inspection of the several key areas in *Viacom*, the comment seeks to superimpose the probable legal outcome against the business and financial repercussions that may be had on the future of digital media.

II. CASE PARTICULARS: FACTS AND VIACOM COUNTS

Facts

On March 13, 2007, Viacom, the entertainment conglomerate that owns MTV and Nickelodeon, announced that it had instituted legal proceedings against Google and YouTube in the Southern District Court of New York. Alleging that over 160,000 unauthorized clips were placed on public display, and eventually viewed over 1.5 billion times, Viacom blamed

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* Student, IV Year, NALSAR University of Law, Hyderabad, India.

1. Case Number - 1:2007cv02103 (sub judice).
2. Andrew Ross Sorkin and Jeff Leeds, *Music Companies Grab a Share of the YouTube Sale*, NEW YORK TIMES, Dec. 02, 2008, http://www.nytimes.com/2006/10/19/technology/19net.html.

YouTube for massive and brazen copyright infringement[3]. In addition to seeking a mammoth US$ 1 billion in damages, the plaint also sought an injunction to prevent further infringement of copyright.[4] Filed before Judge Louis L. Stanton under federal jurisdiction, the suit levels serious allegations against the business model and operation of YouTube, a hugely popular Video Service Provider (VSP).

Viacom maintains that legal recourse was necessary as YouTube continued to avoid taking any pro-active steps to curtail infringement. Arguing that the VSP's operation was based expressly on "building traffic and selling advertising"[5] off unlicensed content, the media giant claimed that the entire business model was in conflict with extant copyright laws. For its part, Google, which bought YouTube for US$ 1.65bn in 2006, has maintained that it was confident of having respected the legal rights of copyright holders. Emphasizing on the diverse opportunities offered by YouTube, Google also issued a media release, promising not to be hindered by these allegations in its consistent performance and development of the service.[6]

Both entities admitted to unsuccessful negotiations in the months that preceded the filing of complaint; more remarkable was Google CEO Eric Schmidt's statement on the lack of consensus. He said, "It's a business negotiation. We've been negotiating with them, and I'm sure at some point we'll negotiate with them some more."[7] While leaving room to speculate further on the real nature of this suit, it suffices to say that Google has no intention to discontinue YouTube's services or to comply with Viacom's expensive request. On the other hand, it is apparent that Viacom is distressed by the sudden emergence of a utility that has swept its clientele away in less than a year.

Proceedings have commenced in the Southern District Court and the case is currently in its discovery stage, where parties are required to adduce all relevant content. Discovery was due by December, 2008, and the full trial is slated to commence by late 2009.[8] During this phase, Viacom filed a series of requests before the Court to prompt Google's submission of various

3. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶ 2.
4. *Ibid*, ¶ 10.
5. *Id*, ¶ 37.
6. *Viacom will sue YouTube for $1bn*, BBC News, Mar. 13, 2007, http://news.bbc.co.uk/2/hi/business/6446193.stm.
7. Fred Vogelstein, *As Google Challenges Viacom and Microsoft, Its CEO Feels Lucky*, Wired, Sept. 04, 2007, http://www.wired.com/techbiz/people/news/2007/04/mag_schmidt_qa.
8. Mark Sweney, *Google and Viacom Reach Deal over YouTube User Data*, Guardian UK, Jul. 15, 2008, http://www.guardian.co.uk/media/2008/jul/15/googlethemedia.digitalmedia.

critical documents. The requests offer invaluable insight into the true demands raised by Viacom; apart from its search and source codes for Video ID program, Viacom also wanted YouTube's advertising and video content schemas. While the Judge denied requests for these trade secrets of enormous commercial value[9], the very nature of the requests indicate that there exists a wrangle that goes beyond a formal legal dispute. In contrast, requests to produce the removed videos and video-related information in logging databases were ruled in favour of Viacom and Google now has to adduce 12 TB of pertinent user data.[10]

Counts raised by Viacom

The plaint institutes six counts of copyright abuse against Google and YouTube, comprising accusations of both direct and indirect infringement. The veracity and possible outcome of these allegations will be examined in the ensuing Part; nonetheless, no substantial analysis can take place unless key areas of conflict are identified.

Viacom maintains that YouTube is responsible for directly infringing copyrighted content by; *(1)* publicly performing videos on its site and other related websites;[11] *(2)* showing individual images of infringing video clips in response to searches for these videos;[12] and *(3)* making and otherwise authorizing copies of copyrighted videos into its database.[13]

The media monolith also claims that the actions of YouTube's users lead the VSP to breach of copyright. Apart from stating that YouTube has induced many users to upload and publicly display unauthorized clips,[14] Viacom also points out that the former has materially contributed to such infringing activity through its acquiescence.[15] Further, the plaint states that YouTube had express knowledge of the activities and has, more importantly, derived considerable financial benefit from the entire process.[16]

In response to the several counts raised by Viacom in its plaint, Google and YouTube have asserted that they are well-within legal realms to carry

9. Viacom International, Inc. et al v. Youtube, Inc. et al: Case Documents, Justia News, http://news.justia.com/cases/featured/new-york/nysdce/1:2007cv02103/302164/#20081212.
10. Cade Metz, *Judge grants Viacom 12 TB of YouTube user records*, The Register, Jul. 03, 2008, http://www.theregister.co.uk/2008/07/03/google_to_turn_over_youtube_database/. Subsequent to popular outcry, however, Viacom agreed to receive this data after private information had been masked. Issues concerning privacy have not been dealt with analytically in this comment.
11. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶¶ 47 – 51.
12. *Ibid*, ¶¶ 52 – 57.
13. *Id*, ¶¶ 58 – 63.
14. *Id*, ¶¶ 64 – 71.
15. *Id*, ¶¶ 72 – 80.
16. *Id*, ¶¶ 81 – 89.

on its VSP functions. Google's in-house counsel and representative attorneys maintain that it is difficult to place direct responsibility on YouTube. At the same time, they also feel that YouTube is protected by the 'safe harbour' provisions of the Digital Millennium Copyright Act, 1998[17], which exempt the service provider from indirect infringement.[18]

The next part of this case comment seeks to elaborate the legal affirmation and/or feasibility of Viacom's counts. Speculations relating to both direct and indirect infringement have been analysed; the latter in greater detail, however, as it concerns the immediate question of repercussions stemming from user-generated content. Such emphasis is perhaps justified, since the future of customized digital entertainment that relies on a heavy user base is really what this case is all about.

III. COPYRIGHT ISSUES ARISING FROM USER-GENERATED CONTENT (UGC)

YouTube is a video sharing platform which facilitates quick and easy uploading of videos, additionally allowing site visitors to comment on some of them[19] and was bought by Google in 2006 in a billion dollar deal due to its popularity.

The intention behind such acquisition was clear - to combine YouTube's diverse visitor base and Google's own expertise in online advertising technology, resulting in a forum that would eventually become the focal point of online video distribution.[20] A general wave of discontent against "packaged media"[21] and the Internet's exponentially surging popularity helped; YouTube users were now able to create, post and view videos customized to their preferences, style and even office schedules.

User-Generated Content (UGC) offers a number of opportunities to both VSPs and its clientele. However, it also raises a number of worrisome issues concerning intellectual property rights, privacy concerns and defamatory content. Copyright holders scarcely target individual users who upload unauthorized media clips; the difficulty in finding the exact person

17. 17 USC §§ 512(c)-(d), (i)-(j).
18. Viacom Inc., et al v. YouTube Inc., et al, Defendants' Answer to First Amended Complaint and Demand for Jury Trial, ¶ 92.
19. Scott Woolley, *Raw and Random*, FORBES, Mar. 13, 2006, http://www.forbes.com/forbes/2006/0313/046.html.
20. Patrick Goldstein, The People's Republic of YouTube, L.A. TIMES, Oct. 17, 2006, http://articles.latimes.com/2006/oct/17/entertainment/et-goldstein17.
21. Stephen Jones, *Packaged Media*, RIP, http://www.nextfiftyyears.com/2006/08/packaged_media_rip_1.html.

and his/her inability to sustain legal damages being primary reasons. Instead, rights holders prefer to target the VSPs that host platforms wherein the infringing activity occurs. The lucrative benefits accrued from facilitating such data upload and the legal consequences that ensue make UGC a double-edged sword for service providers.

YouTube is one of many such facilitators in the digital entertainment market today.[22] Nonetheless, the VSP's rising popularity has subjected it to no less than five cases (including Viacom's) in less than a year of formal acquisition. Aggrieved plaintiffs in this regard include photojournalists,[23] sports regulatory organizations[24], music publishing companies[25] and even Government agencies[26]. Viacom is but the biggest and perhaps, the most significant entity to institute legal proceedings against YouTube.

Direct Infringement Claims

Having exposed the vulnerabilities faced by YouTube and other VSPs against litigious copyright holders, it must also be said that claims of direct infringement against the former are not usually tenable. While Viacom has accused YouTube of publicly displaying unauthorized content, there is no volitional act from the service provider in this regard. In the absence of such complicity, Courts have previously held that the actions of users clicking on a cached link to view unauthorized content cannot be cited as instances of direct infringement.[27] With regard to the second count on direct infringement, *Arriba Soft*[28] has made it clear that the use of thumbnail images in response to search queries for video clips is merely transformative and not infringing in nature. Moreover, the incidental creation of copies upon YouTube's database cannot, in isolation, impose liability on the VSP. Where a question of direct infringement on similar facts arose in *Netcom*[29], the Northern District Court of California was quick to note that it would not make sense to pin liability on operators and functionaries of the Internet.[30] Nonetheless, technological advances have changed the face of the Web completely, and the Southern District Court of New York may take exception to its preceding cases. The tenability of direct infringement claims is however, questionable.

22. Other prominent service providers include Facebook, MySpace, Veoh Networks etc.
23. Tur v. YouTube, Inc., 6:2007-cv-06-4436.
24. The Football Association Premier League Ltd v. YouTube, Inc., 1:07-cv-03582-UA.
25. Cal IV Entertainment, LLC v. YouTube, Inc. et al, 3:2007cv00617.
26. New Jersey Turnpike Authority v. YouTube, Inc. et al, 2:2007cv02414.
27. Field v. Google, Inc., 412 F.Supp.2d 1106 (D. Nev. 2006).
28. Kelly v. Arriba Soft Corporation, 280 F.3d 934.
29. Religious Technology Centre v. Netcom, 923 F. Supp. 1231 (N.D. Cal. 1995).
30. *Ibid*, ¶ 1-g.

Liability through Secondary Infringement

The plaint also raises allegations of YouTube having indirectly infringed Viacom's rights through the actions of its website users. The question as to whether a VSP would be liable when its users upload copyrighted content still remains riddled with uncertainties. Viacom has alleged contributory and vicarious infringement on YouTube's part[31]; with regard to the former, Google and YouTube are accused of "enabling, inducing, facilitating and materially contributing" to each act of infringement.[32] Furthermore, the plaintiff believes that YouTube's actual and constructive knowledge of infringing activity should stand against any defence to contributory infringement. As regards vicarious copyright infringement, YouTube's right and ability to control user-generated content and subsequent accrual of direct financial benefit from infringing content have been highlighted to deduce liability.[33] YouTube, for its part, has answered these claims by seeking refuge to favourable provisions in the Digital Millennium Copyright Act, 1998.

If big entertainment corporations like Viacom, Universal or Sony BMG were to sue these service providers successfully, consequent damages could run into millions, if not billions of dollars.[34] Apart from putting VSPs out of business, the legal repercussions would ensure the untimely demise of customized digital media. The stakes are unquestionably high and *Viacom v. YouTube* will be a watershed in apportioning the liability of VSPs for its users' actions. The following segment (III-i) seeks to explicate the statutory backing behind YouTube's response; Part III-ii will analyze the approach of U.S to such a defence.

III. i. STATUTORY 'SAFE HARBOURS'

Google and YouTube have taken recourse to 'safe harbour' provisions enshrined in the applicable law, *viz.*, the Digital Millennium Copyright Act, 1998 (DMCA).[35] The safe harbours are provided in § 512 of the Act and contain eligibility norms and conditions to mitigate liability. Before delving into the nuances of § 512 (c), under which YouTube has sought to take recourse, it is pertinent to note the eligibility requirements for safe harbour

31. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , Counts V, VI (¶¶ 72 – 89).
32. *Ibid*, ¶ 74.
33. *Id*, ¶ 85.
34. Trevor Cloak, *The Digital Titanic: The Sinking of YouTube.com in the DMCA's Safe Harbor*, 60 Vanderbilt Law Review 1561 (2007)
35. Digital Millennium Copyright Act, 17 U.S.C (1998) [hereinafter "DMCA"]; the DMCA's applicability has not been questioned in the present dispute.

protection.[36] In order to mitigate liability, a service provider must *(1)* adopt and implement a termination policy[37] to remove repeat infringers; and *(2)* accommodate and not interfere with 'standard technical measures'[38] used to protect copyright holders.

If these precautionary steps are in place, liability may be mitigated by resorting to any of the safe harbours enlisted from § 512 (a) to (d). In its answer filed before the Court on April 30, 2007, YouTube cites the protection offered by § 512 (c) to dismiss Viacom's claims.[39] Consequent to this provision, a service provider will not be liable for copyright infringement arising from material stored at the direction of its users, if it conforms to three main pre-requisites.

Firstly, a service provider's liability is mitigated if it is not aware of the existence of copyrighted content in its system or network. Such awareness is statutorily qualified to include actual knowledge of *(1)* the infringing material/activity[40] and; (2) the facts and circumstances from which such infringing activity is apparent.[41] The service provider must also act expeditiously to remove, or disable access to the copyrighted material.[42] *Secondly*, the service provider must not have received any financial benefit directly attributable to the infringing activity. However, such a stipulation is operational only when the service provider has the 'right and ability' to control such user-related acts.[43] *Thirdly*, the service provider must have an effective take-down policy which implements the immediate removal of infringing content.[44]

References to the aforementioned provisions have been made by both parties in their written submissions to the Court. Nonetheless, the absence of any definitive standard in statutory norms will result in heavy emphasis on judicial precedents in this regard; indeed, analysts have predicted that the trial sessions would be dominated by consistent reference to previously decided cases, primarily from the United States.[45]

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36. DMCA, § 512 (i).
37. Must be made known also.
38. Definition Clause; DMCA, §512 (i)(2).
39. Viacom Inc., et al v. YouTube Inc., et al, Defendants' Answer to First Amended Complaint and Demand for Jury Trial, ¶ 92.
40. DMCA, § 512 (c)(1)(A)(i).
41. *Ibid*, § 512 (c)(1)(A)(ii).
42. *Id*, § 512 (c)(1)(A)(iii).
43. *Id*, § 512 (c)(1)(B).
44. *Id*, § 512 (c)(1)(C).
45. Joseph Schleimer, *Protecting Copyrights at the "Backbone" Level of the Internet*, 15 UCLA Entertainment Law Review 139, 143 (2008).

III. ii. JUDICIAL EXPOSITION

The outcome of *Viacom v. YouTube* hinges on several yardsticks encapsulated in § 512 of the Digital Millennium Copyright Act, 1998; resolving these key areas of dispute mandate recourse to precedents settled within the United States.

YouTube's Termination Policy & Adoption of Standard Technical Measures

Viacom has sought to contest the very eligibility of YouTube to cite protection from the DMCA safe harbours. The plaint endeavours to indicate flaws in YouTube's termination policy and glaring deficiencies in its implementation. The *Aimster Copyright Litigation*[46] Court faced a similar situation and was called upon to determine Aimster's eligibility to qualify for the safe harbours[47] . The Illinois District Court found that a bare minimum policy of terminating repeat infringer accounts would be satisfactory as long as it is effectively implemented.[48] YouTube's Terms of Use clearly stipulate the removal of users who indulge in repeat infringement and closely resembles Aimster's policy in this regard.[49] Nonetheless, the VSP's problems are compounded by the fact that it does not prevent these users from creating a new account. While judicially expounded law requires minimum standards, this aspect might cast a shadow over the effective implementation of YouTube's termination policy, the very ground on which Aimster was denied safe harbour protection.[50]

Apart from criticizing YouTube's user-termination policy, Viacom also alleges that the former has failed to implement any "reasonable precautions" to protect copyrighted content[51] ; furthermore, the plaint also states that the VSP has implemented features that prevent copyright owners from finding infringing videos on its website.[52] Presently, there are no judicial or industry guidelines to determine the scope of the term 'standard technical measures'.[53] The continuing conflict of interest between copyright holders and service

46. In *re:* Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003).
47. Aimster was one of many Peer-to-peer (P2P) file-sharing services that appeared in Napster's wake. The network, which was later renamed to Madster, was shut down in December 2004, following a preliminary injunction by Court order.
48. In *re:* Aimster Copyright Litigation, 334 F.3d 643 (7th Cir. 2003), 658-59.
49. Terms of Use, http://in.youtube.com/t/terms, ¶ 7.
50. In *re:* Aimster Copyright Litigation, 334 F.3d 643, 659.
51. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶ 6.
52. *Ibid*, ¶ 8.
53. Trevor Cloak, *The Digital Titanic: The Sinking of YouTube.com in the DMCA's Safe Harbor*, 60 Vanderbilt Law Review 1583 (2007).

providers has hindered any broad consensus on developing these technical standards. Therefore, it is unlikely that the *Viacom* Court will look beyond threshold requirements to place responsibility on YouTube.

Actual and Apparent Knowledge of Infringing Activity

Viacom's suit maintains that the defendants had actual knowledge and clear notice of infringement, claiming the presence of unauthorized content to be obvious to "even the most casual visitor"[54] to YouTube's site. The plaint also points out that the website was filled with 'red flags' from which infringing activity was apparent. Viacom has substantiated this claim with examples of description terms and search tags from users that identify its copyrighted works.

§ 512 of the DMCA necessitate actual knowledge of infringing activity or awareness of facts and circumstances of the same. While it may be relatively easy to point fingers at YouTube for ignoring the user-description and search data, the scant case law in this regard seems to mandate a higher level of neglect. Courts have acknowledged the difficulties in identifying the infringing nature of user-generated content[55] and have modified the 'red flag' measure to mean blatantly obvious cases of infringement.[56] Nonetheless, service providers are required to identify such rights violation from looking at the user's activities, statements, or conduct that warrant infringement.[57] Such identification would be a question of facts in each case, and YouTube has to adduce evidence that negates any such leads from its users. On the other hand, the question of expeditious removal will probably tilt in favour of the VSP. YouTube's take-down policies are unquestionably efficient and most videos have been removed on identification.

Accrual of Direct Financial Benefit

Viacom has made consistent references to the financial benefits accrued to Google and YouTube from the uploading and viewing of copyrighted content.[58] Indeed, this is an aspect which many analysts consider problematic for VSPs[59], particularly those like YouTube which generate considerable advertising revenue through its services. The DMCA requires that the financial

54. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶ 36.
55. Perfect 10, Inc. v. CCBill LLC, 481 F.3d 751, 763 (9th Cir. 2007).
56. Jane C. Ginsburg, *Separating the Sony Sheep from the Grokster Goats: Reckoning the Future Business Plans of Copyright-dependent Technology Entrepreneurs*, 50 Arizona Law Review 577, 584 (2008).
57. Corbis Corporation v. Amazon.com, Inc., 351 F.Supp.2d 1090, 1104-05.
58. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶¶ 35, 37, 39.
59. Charles J. Biederman and Danny Andrews, *Applying Copyright Law to User-Generated Content*, Los Angeles Lawyer, May 31, 2008 at 12, 15.

benefit so received must be directly attributable to the infringing activity. While the advertising revenue obtained from viewing and uplink of protected videos might ordinarily seem to satisfy this criterion, Courts have differed in their interpretation of the same.

While the Ninth Circuit in *Ellison*[60] necessitated a mere casual link between the infringing activity and any financial benefit that the defendant reaps[61], the Fourth Circuit in *Costar Group*[62] stipulated that the copyrighted content must 'draw' the visitors to the VSP's site[63]. In other words, it would be necessary to prove that the presence of infringing videos made the YouTube site much more attractive to its website users.[64] Considering YouTube's popularity, the *Viacom* Court is likely to adopt this method as it is fallacious to be satisfied by the mere generation of revenue from any video, whether copyrighted or not. Therefore, comparison of user data relating to normal traffic and those to Viacom's copyrighted videos would prove crucial in this regard.

Right and Ability to Control

The 'direct financial benefit' would hold water only if YouTube's right and ability to control infringing content are established. Viacom's plaint makes an assertion to this effect, drawing analogies from YouTube's control of volatile and derogatory content.[65] However, U.S Courts have made it clear that such right and ability goes well beyond the power to block access on subsequent notification. The realm of control must also be distinguished by the nature of pre-emptive measures, presence of content filters and automated detection technology.[66] While YouTube has pointed the sheer logistical magnitude of a 'cleansing operation' and its helplessness in this regard, the Court may haul up the hugely popular VSP for not maintaining adequate control measures.

Other Important Factors and Case Law

On August 27, 2008, the Northern District Court of California in *Veoh Networks Inc.*[67], found that a video-sharing site which actively enforces its user policy, acts expeditiously to remove infringing material and seeks to

60. Ellison v. Robertson, 357 F.3d 1072 (9th Cir. 2004).
61. *Ibid*, 1079.
62. CoStar Group Inc. v. LoopNet Inc., 373 F.3d 544 (4th Cir. 2004).
63. *Ibid*, 548.
64. The test used in Costar Group had also found favour with the U.S. Congress House Report on the Digital Millennium Copyright Act, 1998.
65. Viacom Inc., et al v. YouTube Inc., et al, Complaint for Declaratory and Injunctive Relief and Damages , ¶¶ 38, 85.
66. Tur v. YouTube, Inc., 6:2007-cv-06-4436, *3.
67. IO Group, Inc. v. Veoh Networks, Inc., 5:2006cv03926.

prevent the same from being posted again qualifies for the safe harbor contained in § 512 (c) of the DMCA.[68] Veoh Inc., which operates on a platform identical to that of YouTube, is a video-sharing network that lets users upload digital media. IO Group, a producer and marketer of adult entertainment, had instituted a plaint before the California District Court against Veoh for hosting copyrighted content posted by the network users. In addition to raising the standard of determining the 'right and ability' to police its content, the Court also echoed current concerns of YouTube in prescreening videos and dismissed such claims as infeasible.[69] Further, the Court also stated that a 'reasonable' implementation of standard technical measures is sufficient to meet statutory requirements.[70] The judgment in *Veoh Networks Inc.* is widely expected to favour YouTube's claims and the *Viacom* Court may take the same factors into consideration while pronouncing the verdict.

Another important factor to be taken into account is that of inducement. The *Betamax* defense[71] and its subsequent interpretation in *Grokster*[72] both mandate that the digital service should have substantial non-infringing uses to be exempt from liability.[73] The *Grokster* Court noted further that the service must not be distributed with the object of promoting its use to circumvent copyright[74]; any complicity or refusal to provide effective anti-circumvention technology may be construed as inducement. However, it is unlikely that YouTube will be bogged down by the legacy of Groksters or Napsters, considering the immense potential it offers to legitimate digital media-sharing. As stated earlier, YouTube's extant technological measures and Terms of Use may be sufficient in warding off claims of inducement.

CONCLUDING ANALYSIS

The preceding segments of this case comment have sought to delineate the many issues that might play a critical role in deciding the outcome of *Viacom v. YouTube*. Considering the paucity of case law and interpretational

68. Eric Goldman, IO v. Veoh Comments – A Terrific 512(c) Defense-Side Win, http://blog.ericgoldman.org/archives/2008/09/io_v_veoh_comme.htm.
69. Richard Raysman and Peter Brown, *DMCA: A Safe Harbor for Video Sharing?*, New York Law Journal, Oct. 17, 2008, http://www.law.com/jsp/legaltechnology pubArticleLT.jsp?id=1202425323100.
70. *Ibid*. However, it is also pertinent to note that the judgment has not sought to define the term 'reasonable' in this context.
71. Sony Corp. of America. v. Universal City Studios, Inc., 464 U.S. 417 (1984).
72. Metro-Goldwyn-Mayer Studios, Inc. v. Grokster Ltd., 545 U.S. 913 (2005).
73. 464 U.S 417, 447-56.
74. 545 U.S. 913, 937.

work on the DMCA safe harbours, the Court is expected to factor in contemporary concerns relating to the viewing and transfer of digitized media.

Consequent to the filing of its plaint, Viacom joined CBS, Disney, Fox, Microsoft, MySpace, NBC/Universal, DailyMotion and Veoh in supporting the Principles for User-Generated Content Services.[75] Known popularly as the UGC Principles, these guidelines encourage the elimination of infringing content on service providers, attempting to accommodate fair use concerns simultaneously. The Principles seek to stress on the importance of adequate identification technology which would filter out unauthorized media.[76] The UGC Principles are broadly perceived to be a reactionary mechanism to the safe harbour arguments raised by service providers; entities like Viacom want a content-filtering standard cutting across the board, rather than an indigenous policy endorsed by YouTube.[77]

On the other hand, every key player in the digital media industry has woken up to the immense popularity of service providers delivering customized content. Viacom itself owns Atom and iFilm, both video-sharing sites that rely extensively on the DMCA take-down provisions. Many analysts have been vehement in their support. Notwithstanding the message this aspect sends across to the *Viacom* Court, it is clear that everyone wants a share in the digi-media pie and is not impressed with YouTube's dominance in the sphere.

Lawsuits against VSPs like YouTube may not be the best exercisable option for media giants. The Wall Street Journal believes that the real issue behind *Viacom* is not intellectual property, but consumer rebellion.[78] A victory for Viacom in this litigation may prove pyrrhic, since there is really no stopping the fast-spawning YouTubes of the Internet. True to the adage, many rights holders have realized that they cannot beat such service providers and are better off if they join the trail. Numerous content deals have been struck between various parties including YouTube[79] and the prize is enhanced protection for copyrighted content. The treatment might sound discriminatory to a Veoh or a Viacom, but until technology keeps up with the needs of copyright owners, it all boils down to the survival of the popular.

75. The UGC Principles may be found at http://www.ugcprinciples.com/.

76. User-Generated Content Service Principles, (December 13, 2008) http://www.ugcprinciples.com/,¶ 3.

77. Erik Schmidt, *Google, Viacom, Content Filtering and § 512(i)*, http://www.techlawforum.net/internet-policy/net-law/google-viacom-content-filtering-512/.

78. Paul Kedrosky, *Viacom v. YouTube*, Wall Street Journal, Mar. 15, 2007 http://www.opinion journal.com/editorial/feature.html?id=110009788.

79. To date, YouTube has inked major content deals with CBS, Sony BMG Music Entertainment, Universal and BBC Networks.

TRIPS, Patents and Parallel Imports in India: A Proposal for Amendment

Shamnad Basheer
*Mrinalini Kochupillai**

I. INTRODUCTION

India's amendment to her patent regime in 2005[1] to introduce pharmaceutical product patents attracted unprecedented attention, both domestically and globally. While multinational pharmaceutical companies were concerned that the Act withered away their exclusive rights, civil society activists decried the new product patent regime, fearing that it would cause steep hikes in the price of life saving drugs. This politicization of patent law produced some interesting results; most recently, a Delhi High Court decision that denied an injunction to a multinational patentee on the ground that it sold a more "expensive" drug than the infringing generic manufacturer.[2]

While some provisions in the new patent regime, such as section 3(d) continue to attract significant attention,[3] others have been lost in the legalese.

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* Shamnad Basheer is the Ministry of HRD Professor in IP Law at the National University of Juridical Sciences (NUJS), Kolkata. Mrinalini Kochupillai is an intellectual property law consultant and is currently working as a research scholar at the Max Planck Institute, Munich. The authors would like to thank the numerous readers of the Spicy IP Blog for providing their comments to our posts dealing with parallel imports. These comments greatly enriched our understanding and appreciation for the various interpretative nuances relating to section 107A(b). See http://spicyipindia.blogspot.com/2008/05/parallel-import-debate-in-india-some.html. The authors would also like to thank Chris Ohly (Schiff Hardin), Chris Stothers (Milbank, Tweed), Sai Krishna (Sai Krishna Associates), Karan Bharihoke (AZB & Partners), Swathi Sukumar (Anand and Anand), Sneha Jain (ILS Pune), Shouvik Kumar Guha (National University of Juridical Sciences), Abhai (Lex Orbis), Dr. Kalyan Kankanala C (Brain League), Feroz Ali Khader (Chennai High Court), Manoj Pillai (Lex Orbis), Shashwat Purohit (Franklin Pierce Law Center) and J Sai Deepak (Rajiv Gandhi School of Intellectual Property Law) for their inputs and comments. This paper is a newer and revised version of a paper titled *'Exhausting' Patent Rights in India: Parallel Imports and TRIPs Compliance*, 13 Journal of Intellectual Property Rights, 486-497 (2008).

1. The Patents (Amendment) Act, 2005, published as law in the Gazette of India on April 5, 2005, Prior to these amendments, the Patents Act, 1970 (Act No. 39 of 1970) was also amended by the Patents (Amendment) Act, 1999 and the Patents (Amendment) Act, 2002 in order to comply with TRIPS mandates.
2. F. Hoffmann-La Roche Ltd. and Anr. v. Cipla Limited, 48 (2008) DLT 598, MIPR 2008 (2) 35 (Hereinafter, Roche v. Cipla). For an extensive analysis of this decision, see Shamnad Basheer and Prashant Reddy, *Roche vs Cipla: The "Price" of a Patent Injunction in India* (unpublished comment, on file with the authors).
3. This section prohibits the patenting of any pharmaceutical/chemical derivative that exhibits no significantly enhanced efficacy over and above its closest prior art equivalent substance. For a detailed analysis of this provision and the Novartis case where it featured prominently, *See* Shamnad Basheer and Prashant Reddy *The "Efficacy" of Indian Patent Law: Ironing out the Creases in Section 3(d)* 5 Scripted 232 (2008) http://www.law.ed.ac.uk/ahrc/script-ed/vol5-2/basheer.asp.

One such provision is section 107A (b) dealing with parallel imports,[4] which, if read in a literal manner could have far reaching implications for the rights of a patentee. Illustratively, it could permit a generic manufacturer such as Cipla to produce generic versions of a patented drug in Bangladesh, where there may be no patent covering the drug in question, and import such generic versions into India.

This paper aims to highlight this particular provision, which has thus far not attracted the attention it deserves. It explores the perceived ambiguities in this section and discusses the gaps in the Indian law pertaining to exhaustion and parallel imports. Lastly, it goes on to suggest statutory amendments in order to fill these gaps and expand the scope of exhaustion envisaged therein, whilst at the same time remaining TRIPS compliant.

The paper is divided into 4 parts: The first part explains the concept of exhaustion/parallel importation in relation to patents. Part two examines the ambiguities inherent in section 107A (b). It also explores the gaps in the law relating to exhaustion in India and assesses the TRIPS compatibility of the current provision. The third part recommends a harmonious way of interpreting the current statutory provision so as to remove the ambiguities and balance out the rights of patentees and parallel importers in an optimal manner without violating the TRIPS agreement. The final part recommends statutory amendments to section 107A(b).

II. PATENTS, PARALLEL IMPORTS AND EXHAUSTION: A PRIMER

A patent is a bundle of exclusive rights granted to an inventor whose invention satisfies certain pre-requisites such as novelty, non-obviousness and utility.[5] Such exclusive rights include the right to make, use, sell and import the patented goods into such country.[6]

The doctrine of exhaustion imposes certain limits on the patentees' exclusive rights. According to this doctrine, "*a patented item's initial authorized*

4. This section titled "defences to patent infringement" provides that any import of a patented product into India from a person who is duly authorized under the law to produce and sell or distribute the product will not amount to an infringement.
5. Agreement on the Trade – Related Aspects of Intellectual Property Rights arts. 27.1, 65, 70.9, Apr. 14, 1994, 33 I.L.M 1125 (Hereinafter, TRIPS), which represents the common minimal standard that WTO members are mandated to implement in their domestic patent regimes, provides that "*patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.*"
6. *See for example*, Article 28(1) of the TRIPS Agreement which states in pertinent part that *"a patent owner shall have the exclusive right to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product."*

sale terminates all patent rights to that item."[7] In other words, the patentee cannot control the resale or re-distribution of the particular item that has already been sold once.[8] Were it not for such "exhaustion" of rights, a purchaser of a patented article might be prevented from selling the said item or even "using" it, since such "sale" or "use" implicates the exclusive rights of the patentee.[9]

Illustratively, a buyer of a patented washing machine is free to do what she wishes with the machine: this includes the freedom to use the said machine, re-sell it, etc., without fear of being sued for patent infringement. The rationale underlying the theory of "exhaustion" and the doctrine of first sale is that a patentee has already been rewarded through the first sale and should not be allowed to profit repeatedly on the same good by controlling its use, resale or distribution.[10] However, the doctrine of exhaustion is circumscribed by the following factors:

i) "Exhaustion" kicks in only if the "first sale" is made by or with the authorisation of the patentee.

ii) "Exhaustion" in relation to a particular patented article does not impact the patentee's other exclusive rights. Nor does it affect the patentee's rights with respect to "other" patented articles. In other words, the buyer of a patented article, in respect of which the patent right has been exhausted does not get the right to "sell" or "distribute" "other" patented articles that she has not purchased.[11]

Depending on the territory in question, exhaustion can be either "national" (confined to a single state) or "international" (across the globe). Legitimate "parallel imports" are but a natural corollary of the doctrine of international exhaustion and envisage the following:

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7. Quanta Computer, Inc. v. LG Electronics Inc., (No. 06-937) 453 F. 3d 1364, reversed (Supreme Court June 9, 2008).
8. This principle is also commonly referred as the "first sale doctrine", a doctrine which *"...stands for the proposition that, absent unusual circumstances, courts infer that a patent owner has given up the right to exclude concerning a patented article that the owner sells." S*ee Glass Equipment Development Inc. v. Besten Inc., 174 F.3d 1337 as quoted in Words and Phrases (Permanent Edition Vol. 17), "First Sale".
9. The "use" of a patented product that had been legitimately purchased from a patentee or her authorized representative may be exempt from patent infringement under an "implied licence" theory. *See* Anton/Bauer, Inc. v. PAG Ltd., No. 3:01 CV 577 (CFD), 2002 U.S. Dist. LEXIS 11583, (D. Conn. June 12, 2002).
10. The exhaustion doctrine, thus, serves to allow the patentee to extract full consideration for a patented article, but no more. See J.C. Paul et al, *US Patent Exhaustion: Yesterday, Today, and Maybe Tomorrow*, 3 Journal of Intellectual Property Law & Practice 461-469(2008).
11. *Illustratively, see* US v. Moore 604 F. 2d 1228 as quoted in Words and Phrases "First Sale" see supra note 8.

i) An export of a patented good from country X (such as Bangladesh)

ii) Import of such patented good into country Y (such as India).

A parallel importer essentially engages in price arbitrage and exploits the price difference between the exporting country (Bangladesh) and the importing country (India). Several countries therefore encourage such imports to ensure lower priced patented goods for their consumers.

It bears noting that the key players who effectuate "parallel imports" are third parties, normally unrelated to the patentee. As to whether or not the import of such goods into India (importing country) can be stopped by the patentee by recourse to an Indian court will depend on the laws of India. Illustratively, since the laws of India provide for "international exhaustion", such imports into India are legal.[12] Contrast this with the US, which does not provide for international exhaustion: any import of patented goods from Bangladesh to the US can therefore be prevented by the patentee, even if the patentee herself had placed the goods in the Bangladeshi market. We discuss the various kinds of "exhaustion" below. It is important to bear in mind that the scope of "exhaustion" depends upon the kind of intellectual property right in question i.e. the rules relating to "exhaustion" in relation to patents are quite distinct from those in relation to copyrights and trademarks.[13] Although our paper is restricted to the norms of exhaustion that apply in the context of patents, we also refer to exhaustion in the context of other intellectual property rights, where necessary.

National, Regional and International Exhaustion

Consider the following hypothetical built around a recent case in India,[14] albeit with appropriate modifications to illustrate our point better. Roche, a Swiss multinational corporation owns a patent over an anticancer drug, Tarceva in India. It sues Cipla for introducing a generic version of this drug and requests the Delhi High court for an interim injunction against Cipla. The court decides in favour of Cipla on grounds of "public interest" i.e. Cipla was selling a cheaper and more affordable version of Tarceva. Upto this point, our hypothetical mirrors the actual case itself that is currently pending before the Delhi High Court.

12. We discuss the Indian position in great detail in the ensuing sections of this paper.

13. In fact, the rules in relation to copyrighted works are likely to differ, depending upon the kind of work in question. Thus, under the Indian copyright regime, although a buyer of a literary work (such a book) is free to sell or distribute her copy, a buyer of a computer program cannot sell or distribute the copy. See Copyright Act, (Act No. 14 of 1957), sections 14 (a) and (b) of the. Similarly, in relation to sound recordings, the author/owner has the exclusive right to "*sell or give on hire, or offer for sale or hire, any copy of the sound recording regardless of whether such copy has been sold or given on hire on earlier occasions*" (Section 2(e)(ii)).

14. *See supra* note 2.

Let us now assume that CIPLA is enjoined (at the final stage) by the Delhi High court and cannot sell generic versions of Tarceva in India. Let us also assume that Roche has patents covering this drug in Bangladesh and Pakistan. However, there is a price differential, with the highest price being charged in India and the lowest in Bangladesh. The following questions arise:

i) Can Cipla import the drugs from Bangladesh to India and avail of the price differential?

ii) Can Cipla buy the drug from Roche in Bangladesh and resell within Bangladesh (particularly to areas that are not serviced by Roche or its distributors)?

iii) Can Cipla import the drugs from Bangladesh to Pakistan and avail of the price differential?

The answers to the above questions depend upon the kinds of "exhaustion" and "parallel import" regimes prevailing in India, Bangladesh and Pakistan. Let us assume for the purpose of our hypothetical that Bangladesh and Pakistan follow the doctrine of national exhaustion, while India follows international exhaustion. Let us also assume that Pakistan and Bangladesh are part of a regional bloc and they follow "regional exhaustion" principles as well.

International Exhaustion

In our hypothetical, Indian patent law follows international exhaustion i.e. once Roche sells Tarceva capsules in Bangladesh, either through itself or an authorised representative ("first sale"), its rights stand "exhausted" vis-à-vis that product. Cipla is free to bring these very same capsules into India and sell at a higher price.

While countries such as India and Japan recognize the principle of international exhaustion,[15] countries such as the US, EU and Brazil do not.[16]

15. The Indian position will be discussed at great length later in this paper. The Japanese Supreme Court endorsed international exhaustion in BBS Kraftfahrzeugtechnik AG v. Rashimekkusu Japan Co. Ltd. and JAP Auto Prods Co. Ltd., Case No. H-6-(Ne)-3272 (Supreme Court of Japan 1997), translated in 29 International Review of Industrial Property & Copyright 331 (1998). See also, *International Patent Exhaustion and the Global Semiconductor Industry*, http://semiconductorlawblog.com/blog/?p=18.

16. See Jazz Photo Corp. v. International Trade Commission, 264 F 3d 1094 (Fed Cir 2001). In this case, the plaintiffs held patents in relation to a disposable camera which was not designed for reuse after its film was exposed. However, the shells of the camera were reused by certain Chinese refurbishers and the defendants purchased the same, supplied the films and imported these cameras into the US market. Rejecting the doctrine of international exhaustion, the

National Exhaustion: Bangladesh

In our hypothetical, Cipla can buy Tarceva capsules from Roche in Bangladesh and then resell them or re-distribute them anywhere in Bangladesh. Naturally, it will do so only if it can engage in price arbitrage i.e. sell at higher prices in remote areas not serviced by Roche. Here again, since Roche has already sold the drug once (first sale), it cannot control the further sale or distribution within Bangladesh. The key limitation of the doctrine of national exhaustion is that the purchase of the patented article and its subsequent resale or its re-distribution ought to be confined within the territorial limits of Bangladesh.

Regional Exhaustion: Pakistan and Bangladesh

Some countries permit parallel import of goods within a specific regional bloc, so long as the first sale is legitimately made by the patentee or her authorized representative within one of the countries that are part of the bloc. Illustratively, the laws of the European Community (EC) provide that patented goods that have been subjected to a first sale anywhere in the community (e.g. France) can be imported and sold in any other EU country (e.g. UK) without the permission of the patentee;[17] provided of course that the first sale is made by or with the authorization of the patentee. Similarly, since Bangladesh and Pakistan are members of a regional bloc in our hypothetical, a sale in Bangladesh would exhaust the patentee's rights across the entire bloc. And the goods can cross over to Pakistan without the express permission of the patentee.

Now that the concepts have been fleshed out, let us examine the regime pertaining to "exhaustion" of patent rights in India.

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court enjoined the defendants from importing. Some countries in Europe follow a similar rule as the US; *see generally* CHRISTOPHER STOTHERS, PARALLEL TRADE IN EUROPE: INTELLECTUAL PROPERTY, COMPETITION AND REGULATORY LAW (Hart Publishing 2007). Others such as the UK appear to follow a rule of limited international exhaustion. See Betts v. Willmott, (1871) 6 Ch.App. 239, where it was held that any unconditional first sale in a foreign market amounts to an implied license to import the product to the UK. Subject to certain exceptions involving the non-working of a patent in Brazil or a compulsory license, Brazilian law prohibits all imports of patented products. *See International Exhaustion of Industrial Property Rights: Brazil* (AIPPI Congress in Melbourne 2001), http://www.aippi.org/reports/q156/gr-q156-Brazil-e.htm.

17. Illustratively, see Centrafarm BV v. Sterling Drug Inc., [1974] 2 CMLR 480 where the European Court of Justice (ECJ) held that once the patentee had consented to the marketing of patented goods anywhere in the common market, then irrespective of national patent rights which may exist, the goods could be sold and marketed anywhere in the community. Allowing the patentee to prevent such sales would be akin to partitioning national markets which is anathema to the principle of free movement underlying the entire existence of the EU. For a good summary of European case law in this regard, see Arghya Sengupta, *Parallel Imports in the Pharmaceutical Sector: Must India be More Liberal?* 12 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS 400-409 (2007).

National Exhaustion: The Indian Legal Regime

Curiously, although the Indian patent regime recognizes international exhaustion, a literal reading of the section suggests that it does not provide for "national" exhaustion. Contrast this with other IP legislations such as the Trademarks Act, 1999,[18] whose wording is broad enough to subsume both national and international exhaustion principles. Section 30(3) of the Trademarks Act provides in pertinent part that:

> *[w]here the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of- (a) ... or (b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.*

Although the section does not use the term "exhaustion", the use of terms such as "sale of goods in the market" or "otherwise dealing in those goods" clearly indicates that what is envisaged is "exhaustion". Unlike section 107A(b), section 30(3) is not limited to "imports" and can therefore be read to allow both domestic and international exhaustion. A recent decision of the Delhi High Court makes this clear:

In *Xerox Corporation v. Puneet Suri*,[19] the plaintiff owned the trademark "Xerox" and claimed that the defendant's act of importing and selling second hand Xerox machines constituted trademark infringement.

The defendants argued that their acts were covered under Section 30(3), which recognized the principle of international exhaustion.[20] Justice Sanjay Kishen Kaul of the Delhi High Court agreed with the defendants, holding that the "*import of [second hand] Xerox machines that have proper documentation*" is permissible under the Trademarks Act, provided that *"there is no change or impairment in the machine."*[21]

18. Act No. 47 of 1999 dated 30th Dec., 1999. The Trademarks Act, 1999 came into force in September 2003.
19. C.S. (OS) No. 2285/2006; (Feb 20, 2007).
20. To this extent, the defendants relied on the *Notes on Clauses* under the Trademarks Bill, 1999 (Bill No. XXXIII of 1999) which, in relation to sections 30(3) and 30(4), states: *"Sub-clauses (3) and (4) recognize the principle of 'exhaustion of rights' by preventing the trade mark owner from prohibiting on ground of trade mark rights, the marketing of goods in any geographical area, once the goods under the registered trade mark are lawfully acquired by a person. However, when the conditions of goods are changed or impaired after they have been put on the market, the provision will not apply."* Interview with counsel for defendant, Sai Krishna of Saikrishna Associates, New Delhi (Jul. 3, 2008).
21. The latter part of the order appears to be have been based on a straightforward application of Section 30(4) of the Trademarks Act, 1999, which provides that *"...sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market."*

Given this statutory endorsement of exhaustion, both national and international, in the Trademarks Act, might one argue that the absence of a similar clause envisaging "national exhaustion" in the Patents Act meant that Parliament did not intend to provide for such a doctrine?

Since the Patents Act expressly provides for "international exhaustion" in section 107A(b), (a point we will elaborate in detail in the ensuing paragraphs) which is a relatively more liberal defence to infringement, it is unlikely that an Indian court will refuse to endorse a narrower "national exhaustion" exemption in India. Particularly since the lack of a specific national exhaustion principle appears to be an oversight rather than a deliberate attempt by Parliament to restrict the scope of Section 107(A)(b). Even if a court does insist on a strictly technical reading of the Patents Act to deny scope for national exhaustion, a purchaser would nevertheless have an implied right to use and re-sell a patented good purchased in the market under the Sale of Goods Act, 1930 (section 14[22] and section 19[23] of the said Act). Absent this implied right, a patentee could sue the buyer of a patented product for violating the exclusive right to "use" the patented good or to resell it.[24] Surely, such an absurd result was not intended by Parliament.

22. Section 14 of the Sale of Goods Act, 1930 states that "*In a contract of sale, unless the circumstances of the contract are such as to show a different intention, there is- (a) an implied condition on the part of the seller that, in the case of a sale, he has a right to sell the goods and that, in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass; (b) an implied warranty that the buyer shall have and enjoy quiet possession of the goods.*" In Microbeads AC and Another v. Vinhurst Road Markings Ltd., 1 All ER 529 (1975), it was held that breach of the warranty of quiet possession would not be confined to physical interference with the buyer's possession of the goods; in case of a claim made by the patentee of a patent affecting the goods, courts in UK have held that a breach has occurred.

23 . Section 19(1) of the said Act provides that "*where there is a contract for the sale of specific or ascertained goods the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred.*" Furthermore, as per Section 19(2), "*for the purpose of ascertaining the intention of the parties regard shall be had to the terms of the contract, the conduct of the parties and the circumstances of the case.*" Therefore, when a patent-holder is selling a patented product, in the absence of any indication to the contrary in course of the sale, the property and hence the associated rights with respect to that specific product is transferred to the buyer, who then has the right to resell that product if she so desires.

24. Section 48 of the Indian Patents Act grants exclusive rights to a patentee, including the right to "use" the patented product. One might argue that such a buyer could "use" the patented product under an implied license theory. In a recent House of Lords decision in United Wire Ltd. v. Screen Repair Services (Scotland) Ltd., 4 All ER 353 (H.L.)(2000), Lord Hoffman distinguished the doctrine of exhaustion with the theory of implied license and stated that "*The difference in the two theories is that an implied licence may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no patent rights to be enforced.*" In the light of section 68 of the Indian Patents Act, which requires every license be in writing and registered, it is unclear if courts would endorse an "implied" license theory in such a context. It is more likely that Indian courts will rely on the Sale of Goods Act to permit "use" and "resale" of patented goods by a consumer, provided there is no agreement to the contrary.

Therefore, a court is likely to eschew a strict literal reading in favour of a more purpose driven interpretation to enable subsequent sales or distribution of patented products within India.

Regional Exhaustion: The Indian Legal Regime

Although India is a member of a number of associations and trading blocs (such as SAARC and Commonwealth),[25] none of these blocs require "regional exhaustion" to be built into the respective domestic patent regimes. Consequently, India does not have any such provision in its statute.

International Exhaustion: The Indian Legal Regime

Although the terms "parallel imports" and "exhaustion" have not been expressly used in the Patents Act, these terms find mention in the Statement of Objects and Reasons appended to the Patents (Second Amendment) Bill, 1999, which became the Patents (Amendment) Act, 2002.[26] Further, from the various Parliamentary debates[27] preceding the passage of the Patents (Amendment) Act, 2005 as well as from official press releases in relation thereto[28], it is clear that section 107A(b) was aimed at permitting parallel imports and endorsing the principle of international exhaustion. We take a closer look at the history of the provision hereunder.

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25. The South Asian Association for Regional Cooperation (SAARC) is an association of countries seven countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) and aims to accelerate the process of economic and social development in Member States, http://www.saarc-sec.org/main.php. The Commonwealth is an association of 53 sovereign nations, most of whom were former British colonies that support each other and work together towards international goals. Countries such as India, Sri Lanka, Australia and New Zealand are members of the commonwealth, http://www.thecommonwealth.org.
26. *See infra* note 29.
27. See debates in the Rajya Sabha (upper house of Indian Parliament), http://rajyasabha.nic.in/rsdebate/deb_ndx/204/23032005/3to4.htm where Shri Jairam Ramesh, the Minister of State for Commerce and Industry, states that *"... the relevant sections are Section 47, Sections 82-84 and Section 107 (a) and (b) which deals with parallel imports. .... The short point that I want to make is that, on the issue of prices, on the issue of availability of patented medicine, on the issue of the ability of the Government to retain the right of ensuring that the patent is translated into a product, there are enough safeguards in the existing legislation both in the 1970 legislation, but more importantly in the revised Patents Act of 1970 reflecting the new provisions for compulsory licensing, reflecting the new provisions for parallel import particularly; and also reflecting the new provisions for enabling the Government to import; and use and distribute for its own use either through itself or through the third party."*
28. See for example, a press release from the Press Information Bureau (the nodal agency of the Government of India tasked with disseminating information on government policies, programme initiatives and achievements.), http://pib.nic.in/release/release.asp?relid=8096, which notes in connection with the amendment to section 107A (b) that *"...this has been amended to say that the foreign exporter need only be 'duly authorised under the law', thus making parallel imports easier. A parallel import is a mechanism that helps in price control."* See also the official website of the Ministry for Commerce and Industry, which carries a short note on this aspect, http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=1633.

The first statutory provision on parallel imports was introduced by the Patents (Amendment) Act, 2002.[29] This section provided that the *"....importation of patented products by any person from a person who is* ***duly authorized by the patentee*** *to sell or distribute the product, shall not be considered as an infringement of patent rights."*

However, the above provision was considered restrictive in scope, as evident from the following hypothetical:

Assume that Roche has a patent over Tarceva in both Bangladesh and India. However, Roche sells the drug (through its licensee, X) at Rs 100 in Bangladesh and Rs 300 in India. Cipla buys the drug from X at Rs 100, imports it to India and thereafter re-sells at Rs 200 per capsule. Since X qualifies as "*a person duly authorized by the patentee*", Cipla's import is legal and falls within section 107A(b). Now let us assume that X discovers that Cipla is engaging in parallel trade and undercutting her market in Bangladesh and therefore stops selling to Cipla. Cipla then approaches a drug store (Y) in Bangladesh that has brought supplies from X. Although Y is not a licensee of Roche, under Bangladeshi law (which, for the purposes of our hypothetical, recognizes national exhaustion), it is free to resell or redistribute goods bought from Roche/X.

However, under Indian law, Y may not qualify as "*a person who is duly authorized by the* ***patentee*** *to sell or distribute the product"*. In other words, although Y may be authorized under the "law" of Bangladesh to sell and distribute the drug, one may argue that she is not specifically "authorized" by the patentee in this regard.

This interpretation gains credence in the light of section 68 of the Indian Patents Act, which categorically states that every license ("due authorization") has to be in writing and duly executed.[30] Therefore, if Cipla buys from Y, it may not be protected under section 107A(b) and could be sued for patent infringement by Roche in India. Needless to state, if such a

29. The Patents (Second Amendment) Bill, 1999 (which eventually became the Patents (Amendment) Act, 2002) was introduced in the Parliament on 20th December, 1999. See http://rajyasabha.nic.in/journals/188/20121999.htm. Thereafter, a motion was passed and adopted by the Rajya Sabha on 21 December 1999 and by the Lok Sabha on 22 December, 1999 to refer the Bill to a Joint Committee of both Houses of Parliament See http://www.parliamentofindia.nic.in/ls/bulletin2/01/D151101.htm. The Bill was placed before the Rajya Sabha for consideration on 9 May, 2002. *See* http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=880.

30. Given that the term "duly authorized" has not been defined in the Indian Patents Act, one commentator opines that it is likely to be construed in accordance with "implied license" theories and English precedent in this regard. See Sonia Baldia, *Exhaustion and Parallel Imports in India* in PARALLEL IMPORTS IN ASIA 164-165 (Christopher Heath ed., Kluwer Law International 2004). However, in the light of section 68 which requires every license to be in writing and registered, it is not clear if Indian courts would endorse an implied licence doctrine in India.

construction were to be adopted by Indian courts, it would thwart the very idea of international exhaustion and the laudable intent of helping Indian consumers avail of lower prices, when the patentee has already placed a product in the global market and made profits on the first sale thereon. It is pertinent to note in this connection that according to the "Notes on Clauses" appended to the Patents (Second Amendment) Bill, 1999, section 107A(b) was introduced to "*ensure availability of the 'patented product' in the Indian market at minimum international market price.*[31]"

The potential for a restrictive interpretation of section 107A and the consequent thwarting of the principle of international exhaustion as articulated above may have prompted the Indian Parliament to effectuate an amendment via the Patents (Amendment) Act, 2005[32] and provide that there would be no infringement if there has been an *"importation of patented products by any person from a person who is duly authorized* ***under the law*** *to produce and sell or distribute the product"*.

Therefore, in contrast with the earlier position under the 2002 Act, once the "first sale" of any product had been authorized by the patentee, a parallel importer could buy that product from any reseller and not necessarily from the one that had the express permission of the patentee to resell or distribute. In other words, such importer does not need to ensure that any of the sellers from whom she buys the goods (whether second, third or fourth) were expressly or impliedly authorized by the patentee. Of course, this assumes that Bangladeshi patent law recognized "national exhaustion" and therefore the second or the third seller was "duly authorized under Bangladeshi law to produce and sell the product". To this extent, the 2005 amendments implement the principles of international exhaustion and parallel imports in their true spirit.

31. According to the "Statement of Objects and Reasons" appended to the Patents (Second Amendment) Bill, one of the salient features of the Bill was "to provide provisions relating to parallel import of patented products;" Clause 51of the Bill recommended the inclusion of Section 107A. The Notes on Clauses appended to the Bill provides in relevant part, "*Clause 51. - This clause seeks to insert a new section 107A in the Act, relating to certain acts which are not to be considered infringements.... It is also proposed that the importation of patented products from the person who is duly authorized by the patent holder shall not constitute an infringement. This provision is proposed to ensure availability of the patented product in the Indian market at minimum international market price.*"

32. This amendment was first introduced under the Patents (Amendment) Ordinance, 2004 promulgated by the President in order to meet the deadline of January 1, 2005 required by the TRIPS Agreement to introduce product patents. Section 107A(b) of the Ordinance provided that there would be no infringement if there has been an "*importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product*". This language was retained in the Patents (Amendment) Bill, 2005, which eventually became the Patents (Amendment) Act, 2005.

Another amendment in section 107A(b), which bears noting is the addition of the word "produce". The earlier clause which exempted from infringement the *"....importation of patented products by any person from a person who is duly authorized by the patentee* **to sell or** *distribute the product..."* was amended in 2005 to *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product"*. (emphasis by authors). Firstly, the phrase ought to read as "produce and sell OR distribute" and not as "produce and sell OR produce and distribute". The latter reading would unduly restrict the provision and thwart international exhaustion principles, as not many entities would have been actually licensed to "produce" the patented good. Indeed, in some cases, the patentee may be the sole producer of the patented goods. Given that the former interpretation is likely to hold sway, it would appear that the phrase "produce and sell" is superfluous,[33] since a parallel importer, in the normal course of events, is likely to purchase goods from a person who is authorized to "distribute" the patentee's goods. It ought not to make a difference to such importer whether this person additionally had the right to produce those goods as well.

III. SECTION 107A(B): ERODING THE EXCLUSIVE RIGHT TO IMPORT?

Section 107A(b), in its current form, exempts from infringement an *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product"*.

A literal reading of section 107A(b) suggests that even the "first sale" need not be authorized by the patentee.

Consider our earlier hypothetical involving Tarceva, an anticancer drug, which is under litigation before the Delhi High Court.[34] Here again, for the purposes of this paper, let us amend the fact situation slightly to assume that that Cipla is restrained (at the final stage) by the Delhi High court and cannot sell in India. Cipla now asks its Bangladeshi partner, Beximco Pharmaceuticals Ltd., to manufacture the drug in Bangladesh. It

33. According to a noted jurist, Justice GP Singh, "*The Legislature sometimes uses superfluous words or provisions or even tautologic expressions because of ignorance of law or as a matter of abundant caution.*" *See* G. P. Singh, Principles Of Statutory Interpretation 76 (Wadhwa & Co 2004), (hereinafter, "GP Singh"). It has been held that "*only when other provisions of an Act give out that a provision in the Act owes its origin to a confusion of ideas or to a misunderstanding of the law or to abundant caution, the court reaches the conclusion that that provision is superfluous.*" See also Shri Gopal Jalan & Co. v. Calcutta Stock Exchange Association, AIR 1964 SC 250 at 253-254, as quoted in GP Singh at 77.

34. *See supra* note 2.

then imports the drug into India.[35] It bears noting that Bangladesh is a least developed country (LDC)[36] and therefore has time till 2016 to implement product patents in pharmaceuticals. Consequently, any manufacture, use, distribution and sale of the drug within Bangladesh does not amount to a patent infringement in Bangladesh.[37]

Under the old regime (prior to 2005), which required any import to be "*duly authorized by the patentee*", Cipla could not legally import Tarceva into India if the seller (in Bangladesh) was not authorized by Roche to sell or distribute Tarceva in Bangladesh. Under the new provision however, one could argue that Cipla can import Tarceva even without the permission of Roche. It has to only comply with the condition that the exporter of such patented product (eg. Beximco) be "*duly authorised under the law to produce and sell or distribute the product*".

The key question we are faced with in the light of the fact that the goods are produced by Beximco and not Roche and there has been no "exhaustion" of Roche's patent right, is: would not such imports hit out at the very essence of the exclusive right to import under section 48 of the Patents Act and Article 28[38] of the TRIPS Agreement? We examine this issue below.

Exclusive Right to Import Under Section 48

By permitting the import of goods manufactured in Bangladesh and other countries (where there are no patents and where the goods are not placed in the market by the patentee), the very essence of the exclusive right

35. Bangladeshi patent law excludes pharmaceutical inventions (products) from patentability. See Patents and Designs Act, 1911, http://bdlaws.gov.bd/pdf_part.php?act_name=&vol=&id=94 However, Bangladesh is considering putting in place a "mailbox" facility so that pharmaceutical patent applications may be accepted and their "novelty" preserved. A news report in the Daily Star ,http://www.thedailystar.net/story.php?nid=27621 states that "*A circular issued by the Department of Patent, Design and Trademarks in January said as per the TRIPS agreement all applications for patents of medicines and agricultural chemicals will be kept suspended until January 01, 2016. It said the previous applications as well as fresh applications relating to patents for medicines and agricultural chemicals will be preserved in a 'mail box' and will be considered after the expiry of the deadline.*" See also ,http://www.bangladeshinfo.com/news/special16.php.
36. *See the* UN list of Least Developed Countries here: http://www.un.org/special-rep/ohrlls/ldc/list.htm.
37. It must be noted that Bangladesh has yet to reach a similar technological capability as India, in so far as the manufacture of drugs is concerned. Although their current strength is limited to the manufacture of formulations, it is only a matter of time before they gain proficiency in Active Pharmaceutical Ingredients (API's) as well. By setting up base in Bangladesh, Indian companies could help Bangladeshi industry acquire the skills necessary for making API's. See SAMPATH P. GEHL, INTELLECTUAL PROPERTY RIGHTS AND INNOVATION IN A LEAST DEVELOPED COUNTRY CONTEXT: THE CASE OF BANGLADESH (UNCTAD 2007), for the Least Developed Country Report.
38. *See supra* note 6.

to import is eviscerated. In fact, some might even argue that this comes very close to rendering the very patent grant itself a nullity: a third party who cannot manufacture or sell a patented good in India has only to relocate to Bangladesh, manufacture the said good, and import it to India.

One may argue that the above consequence is not as severe as it seems. For one, a literal reading of section 107A would suggest that it is a defence only in so far as the exclusive right to "import" is concerned. In other words, the other exclusive rights guaranteed under section 48, such as the right to sell and distribute are not covered by the section 107A(b) exemption. If therefore, after importing, the good is distributed or sold in India, this could be prevented by the patentee. Such interpretation gains credence when one compares the Patents Act with the Trademarks Act, which endorses the right to "sell" by the parallel importer, once the rights have been exhausted internationally.[39]

However, given the legislative history of section 107A(b)[40] (that makes it clear that the section was introduced with a view to introduce parallel imports of patented products and to ensure availability of the patented product in the Indian market at minimum international market price), it is likely that a judge will likely construe the term "import" in this section to include subsequent sales as well. Particularly when the absence of the word "sale" appears more as an oversight than a deliberate attempt to curtail the scope of the international exhaustion principle envisaged under section 107A(b).[41] If so interpreted, section 107A would result in a drastic impairment of the exclusive rights guaranteed to a patentee under section 48.

39. *See supra* note 18 and accompanying text for a discussion on this. Further, see also Gramophone Co. v. Birendra Pandey, AIR 1984 SC 667, where pirated cassettes that were "in transit" to Nepal were seized by Indian customs officials on grounds of copyright infringement. The key issue was whether or not such "in transit" goods amounted to "imports" and therefore fell within the ambit of Section 51 (b) (iv) which prohibited the "import" into India of infringing works. The Indian Supreme Court held in the affirmative, noting that: "*It was submitted by the learned Counsel for the respondents that where goods are brought into the country not for commerce, but for onward transmission to another country, there can, in law, be no importation...It is difficult to agree with this submission... In the first place, the language of Section 53 does not justify reading the words 'imported for commerce' for the words 'imported'. Nor is there any reason to assume that such was the object of the legislature.". The Supreme Court reasoning could be transposed to our context as well, and one might argue that an "import" of a patented good into India need not necessarily entail the subsequent "sale" of that good within India.*

40. *See supra* notes 31, 32.

41. In State Bank of Travancore v. Mohammad, AIR 1981 SC 1744, the words "*any debt due before the commencement of this Act to any banking company"*, was interpreted to mean *"any debt due at and before the commencement of this Act"*. Chandrachud J., delivering the judgment of the court opined that: "*The plain language of the clause, if interpreted so plainly, will frustrate rather than further the object of*

Even assuming that a judge construes the section narrowly to deny any scope for subsequent sale by the importer, the patentee's exclusive right to import under section 48 is likely to be impacted. Consider our hypothetical concerning Tarceva; under a strict construction of section 107A(b), Cipla can only import the drug into India, but cannot sell it to the patients or to medical stores thereafter. Cipla could circumvent this prohibition on sales and distribution by asking patients or stores to order directly from its Bangladeshi suppliers, in which case, the "import" from Bangladesh would be directly by the patient or the store.

In short, any interpretation of section 107A(b) that legalises generic supplies from Bangladesh in our hypothetical is likely to hit at the very essence of the right to import under section 48. Further, such a construction also has serious TRIPS implications, as discussed below.

TRIPS Compatibility?

Article 28 of TRIPS mandates that every patentee shall have the exclusive right to make, use, offer for sale, sell, or import the patented product or process in question.

However, footnote (6) to Article 28 adds a small caveat to the exclusive right to import, by clarifying that *"This right [i.e. the right of importation], like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6."*

Article 6 in turn states that *"nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."*

The meaning of Article 6 is made clear by Article 5(d) of the Doha Declaration which states that *"the effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge ..."*

It is therefore clear that TRIPs permits Member States to limit the exclusive right to import guaranteed by Article 28 to the extent that such limitation relates in some way to the concept of "exhaustion".[42]

the Act. Relief to agricultural debtors, who have suffered the oppression of private moneylenders, has to be the guiding star which must illumine and inform the interpretation of the beneficent provisions of the Act.... We would have normally hesitated to fashion the clause by so restructuring it but we see no escape from that course, since that is the only rational manner by which we can give meaning and content to it, so as to further the object of the Act. (para. 19)".

42. According to one author, "exhaustion was one of the difficult issues during the TRIPS negotiations" and the compromise reached was to exclude the matter from dispute settlement. This does not mean that it was excluded from the Agreement altogether, but only means that "international exhaustion cannot be invoked before a panel as a direct violation of TRIPS...." *See* Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis 112-113 (Sweet & Maxwell 2003).

It is important to note that in our hypothetical example of Cipla producing generic versions of Tarceva in Bangladesh and exporting to India, there is no first sale by the patentee (Roche) and consequently, no "exhaustion" of Roche's rights. This lack of "exhaustion" means that Article 6 (which only confers flexibilities around determining the scope and extent of "exhaustion") cannot apply in the case of the Indian provision.

And since Article 6 does not apply, it is likely that section 107A(b) will be held to violate the exclusive right to import under Article 28. Further, such a provision virtually eviscerates the patentee's exclusive right to import. Therefore it might be very difficult to argue that it is a "limited exception" to a patent right falling within the scope of Article 30 of the TRIPS Agreement, which provides that "*Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.*"

In *Canada – Patent Protection of Pharmaceutical Products*,[43] the only panel decision to have interpreted Article 30 so far, the panel, while construing the term 'limited' used in Article 30, relied on its close proximity with the word 'exception' and noted that: "*When a treaty uses the term 'limited exception', the word 'limited' must be given a meaning separate from the limitation implicit in the word 'exception' itself. The term 'limited exception' must therefore be read to connote a narrow exception - one which makes only a small diminution of the rights in question.*"[44]

In this way, although the amended provision plugs a loophole in the earlier provision and implements the principle of international exhaustion in its true spirit, it also results in another consequence vis-à-vis the patentee's exclusive right to import under section 48 of the Patents Act and under Article 28 of the TRIPs Agreement. In other words, section 107A(b) as it stands today, is arguably in breach of India's obligations under the TRIPs Agreement.

III. CREATIVELY INTERPRETING SECTION 107A(B)

From the discussions above, it is clear that a plain literal reading of section 107A(b) detrimentally impacts a patentee's exclusive rights under section 48 and also runs the risk of violating TRIPS.

43. *Report of the Panel,* WT/DS114/R (Mar. 17, 2000).
44. *Id.* at para 7.29.

How then ought a judge to interpret section 107A(b), so as to balance out competing interests of the patentee on the one hand, and the desire to make cheaper goods available to the consumer on the other? We discuss here two possible ways in which the section could be interpreted to avoid violating the TRIPs agreement and better achieving this balance.

"Indianising" The Law

One suggestion could be to interpret the term "law" in the section, to mean Indian law. To recapitulate, section 107(A)(b) states that any importation of a patented product *"from a person who is duly authorized* ***under the law*** *to produce and sell or distribute the product"* is legal (emphasis by authors).

The key problem is that with such an interpretation is that one is faced with a logical inconsistency. A parallel import involves an "exporting" country (e.g. Bangladesh) and an "importing" country (e.g. India). The "producer" of the good or the seller/distributor as referenced in section 107A(b) (e.g. Beximco) is more likely to be based in Bangladesh and the importer (e.g. Cipla) is more likely to be based in India. Subjecting the legality of "production", "sale" or "distribution" in Bangladesh to "Indian" law appears incongruous. In other words, was one to interpret "law" as Indian law, one is faced with an absurd question: Under Indian law, can Beximco produce and distribute the drug in Bangladesh? Therefore, any reasonable construction of section 107A(b) would suggest that "law" as used in the section has to mean Bangladeshi law.

Expanding the Locus of the "Patent"

A better alternative would be to argue that in order to harmoniously construe section 107A(b) with section 48, the term "patented product" could be interpreted to mean a product patented in both the exporting country (Bangladesh in our hypothetical) and the importing country (India).

To recapitulate section 107A(b), it exempts from infringement an *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product."*

Naturally, the term "patented product" envisages a "patent" in India that covers such product–if this were not the case, then an importer does not need to seek refuge under section 107A(b) at all. Rather, since there is no patent in India, she is free to import into India or even manufacture and sell in India.

Apart from the above ordinary meaning, the term "patented product" could also be interpreted to envisage a patent over the imported product in

Bangladesh. Since a "parallel import" envisages an exporting country and an importing country, it would be logical to assume that the "patent" status of a product that is subjected to such parallel import has to be measured with reference to both the place of export and the place of import.[45]

Consequently, in the context of our hypothetical involving Roche and Cipla, the section would exclude any "generic" versions of Tarceva manufactured in Bangladesh, where there is no patent. In other words, Cipla cannot avail of section 107A(b) to import generic versions of Tarceva manufactured by Beximco.

This interpretation does not detract unduly from the patentee's exclusive rights under section 48, complies with TRIPS and fits well within the overall framework of the section. Also, this interpretation furthers Parliamentary intent i.e. to permits international exhaustion and the buying of low priced patented goods, once the patentee has already sold them anywhere else in the world.[46]

In the light of the above, we argue that a judge is likely to interpret the term "patented products" in section 107A(b) to mean products patented in the "exporting country".

As to whether an Indian judge is likely to review and interpret section 107A (b) in accordance with TRIPS is a moot issue. In the Novartis case,[47] the judge refused to entertain a TRIPS challenge to section 3(d) of the Patents Act on the ground that it had no jurisdiction. It held that the Swiss government (home government of Novartis) ought to agitate this before the Dispute Settlement Body of the WTO.

In coming to this conclusion, it referred to a British case, *Salomon v. Commissioner of Customs*,[48] where Lord Diplock had held that: *"if the terms of a legislation are not clear, and are reasonably capable of more than one meaning,*

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45. One may argue that the term "patented product" in section 107A(b) is interchangeable as the term "patented article" in section 2(o) and has to therefore only mean an article patented in India. However, in the light of section 2, a definitional section which begins with the qualification "[i]n this Act, unless the **context** otherwise requires....." (emphasis by authors), a judge is likely to find that the specific context of section 107A(b) and the principle of exhaustion and parallel imports envisaged therein warrant a different interpretation of the term "patented product". *See* GP Singh supra note 33 at 174*: "Where the context makes the definition given in the interpretation clause inapplicable, a defined word when used in the body of the statute may have to be given a meaning different form that contained in the interpretation clause; all definitions given in the interpretation clause are therefore enacted subject to the qualification - 'unless the context otherwise requires'*.. See also State of Maharashtra v. Indian Medical Association AIR 2002 SC 302, 307.
46. *See supra* note 31.
47. Novartis AG v. Union of India, (2007) 4 MLJ 1153.
48. 1966-3-All E. R. 871.

the terms of international treaties to which the government is signatory, become relevant..... There is a prima facie presumption that Parliament does not intend to act in breach of International Law, including therein specific treaty obligations; and if one of the meanings which can reasonably be ascribed to the legislation is consonant with the treaty obligation and another or others are not, the meaning which is consonant is to be preferred."

In the context of section 107A(b) therefore, if the terms of the statute are found to be unclear, it is likely that the courts will interpret the section in a manner consistent with TRIPS.

However, despite the interpretation proffered above, there would continue to be gaps in the law relating to parallel imports and exhaustion. For one, imports from foreign jurisdictions where the (Indian) patentee voluntarily places goods in the market, despite there being no available patent protection (in the said foreign jurisdiction) would be illegal.[49]

Secondly, it is unclear as to whether or not a buyer of a patented good has the right to repair or reconstruct such goods.

Owing to the above gaps in the law, and in order to vest section 107A with more clarity, we recommend amendments to section 107A(b) as below.

IV. AMENDING SECTION 107A(B)

Given the strained interpretation needed to make section 107A(b) TRIPs compliant, we suggest amending the section to make it broader and clearer in its scope. Before suggesting an amendment, we also look at court decisions in other countries to determine how the Indian parallel imports provision can be made even more forward looking and comprehensive.

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49. It is pertinent to note that under UK law, such a first sale by the patentee would be construed as triggering off "exhaustion" and therefore any such imports would be perfectly legal. Merck & Co. Inc. v. Stephar BV (C187/80) [1981] 3 CMLR 463, where the European Court of Justice (ECJ) held that "...a patentee could not rely upon his patent to prevent imports of products placed on the market in another member state by him or with his consent, even if the product was not patentable in Member State of first marketing." This case was re-considered and upheld in Merck & Co. v. Primecrown Ltd. (C267/95) 1996 WL 1091573 (ECJ) where the court held that the patentee had exhausted his rights by voluntarily marketing his patented pharmaceutical products in Spain and Portugal, even though at that time, no patent protection for pharmaceuticals for available in Spain and Portugal. Also see note 16. See also, AIPPI report which states: *"...patent rights are exhausted if a patented product is put on the market by or with the consent of the patentee anywhere within the EEA. This applies even when the patentee does not have an equivalent patent in the country of first marketing, when there is no patent protection available there or where the local legislation fixes an artificially low sales price for the products there." International Exhaustion of Industrial Property Rights: United Kingdom* (AIPPI Congress in Melbourne 2001), http://www.aippi.org/reports/q156/gr-q156-United%20Kingdom-e.htm.

Expanding the Scope of Exhaustion: Method/Process Patents

The United States Supreme Court recently dealt with principles of national exhaustion in *Quanta v. LGE.*[50] This case involved a licensing arrangement between LGE, the patentee, and Intel in relation to chipsets. The key issue was whether or not LGE's patent rights had been "exhausted" after the sale by Intel (the licensee) to Quanta (one of Intel's customers), leaving Quanta free to do what it wished with the chipsets. Intel was required under one of the contracts with LGE to give notice to customers that they could not combine the chipsets with devices by other manufacturers. For the purpose of this paper, we limit our discussion to the "patent" issue (as to whether or not there was an exhaustion) and exclude the contractual issue (as to whether or not there had been a breach of contract).

The Supreme Court held in favour of Quanta's right to deal with the product as it wished i.e. Quanta could combine the Intel chipset with other products. Specifically, it disagreed with LGE that "exhaustion" applied only to product patents. It categorically held that it applied to process patents or method patents as well.

It is interesting to note here that section 107A(b) is limited to "patented products". The narrow definition of "patented article",[51] a term used interchangeably with "patented products", may mean that one cannot widely construe such terms to include patented processes as well.[52] One might argue that a judge could, in the light of the section 2 phraseology "unless the context otherwise requires" also interpret "patented article" to mean a patented process in the context of section 107A(b).[53] However, in order to minimize the scope for uncertainty in this regard, we recommend an express amendment to include patented processes within the scope of exhaustion, as discussed in the last section of this chapter.

Conditional Sales

The *Quanta* decision is notable for another reason: it leaves open the

50. *See* Quanta v. LGE, *supra* note 7 . It is pertinent to note that unlike the Indian Patents Act which specifically provides for international exhaustion in section 107A(b), there is no similar statutory provision in the US. Rather most "exhaustion" related principles in the US draw from case law.
51. Striking a distinction between patented article and patented process, section 2(o) states that: ""patented article" and "patented process" means respectively an article or process in respect of which a patent is in force."
52. It is interesting to note that the term "patented invention" as used in some of the provisions of the Patents Act (such as section 84 dealing with compulsory licences) clearly envisages both products and processes.
53. *See supra* note 45.

question of whether or not a "conditional sale" precludes exhaustion. In other words, if the patentee or her licensee imposes a condition on the sale, such as the fact that the product can be used only once,[54] can it be said that the rights in the patented good are still "exhausted" and a buyer is free to ignore the condition? There is a distinction between a suit for patent infringement and a suit for breach of contract.[55] US case law is almost unanimous in accepting that there could be a breach of contract claim in such cases. However, the court in Quanta did not explicitly decide as to whether the breach of such a condition would constitute a patent infringement as well.

The court simply stated that in this particular case, the sale was an "unconditional" one. Therefore under US law, it may well be possible to introduce "conditions" to accompany sales and thereby erode the principle of "exhaustion".[56] Indian law ought to prevent against such a possibility by expressly indicating that exhaustion will prevail, notwithstanding any condition attached to the sale.

Repair v. Reconstruction

The courts of many countries draw a distinction between "repair" and "reconstitution/reconstruction" when determining the applicability of the doctrine of exhaustion. Specifically, most countries' laws provide that the doctrine of exhaustion permits the buyer of patented goods to repair them, but not to reconstitute/reconstruct them.[57] The rationale for this distinction seems to be that while a repair may be necessary even for a single "use" of

54. See Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992). It appears that under older decisions of the courts in UK, the rule of international exhaustion applied only if there was no express condition to the contrary. See generally, 35 HALSBURY'S LAWS OF ENGLAND 250, 412 (LexisNexis Butterworths 1994).

55. This distinction is an important one as has been observed by a scholar. See Mark R Patterson, *Reestablishing the Doctrine of Patent Exhaustion*, Patently-O, Nov. 19, 2007 http://www.patentlyo.com/patent/2007/11/reestablishing.html, who suggests that while the "*patentee could still impose limitations on buyers' uses of the products,... those limitations would be solely matters of contract. They could not be enforced through patent infringement actions, and they would be subject to antitrust law limitations*."

56. *See* Halsbury's laws of England, *supra* note 54 where it is stated that: "*...if at the time of sale, the purchaser has notice of some restriction, imposed by the proprietor or those representing him, that restriction will bind the purchaser, although the court will not presume that the purchaser knew of the restriction merely because notice of it was marked on the article, if the marking was not such as to be apparent under ordinary conditions to a customer at the time of the sale*."

57. *See for example*, Dunlop Pneumatic Tyre Co. Ltd. v. Neal, 1899(1) Ch. D. 807 where it was held that *"the purchaser of a patented article can carry out repairs to it; however, he cannot manufacture a new article and claim that he had not infringed the patent because in the manufacture he had used an article derived from a patented article sold by its patentee"*. The principles in Dunlop were endorsed by the House of Lords in British Leyland Motor Corporation and Others v. Armstrong Patents [1986] UKHL 7 (27 February 1986). The most recent case in this regard in the UK appears to be United Wire Ltd. v. Screen Repair Services (Scotland) Ltd [2000] 4 All ER 353 (H.L.) where Lord Bingham of Cornhill

the article in the manner intended by the patentee, a reconstitution would potentially permit more than a single use even though the patentee would have obtained remuneration only for a single item and not for use of this single item multiple times.[58] We recommend that Indian law also strike this distinction between reconstitution and repair, and permit repairs.

Proposed Amendment to Section 107A(b)

We propose amending section 107A(b) to remove the ambiguities discussed above. Our amendments seek to fill the following gaps:

1. A literal interpretation of section 107A(b) appears to preclude "national exhaustion";
2. Section 107A(b) does not appear to envisage "process" patents or "method" patents;
3. Section 107A(b) does not preclude the possibility of introducing "conditional sales" to thwart the scope of "exhaustion" and consequent resale/redistribution.

We therefore propose the following amendment:

"107B. ***Exhaustion of Rights***

(1) For the purposes of this Act, the rights of a patentee or anyone claiming

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held **"..***repair may involve no more than remedial action to make good the effects of wear and tear, involving perhaps no replacement of parts; or it may involve substantial reconstruction of the patented product, with extensive replacement of parts. Both activities might, without abuse of language, be described as repair, but the latter might infringe the patentee's rights when the former did not.***"** Further, Lord Hoffman (reaching the same conclusion) held: " *Where however it is alleged that the defendant has infringed by making the patented product, the concepts of an implied licence or exhaustion of rights can have no part to play. The sale of a patented article cannot confer an implied licence to make another or exhaust the right of the patentee to prevent others from being made. A repair of the patented product is by definition an act which does not amount to making it: as Lord Halsbury L.C. said of the old law in* Sirdar Rubber Co. Ltd. v. Wallington, Weston & Co. (1907) 24 R.P.C. 539, 543*:*
'you may prolong the life of a licensed article but you must not make a new one under the cover of repair.' Repair is one of the concepts (like modifying or adapting) which shares a boundary with 'making' but does not trespass upon its territory. I therefore agree with the Court of Appeal that in an action for infringement by making, the notion of an implied licence to repair is superfluous and possibly even confusing. It distracts attention from the question raised by section 60(1)(a), which is whether the defendant has made the patented product. As a matter of ordinary language, the notions of making and repair may well overlap. But for the purposes of the statute, they are mutually exclusive. The owner's right to repair is not an independent right conferred upon him by licence, express or implied. It is a residual right, forming part of the right to do whatever does not amount to making the product."

58. *See* Aro Manufacturing Co. v. Convertible Top Replacement Co., 365 U.S. 336, 346 (1961) where the US Supreme Court held that "*although there is no right to 'rebuild' a patented combination, the entity 'exists' notwithstanding the fact that destruction or impairment of one of its elements renders it inoperable; and that, accordingly, replacement of that worn-out essential part is permissible restoration of the machine to the original use for which it was bought.*"

through such patentee shall be exhausted after a patented article has been sold once anywhere in the world (including within India), by or with the authorization of such patentee.

(2) The provisions of section 107B(1) shall apply in case of sale of any patented article, notwithstanding:

i) any contractual stipulation to the contrary by the patentee or her authorized representatives.

ii) The specific form of transaction between the patentee or her authorized representative and the buyer.[59] *In particular, any attempt to classify what is in essence a "sale" of an article as a licence shall be ignored for the purposes of this section.*

iii) any notice in relation to the article placed by the patentee or her authorised representatives or any other party selling the patented article; unless such notice is essential to ensure public health or safety.[60]

Explanation 1

The term "exhaustion" (and all its cognates), in relation to a "patented article" shall encompass all situations where the exclusive rights of the patentee and any/all her authorized representatives (under section 48) vis-à-vis such article stand terminated after the first sale of such article any where in the world, provided that such first sale is made by or with the authorization of the patentee.

Any first sale of a patented article shall also exhaust rights associated with any other patent(s) owned by the patentee, provided that the predominant "use" of the article in question is likely to implicate any of the rights associated with such other patents.

Provided that the "exhausted" rights envisaged under this section include the right to repair a patented article but not the right to reconstitute such article.

Explanation 2

The term "patented article" as used in this section, includes, without limitation, any article that implicates one or more patents granted in India, including product, process or method patents.

59. The form of a transaction does not determine whether exhaustion applies. Therefore the doctrine may apply even though a transaction is not characterized as a conventional sale. *See* United States v Masonite Corporation, 316 US 265, 278 (1942). *See also* JC Paul et al, *supra note* 10.

60. This is to cater to concerns that arise out of a Mallinckrodt, Inc. v. Medipart, *supra* note 54 kind of situation.

Explanation 3

The term "authorized representatives", as used in this section, shall include any person selling the patented article with the consent of the patentee, whether express or implied.

Explanation 4

This section and the various terms used therein shall be construed solely in accordance with Indian law. In particular, Indian law shall exclusively govern any choice of law issues that arise in relation to this section."

Rights of Broadcasting Organizations: Do We Need Legal Reform?

Girish Kumar R
Relfi Paul *

INTRODUCTION

Broadcasting was an area less touched by the Indian legislators due to lesser competition and the existence of Prasar Bharati (national broadcaster), but now the situation is different, sports, especially cricket, is becoming more popular, and multinational broadcasting companies have started to buy broadcasting rights of cricket because of their enormous commercial value. The result being that litigation sprouts galore with complainants referring to international regimes to substantiate their claims. It has become the responsibility of the judiciary to fill this gap through various pronouncements.

The Supreme Court directed the government to set up an independent autonomous authority which would free Prasar Bharati from the shackles of government control and ensure conditions in which the freedom of speech and expression could be meaningful and effectively enjoyed by one and all[1]. The major objective of this article is to analyze the national and international broadcasting regime in the digital age and analyze whether there is any need for legal reform for regulating broadcasting services in India.

Neighbouring rights are a distinct form of intellectual property right (IPR). It is used to indicate rights of performers and producers to be compensated when their performances and recordings are performed publicly, broadcast, rented out or reproduced. The purpose of 'neighbouring rights' is to protect the interests of certain persons or legal entities that either contribute to making creative works available to the public or produce subject matter that is considered worthy of copyright-like protection, which is not original or creative enough to qualify as a work under a national copyright system[2]. The beneficiaries of neighbouring rights are usually producers of phonograms, performers and broadcasters.

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* Girish Kumar R. is a Fellow at the Indian Law Institute, New Delhi. Relfi Paul is a Research Scholar, School of International Relations and Politics, Mahatma Gandhi University, Kerala.

1. Ministry of Information and Broadcasting v. Cricket Association of Bengal, (1995) 2 S.C.C. 161, 224.
2. Viviana Munoz and Andrew Chege, *The proposed WIPO Ttreaty on the Protection of Broadcasting Organization: Are New Rights Warranted and will Developing Countries Benefit*, South Centre, Sep. 3, 2006.

In India, broadcasting is one of the most important mechanisms for communicating information and knowledge to the public at large. Nonetheless, the development of digital technologies, leading to a technological convergence between the three pillars in the chain of communication, namely telecommunications, broadcasting and informatics, and interactive development (multimedia), holds enormous potential for increasing access and wider dissemination of footage to developing countries and of delivering information and entertainment quicker. India therefore needs to create an appropriate national regulatory framework to promote the production of works, as well as its transmission and diffusion to the benefit of the society. Part of this process involves revising the existing frameworks for the protection and regulation of broadcasting organisations, which play a fundamental role in transmitting information to the public.

Today, a state broadcasting service with a monopoly on broadcasting in the country and relying exclusively on public funding is no longer existent in developing countries. Neo-liberal policies and obligations of international treaties have led to a new market for broadcasting. In addition to creating a new competitive environment, the market model of broadcasting aimed at offering more choice. In an open market, it is considered that individuals can fully express their preferences and hence commercial broadcasters would be able to better meet their needs. Thus viewers become consumers; a belief exemplified by the emergence of multinational broadcasting companies.

BROADCASTING OF SPORTS EVENTS

Now, 'sports from a sofa' is big business and an integral part of professional sporting events[3]. Programming is the key that opens the door to the fans, the networks, and, more recently, to internet providers[4]. Broadcasting sports means huge revenues. It is one of the most important revenue sources, critical to the welfare of the sports authority. To increase revenues, leagues are considering running their own network companies[5]. New technology presents the leagues with additional opportunities to license their rights, including broadband and wireless internet or digital channels[6]. The question of 'who shall have the power to sell broadcasting rights' is an

3. See Ivy Ross Rivello, *Sports Broadcasting in an Era of Technology: Superstations, pay-per-view, and Antitrust Implications*, 47 Drake law Review 177, 178 (1998).
4. See Steve Bornstein, *Coplin, Margulis join NFL Network lineup*, NFL NEWS, Jun. 27, 2003, http://www.nfl.com/news/story/6476362.
5. Beginning in the 2005 season, NFL Network will be launched. It will be on the air seven days a week, 24 hours a day on a year-round basis and will be the first TV network fully dedicated to the NFL.
6. *See The Global Business of Sports Television*, http://corporate.findlaw.com/local.html.

increasingly important one. Does the sports authority have the right to distribute the broadcasting rights centrally?

In recent years, with increased competition among Multi-National Corporations (MNC) for the transmission rights of footage, especially in cricket, organizers and authorities have become more aware of the value of their rights and commercial value. The development of technology allows computer users to see photos, enjoy real-time video and listen to live audio of the events over the Internet[7]. Due to its capacity to deliver information to users almost instantaneously, the Internet has become an increasingly popular way to reach news and information[8].

In the past, the value of broadcasting rights to sports events stayed relatively low. Organizers concerned themselves more with ensuring coverage to attract sponsorship and promote popularity of an event. However, now the situation is entirely different as major sports events are among the programs that attract maximum viewers. There is heavy competition to be the exclusive broadcaster of sports events in a given geographical area because broadcasters want to attract the advertising income that flows from large viewing audiences. The broadcasting of sports events achieves high figures for viewers with strong buying power, particularly with the fifteen to fifty year age group. This target audience is essential for advertisers because it is a readily identifiable group not easily reached by other programs. As a result, the demand to advertise on sports event broadcasts has increased, as has the competition for the television right to broadcast those events.

The right to broadcast sports events is granted usually for a given territory, per country, on an exclusive basis. Broadcasters consider exclusivity necessary in order to guarantee the value of a given sports program. The value consideration is in terms of the number of viewers and the amount of advertising dollars an event attracts[9]. The organizer initially owns the broadcasting rights to a given event. The organizer controls access to the premises where the event occurs. It usually admits only one host broadcaster (i.e., the broadcaster in the country where the event takes place) to produce the television signal[10]. In this way, the organizer controls the broadcasting of

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7. *See* Bernhard Warner, *IOC May Let Dot-Coms Cover Games in 2002*, THE STANDARD, Aug. 18, 2000 (The Net is a hybrid of print and broadcast, because sites can incorporate real-time coverage, moving pictures and sound.), http://www.thestandard.com/article/0,1902,17807,00.html.
8. *See* Jennifer M. Driscoll, *It's a Small World After All: Conflict of Laws and Copyright Infringement on the Information Superhighway*, 20 UNIVERSITY OF PENNSYLVANIA JOURNAL OF INTERNATIONAL ECONOMIC LAW 939, 940 (1999).
9. *See* Coopers & Lybrand, *The Impact of European Union Activities on Sport*, 17 LOYOLA INTERNATIONAL AND COMPARATIVE LAW REVIEW 245, 285 (1995).
10. *See* Eurovision System, 1993 O.J. (L 179) at 27.

the event and guarantees exclusivity. The host broadcaster then must secure broadcast rights from the event organizer to televise the event within its own national territory[11].

Other broadcasters typically try to secure similar exclusive rights to broadcast events within their respective national territories. They do so either from the host broadcaster or some other owner of the television rights. These rights are either in the form of a license to exploit the material produced by the host broadcaster or an assignment of all rights. In an assignment, the host retains the ability to be the exclusive broadcaster of the event in its own national territory[12]. In recent years, organizers have recognized the increased competition for broadcast rights and, in turn, have increased the broadcast fees. For example, Nimbus Communications paid $612 million to Board of Cricket Control in India (BCCI) in order to get the exclusive broadcasting right of Indian cricket from March 1, 2006 to March 31, 2010.

CHALLENGES OF TECHNOLOGY IN PUBLIC BROADCASTING

As with all other media, the dramatic changes in telecommunications technology in the last quarter of the twentieth century had substantial impact on the character and prospects for public broadcasting. Broadcasting had been built as an analogue system of production and transmission, using open, 'over the air' spectrum frequencies and serving generally as a mass medium. Beginning in the 1970s the quickly spreading uses of and interactions among coaxial cable, optical fibre cable (OFC), satellite distribution, and computerization inaugurated a series of challenges to the conventional model and began to take broadcasting more explicitly into the complex welter of telecommunications. Those challenges became more significant with the rapid increase in the pace of digital technology development in the 1980s and 90s, leading to a process of convergence and reconfiguration among media forms generally. By the end of the century, the very structure and associated industrial and service forms of traditional broadcasting were breaking down in the face of the much higher carrying and multimedia capacities of digital transmission, direct to home (DTH), digital TV and Internet.

Public broadcasting had been able to take creative advantage of the early phases of those changes, for instance, in its adoption of geo-stationary orbiting satellite services for distributing its national signals. In keeping with

11. *See supra* note 8.
12. *Id.*

its ownership and fiscal base in the stations, it had been more open to the flexibility of that technology than had commercial broadcasting initially, where centralized network controls militated such distribution options. It had also taken a leading role in the development of closed captioning for use by the hearing impaired. By contrast, the commercial television responses of the broadcasting and cable industries to the newer program service opportunities seemed initially stronger, and by the mid-1980s those industries were cooperating to develop new services that, to many eyes, resembled much of traditional public broadcasting.

INTERNATIONAL AND NATIONAL LEGAL FRAME WORKS

In the scenario of globalization, shrinking government control was regular in most fields. But globalization is going hand in glove with legislation by bringing more international regimes to control national governments further and to provide MNCs with more legal security. In the present international framework broadcasting organisations have legal protection only over the transmissions made through wireless means (satellite). They enjoy a certain level of protection against signal theft[13] under the existing international regimes, namely the Rome convention 1961[14], Brussels Satellite convention 1974[15], TRIPs agreement 1994[16], WIPO Performers and Phonograms Treaty (WPPT) 1996[17] and WIPO Copyright Treaty (WCT) 1996.

Since 1998[18], WIPO has been addressing the topic of updating the protection of the rights of broadcasting organizations to manage the problem of signal theft, particularly in the digital environment. The proposed WIPO broadcasting treaty's exclusive 'rights-based'[19] approach would create a new

13. Using signals without the authorization of broadcasters, which could cause the economic losses for broadcasting organizations.
14. It establishes that broadcasters have the right to prohibit but not to 'authorize' the fixation, reproduction of fixation, and the re-broadcasting by wireless means of broadcasts.
15. The Brussels Convention Relating to the Distribution of Programme – Carrying Signals Transmitted by Satellite May 21, 1974, 34 I.L.M 3, protects broadcasters' rights by allowing members to prevent dissemination of programme-carrying signals by any distributor for whom the signals are not intended. The duration is to be decided by national law.
16. Article 14(3), Agreement on the Trade – Related Aspects of Intellectual Property Rights Apr. 14, 1994, 33 I.L.M 1125, provides broadcasting organizations have the right to control the fixation, reproduction, wireless re-broadcasting and communication to the public of broadcasts.
17. WIPO Performers and Phonograms Treaty, Article 15, December 20, 1996 equitable remuneration for wireless broadcasting or for any communication to the public of phonograms.
18. See the first meeting of the Standing Committee on Copyright and Related Rights (SCCR), November 1998, www.wipo.org.
19. Relfi Paul, *WIPO Negotiations Threaten Exclusive "Signal Based" Protection in Broadcasting*, IP-Watch, Oct. 30, 2008, http://www.ip-watch.org/weblog/2008/10/30/inside-views-wipo-negotiations-threaten-exclusive-signal-based-protection-in-broadcasting/.

intellectual property right, such as rights in broadcast signal, which would be layered upon existing copyright in the underlying program material (content). Normally broadcasting organizations do not produce any works; they just arrange transmission of works. Is it justified to grant new rights to broadcasting organizations, similar to those granted to the creators, through new international copyright norms? Will it constrain the rights of the copyright holders in favour of the broadcasting organizations? If so, will it eventually create ownership over the 'contents' broadcasted in favour of the broadcasting organizations? How far does such a new layer of IPR affect the citizen's fundamental right to be informed?

The Indian Copyright regime is a legacy of its colonial past. In 1885, the British Colonial government passed a legislation granting broadcasters, in effect, a monopoly over communications and broadcasting (Indian Telegraph Act 1885). The Indian Copyright Act 1914 and 1957 was mainly based on the U.K. Copyright Act, (1911, 1956). With the development of new technologies and international legal frameworks it became essential to update the copyright laws. In India the rights of broadcasting organizations were not envisaged under the Copyright Act of 1957. However, with an amendment in 1994 the Act was substituted with the new section providing for broadcast reproduction rights. The Copyright Act of 1957 has been amended five times (1983, 1984, 1992, 1994, and 1999).

WHY UPDATE PROTECTION?

In the international context, WCT and WPPT[20] are being considered for accession by India in respect of rights of creative authors and producers; there is a need to clarify protection for broadcast organizations and update the same to be abreast of international developments in this regard. WIPO is preparing to introduce a separate law for the protection of the rights of broadcasting organizations[21] at the international level. It has important implications for developing countries, for which access to information and knowledge is crucial to their development prospects. Sports broadcasting, especially cricket, has become more popular in developing countries like India. So MNC's have started to buy broadcasting rights of cricket because of their enormous commercial value.

Update in the law will help in the following:

- Clarity on what is a broadcast organization - currently, since broadcast is defined broadly, any entity communicating anything to the public by wireless means or through wire is qualified to be a broadcaster under the copyright act.

20. WIPO Performances and Phonograms Treaty, Dec. 20, 1996, 36 I.L.M 76 (1997).
21. A knowledge society is that in which "the production of information and its conversion into knowledge is a primary activity and knowledge is a key aspect of organizational power and social stratification". THOMAS GIBBONS, REGULATING THE MEDIA 1 (Sweet and Maxwell 1998).

- Fillip to fighting piracy of signals - this cost the Indian broadcasting industry, US$565 million in 2005.
- Additional layer of protection to the creative works being transmitted via the broadcast.
- Equality of treatment overseas for Indian broadcast signals, which have hitherto been pirated without adequate safeguard and for international commit.
- To facilitate better investment in broadcast infrastructure.
- Prasar Bharati as public broadcaster is a creator of innumerable broadcasts, generally in 'free to air' mode of important sports events, news, serials and other copyright contents. Pirates are indulging in simulcasting, delayed broadcasting, re-broadcasting of Doordarshan broadcasts and even misusing the recordings of its archival treasure with a motive to make money.

DOES INDIA NEED LAW REFORMS?

India is the third largest broadcasting market in the world and it constitutes a large segment of mass media. Through broadcasting the media plays a fundamental role in providing knowledge and information to the people. It is a powerful means of exerting influence in society. With the change in the pattern of broadcasting rights from the traditional forms (live, delayed, highlights, clips) based on territory, platform and content to the emergence of the next generation media rights involving the Internet, mobile devices, terrestrial TV, convergence TV, it is not surprising that questions relating to the basic principle, origins, ownerships, sale and acquisition of such rights in relation to sporting events could involve diverse legal issues.

The important landmarks for the broadcasting regulations in India are given below:

1. Indian Telegraph Act, 1885.
2. Copyright Act, 1957.
3. Prasar Bharati Act, 1990.
4. Cable Television Network Act, 1995.
5. Information Technology Act, 2000.
6. Sports Broadcasting Signal Ordinance, 2007.

The area of copyright and neighbouring rights dealing with broadcast rights falls essentially under the Copyright Act, 1957 as amended in 1999, which provides broadcasting organizations with 'broadcast reproduction rights' as their intellectual property. It is a special right that encompasses certain exclusive rights including rebroadcast of a broadcast or causing the broadcast to be heard or seen by the public for a duration of 25 years. This is a right distinct from the copyrights held for the contents of the broadcast. By virtue of these rights, the following acts if done during the continuance of a broadcast reproduction right and without the consent of the broadcasting organization in respect of the broadcast or any substantial part thereof would amount to an infringement of the said right:

- Re-broadcasts;
- Causing the broadcast to be heard or seen by the public on payment of any charges;
- Making any sound recording or visual recording of the broadcast or selling or hiring to the public or offering for such sale or hire the same;
- Making any reproduction of such sound recording or visual recording where such initial recording was done without license or, where it was licensed, for any purpose not envisaged by such license or selling or hiring to the public or offering for such sale or hire the same.

Further, protection can also be sought under section 43 of The Information Technology Act, 2000 which makes one liable to pay damages by way of compensation up to Rs 1 crore for unauthorized downloading.

The Constitution of India states that "all citizens shall have the right to freedom of speech and expression"[22] The Supreme Court says that "the right to freedom of speech and expression also includes the right to educate, to inform and to entertain and also the right to be educated, informed and entertained." [23] In the case of *Secretary, Ministry of Information & Broadcasting v. Cricket Association of Bengal (CAB)*[24] the Supreme court has considerably widened the scope and extension of right to freedom of speech and expression and held that the government has no monopoly on electronic media and

22. Constitution of India, art. 19(1)(a).
23. Secretary, Ministry of Info. & Broad. v. Cricket Associationn of Bengal, (1995) 2 S.C.C. 161, 224.
24. (1995) 2 SCC 161.

under Article 19 (1)(a)[25] a citizen has the right to telecast and broadcast to the viewers through electronic media. The government can impose restrictions on such a right only on grounds specified in clause (2) of Article 19 and not on any other ground. State monopoly on electronic media is not mentioned in clause (2) of Article 19. To this effect, the Supreme Court noted that the, 'airwaves are public property'[26]. Their use has to be controlled and regulated by a public authority in the interests of the public and to prevent the invasion of their rights. Obviously the only legitimate role for the state in this regard is that of trustees. The Supreme Court, confirming the order of Calcutta High Court, held that monopoly over electronic media is inconsistent with the right to freedom of speech and expression[27]. But Article 19(6) of the Constitution allows monopolies in business activities. The Court held that this clause limits Article 19(1)(g)-the right to trade and conduct business - but broadcasting, being a means of expression and therefore covered by Article 19(1)(a), could not be monopolized, whether by the government or private companies. It clarified that 'Merely because an organisation may earn profit from an activity whose character is predominantly covered by Article 19(1)(a), it would not convert the activity into one involving Article 19(1)(g) (business, in which monopolies are not unconstitutional).'

While acknowledging the government's oft-repeated claim that its monopoly on broadcasting was to best utilize limited frequencies for the benefit of society at large, the court felt that this claim rang hollow if any section of society is unreasonably denied access to broadcasting, or if the governmental agency claims an exclusive right to prepare and relay programmes. It also found the claim inappropriate given that those wanting to broadcast, such as the CAB, do not make a demand on limited frequencies and wants bandwidth unused by the government.

As for the national security plea, based on the sensitive nature of the electronic media, that the damage done by private broadcasters may be irreparable, the court finds much to be said in its favour, and suggests regulation and licensing as a remedy. However, if the government could

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25. Article 19(1)(a) says that all citizens shall have the right to freedom of speech and expression. But this right is subject to limitations imposed under article 19(2)which empowers the state to put reasonable restrictions on the following grounds, eg. Security of states, contempt of court, defamation, sovereignty etc.
26. Secretary, Ministry of Info. & Broad. v. Cricket Association of Bengal, (1995) 2 S.C.C. 161, 224.
27. *Ibid*, Supreme Court suggested that suitable amendments should be made to the India Telegraph Act keeping in view of modern technological developments in the field of information and communication.

grant or refuse to grant licenses at its unbridled discretion, then it would be able to suppress the freedom of speech instead of protecting it and using its licensing authority correctly. So the Supreme Court recommended an autonomous broadcasting authority, independent of the government to control all aspects of the operation of the electronic media. The Court opined that the Indian Telegraph Act 1885, was totally inadequate to govern broadcasting media. It does give the government a monopoly on communications, and although this aspect of the act will change thanks to the government's need for investment in infrastructure, it is not considered unconstitutional.

This judgment held that the 'freedom of speech and statement' guaranteed by Article 19(1)(a) of the Constitution includes the right to acquire and disseminate information. And, in turn, the right to disseminate includes the right to communicate through any media - print, electronic or audio-visual - though restrictions were permissible on such rights. The fundamental rights, the Court opined, can be limited only by reasonable restrictions under a law made for the purpose. The burden is on the authority to justify the restrictions. Public order is not the same thing as public safety and hence no restrictions can be placed on the right to freedom of speech and statement on the ground that public safety is endangered.

The judgment regarded broadcasting as a 'means of communication and, therefore, a medium of speech and statement'. Hence in a democratic polity, neither any private individual, institution or organisation nor any government or government organisation can claim exclusive right over it. Our constitution also forbids monopoly either in the print or electronic media. However, the monopoly in broadcasting and telecasting is often claimed by the government to utilise the public resources in the form of the limited frequencies available for the benefit of society at large. It is justified by the government to prevent the concentration of the frequencies in the hands of the rich few who can monopolise the dissemination of views and information to suit their interests and thus in fact to control and manipulate public opinion, in effect smothering the right to freedom of speech and statement and freedom of information to others.

The government sometimes claims monopoly also on the ground that having regard to all pervasive presence and impact of the electronic media, it may be utilised for purposes not permitted by law and the damage done by private broadcasters may be irreparable. There is much to be said in favour of this view and it is for this reason that the regulatory provisions including those for granting licenses to private broadcasters are enacted. On the other hand, if the government is vested with an unbridled discretion to grant or refuse to grant the license or access to the media, the reason for removing monopoly will lose its validity. For then, it is the government which will be enabled to effectively suppress the freedom of speech and statement instead of protecting it and utilising the licensing power strictly for the purpose for which it is conferred. It is for this reason that in most of the democratic countries an independent autonomous broadcasting authority is created to control all aspects of the operation of the electronic media. Such authority is representative of all sections of the society and is free from control of the political and administrative executive of the state. It therefore, includes the right to propagate one's views through the print media or through any other communication channel e.g. the radio and television. Consequently, every citizen of this free country, has the right to air his or her views through the print and/or the electronic media subject of course to permissible restrictions imposed under Article 19(2) of the Constitution. The Supreme Court, thus in its expansive interpretation emphasized that 'the print media, the radio and the tiny screen play the role of public educators, is so vital to the growth of a healthy democracy.'

Though the Indian courts have interpreted[28] the scope of these rights in relation to the unauthorized broadcast of films and other like programmes, judicial recognition of such rights exclusively pertaining to the sports industry was accorded by an order of the Delhi High Court in 2004 wherein it granted the first open-ended Anton-Piller order in a legal row over TV broadcasting rights to the India-Pakistan cricket series involving Taj Sports India Pvt. Ltd.[29] and its sports channel Ten Sports, against unauthorized transmission of cricket matches on rival cable TV channels. The injunction named 36 cable operators, whom the court ordered to stop illegally reproducing broadcast rights. Coming at a time when India was gearing up towards full compliance with the TRIPS agreement, the Ten Sports order came as a boon to IP owners, especially those who owned rights with a limited shelf life. This order heralded the growth of sports law in India, a legal domain that was hitherto untested.

With the increasing number of rows relating to the broadcasting rights involved in a particular sporting event, and more pertinently between the privately owned channels and the national broadcaster, Doordarshan regulated by the body Prasar Bharati, the Ministry of Information and

28. Appeal filed by Taj Private (India) Ltd – before the Supreme Court Bench, comprising the Chief Justice V.N. Khare, Justice S.B. Sinha and Justice S.H. Kapadia.
29. Taj Sports India Pvt. Ltd., is only an agent of Dubai based Taj Television Ltd, which is the management company of Ten Sports.

Broadcasting issued a new policy guideline for down-linking of TV channels issued in the year 2005, relating to the broadcast of various kinds of sporting events, particularly cricket matches. The relevant clauses of this policy made it mandatory for all private channels to share with Doordarshan the live telecast feed of national and international sporting events of national importance, held in India or abroad. The events of national importance were to be determined by the Ministry of Information and Broadcasting in consultation with Ministry of Sports and Youth Affairs, Prasar Bharati and the concerned sports channels/sports rights management companies. The guidelines also made it clear that private channels bagging the exclusive telecast rights will have to share 25% of marketing revenue with Doordarshan.

In a petition to the Supreme Court, Ten Sports challenged these provisions as having no authority of law and being detrimental to the channel owners' rights and business. The entire dispute came right before the crucial India-Pakistan series. Interestingly, the Indian government submitted before the Supreme Court that for the first three tests against Pakistan, it would not force Ten Sports to abide by the down-inking guidelines. As a result, Doordarshan was not allowed to telecast the cricket series and had to suffice by airing only the 90 minutes daily highlights of the Test series with Ten Sports. Later, by means of an agreement between Prasar Bharati and Ten Sports, Doordarshan got the right to telecast the matches for which Ten Sports provided a live feed. The Court, in this concern, held with its order dated January 30 2006 that Doordarshan should carry the 'uninterrupted feed' of the matches received from the Ten Sports. It should not telecast its own programmes during lunch breaks and also cannot show its own advertisements.

Further, in 2006 on the same lines, the Delhi High Court in *Prasar Bharati v. Sahara TV Network Pvt. Ltd. & Ors*[30] held that though a news channel cannot be treated on par with commercial channels, it has to be regulated in terms of the same clause as stated in the rules of the Prasar Bharati on record except to the extent that the maximum cap-limit of two minutes shall extended to seven minutes in 24 hours. However it was further held that the use of this time shall only be for giving cricket news without any commercial programme or advertisements before, during or after the cricket news. However, they would be at liberty to show any news or important events during that period as well. The same year Doordarshan used its clout with the Ministry for Information and Broadcasting, to release

30. 2006 (32) PTC 235 (Del).

an ordinance[31], which made it mandatory for private television channels to share their live feed of the official one day international matches and the 'Twenty20' ties and some other test matches, with the national broadcaster Doordarshan (DD). On the contrary, private television channels had paid substantial amounts of cash to secure telecast rights to all of those matches[32].

The next dispute was between Nimbus Sports and DD in January 2007 regarding the broadcasting rights over the second ODI between India and West Indies. Nimbus filed a petition before the Delhi High Court for preventing DD from using footage of their exclusive right. But in its provisional order, the court directed Nimbus to provide a feed to DD, which will telecast it on DD International and its DTH service. The cricket action on DD was, however, to be at a delay of seven minutes. Considering the popularity of sports events in India especially cricket, the judiciary and government always manages to force private broadcasters into sharing their signal with national broadcaster DD.

For escaping from the continuing conflict over the distribution/sharing of broadcasting signal, DD used its supremacy with the ministry for Information and Broadcasting (I&B), which made it mandatory for private television channels to share their live feed of all one day international (ODI) cricket matches and the Twenty20 ties and some other test matches, citing public interest abroad[33]. This Broadcasting Signals Ordinance, 2007[34] mandates that live television and radio feed, minus advertisements, be shared with DD and All India Radio for events judged as being of national importance by the Union Government. On the contrary, private television channels had paid substantial amounts of cash money to secure telecast rights to all of those matches[35].

The most recent dispute in this regard is something different; here the national broadcaster filed a petition to the Delhi High Court against private news channels using the unauthorized recording of the Beijing Olympics

31. Ultimately the government passed the Broadcasting Signal Ordinance 2007, which compels other broadcasters to license their broadcast rights to DD in the case of a sporting event of national interest. It provides Mandatory Sharing of signals with Prasar Bharati; Ordinance issued by Government of India on 1st February 2007.
32. Nimbus Communications has paid $612 million to BCCI for getting the exclusive broadcasting right of cricket from March 1, 2006, to March 31, 2010.
33. *Way cleared for sharing Sports live feed with DD*, BUSINESS LINE, Feb 02, 2007 http://www.thehindubusinessline.com/2007/02/02/stories/2007020204020100.htm.
34. It provides Mandatory Sharing of signals with Prasar Bharati, Ordinance issued by Govt. of India on 1st February 2007.
35. *Supra* note 32.

which was the exclusive right of DD[36]. Prasar Bharati has obtained an order from the Delhi High Court that restrained all private news channels from sharing Doordarshan's footage of the Beijing Olympics, unless they entered into a commercial agreement with Prasar Bharati and the Indian Olympics Association. DD paid around $3 million for the exclusive broadcasting rights to the Beijing Olympics Organizers, and argued that footage beamed by other channels damaged their commercial interests[37]. So the national broadcaster is set to claim damages of around Rs. 5 crore from over a dozen news channels for illegal use of their signals. Any kind of broadcast piracy causes serious harm to the broadcasters, who therefore need substantial legal protection. The lack of a robust protection and enforcement mechanism acts as an impediment to fully realizing the potential that exists in this industry.

In a significant judgment[38] the Supreme Court held that the Indian Telegraph Act (1885) is totally inadequate to govern broadcasting media. While all the leading democratic countries (including UK and US) have enacted laws specifically governing the broadcasting media, India still follows the colonial act and Copyright Act of 1957. The amendments to the Copyright Act (1994, 1999) are not perfectly covering the issues related with broadcasting. The judgment gave as a reason the limited and public nature of the airwaves, although they conceded the citizens' right to 'have access to telecasting' in principle and the right to 'impart and receive information' was implicit in the right to freedom of expression. The Judges cited, as they did throughout their judgments, the laws of the UK and US. They took this right to mean access to a plurality of views, and said that any new legislation on broadcasting should ensure the diversity of content. The Court also noted that such a legislation should be consistent with the right of freedom of speech and expression of the citizens under Article 19 (1)(a) and "must contain strict Programme and other controls", as has been provided in the Broadcasting Act, 1991 in the United Kingdom.

RECENT LEGISLATIVE INITIATIVES

The Ministry of I & B has been examining the issue of introducing a legislation to regulate the operation of broadcasting services consequent upon the judgment of the Supreme Court in the *Cricket Association of Bengal* case delivered in 1995 that airwaves are public property and have to be controlled and regulated by public authority in the interests of the public. The

36. *See www. business-standard.com/India/storypage.php?* the Business Standard reports that DD has actually secured an injunction from the Delhi High Court requiring all news channels to abide by DD's guidelines.
37. Krishnadas Rajagopal, *Olympics Telecast: Prasar Bharati goes to Court*, The Indian Express, Aug. 23, 2008.
38. Union of India (Ministry of I&B) & Cricket Association of Bengal, (1995) 2 SCC 161.

Broadcasting Bill of 1997 was introduced in the Parliament but lapsed. The Communication Convergence Bill 2001 was introduced but even this lapsed due to the dissolution of the 13th Lok Sabha. In 1995 the Cable Television Networks Act was brought in to regulate the cable business and their operations. Most of the other required regulations in the sector were being accomplished by issuing guidelines such as broadcaster's right, signal sharing issues etc.

The proposed Broadcasting Services Regulation Bill 2007 is an attempt to facilitate and develop, in an orderly manner, the carriage and content of broadcasting. It also aims to codify a framework of guidelines and proposes to set up a regulatory authority called the Broadcasting Regulatory Authority of India (BRAI). The draft bill aims to prevent media monopolies through what it calls "restrictions on accumulation of interest"[39].

Although the relevant section mentions the need to prevent monopolies across different segments of the media, the present provisions are confined to the broadcast sector, with some of the restrictions relating to equity and others to the reach or subscriber base of television channels. Not surprisingly, these clauses have been strongly condemned by several groups representing the media industry, which have variously described such measures as anti-consumer, anti-choice and anti-market, not to mention 'against the spirit of free enterprise.' At the same time, the proposed restrictions on ownership patterns have been welcomed by several serious and disinterested commentators who oppose other provisions of the Bill as anti-democratic.

Restrictions on ownership have been important features of media regulation in most mature democracies like UK, USA, France, Germany, and Australia. In the experience of several countries, every move towards deregulation has intensified concentration of ownership. Many media-watchers, as well as informed sections of the public, in many parts of the world are concerned about this growing trend, which is understood to be a central aspect of the ongoing process of media globalization.

But unfortunately the Broadcasting Services Regulation Bill was put off numerous times due to several reasons. The disputes over the transmission and ownership of broadcasting signals is regularly being raised before the Supreme Court and different High Courts in India. So the need for a comprehensive legislation in this area has certainly been felt.

39. Broadcasting Services Regulation Bill, 2007, section 12 - restrictions on accumulation of interest: the central government shall have the authority to prescribe such eligibility conditions and restrictions with regard to accumulation of interest at national, state or local level in the broadcast segments of the media by the print or other media as may be considered necessary from time to time, to prevent monopolies across different segments of the media as well as within the broadcast segments, to ensure plurality and diversity of news and views.

Patient's Access to Pills: Fight between Generic and Brand-name Drugs Continues

*Tabasum Wani**

I. INTRODUCTION

Douglas William Jerrold rightly said – "A pill that the present moment is daily bread to thousands."[1] In this modern era, the most valuable invention for mankind is the invention of a medicine which has helped in increasing human life expectancy and millions of lives are thus saved. Drugs and medicines account for a vital and substantial share of healthcare and economic prosperity of any country. On the other hand, it is noted that health and drug policies over the years tend to serve corporate interests rather than public health. In view of these developments, access to healthcare and to some particular medicines, has suffered a serious setback in recent years.

For instance, in 1980 only about 13% of the total drugs sold in U.S.A. were generic, now it is closer to 70% (this figure increases when patent protected drugs are taken out of the equation).[2]

In any major drug market, one can find that, the better the medicine, the higher its cost is. Every patient needs access to these better medicines which generally belong to the cadre of "Branded Drugs". The costs involved in the invention and development of new "Branded Drugs" prompts the innovator company not to sell its drug at a cheap price because of the heavy cost, time and materials involved in it with respect to Research and Development.

On the other hand, generic manufacturers sell the same drug at a very low price which is generally affordable by everyone, at a rate which is sometimes as low as one-fourth the innovator's rate. Consumers receive benefits from generic drugs because they are less expensive, granting a better quality of life to consumers with limited income.[3] But these generic

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* Student, LL.M. (IPR), NALSAR University of Law, Hyderabad.

1. Douglas William Jerrold, The Catspaw Act I, Scene I.
2. Congressional Budget Office, *How Increased Competition from Generic Drugs Has Affected Prices and Returns in the Pharmaceutical Industry,* Jul. 1998. http://www.cbo.gov/doc.cfm?index=655.
3. To take an example, as of 2001, the brand-name drug Vasotec, which is used to treat hypertension and congestive heart failure, costs $180 for a one month supply, while its generic equivalent only cost $55. Additionally, a ninety-day supply of Tagamet, an ulcer medication, costs $135, while the generic equivalent Cimetidine only costs $20. Wayne J. Guglielmo, *Prescription Drugs at Bargain Prices*, Newsweek, Apr. 23, 2001.

manufacturers can launch their generic versions in the market only when the "patent term" of the innovator's drug expires or the validity of the patent is challenged by the generics or the generics version is launched in the market without infringing the patented drug.

As the prices of branded prescription drugs rose astronomically and costs of prescription medicines were of great concern to many people, especially the growing population of senior citizens,[4] many citizens and politicians pushed for legislative or regulatory strictures to increase access to more affordable generic alternatives.

Therefore, as the law changes with the needs of society, a change was made to the Patent laws that assured a sort of balance between the increasing access to cheaper generic drugs and ensuring the continued development of new drugs by pharmaceutical companies through the preservation of strong patent rights[5]

The Drug Price Competition and Patent Term Restoration Act, 1984[6] commonly referred to as "Hatch Waxman Act"[7] of the United States reflected this change, and was enacted to achieve the important balance between generic manufacturers of the patented drug and drug innovator companies.

This legislation authorized the Federal Food and Drug Administration (hereinafter FDA) to approve generic drugs[8] upon the manufacturer's submission of proof of bioequivalence.[9]

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4. Laura J. Robinson, *Analysis Of Recent Proposals To Reconfigure Hatch Waxman*, 11 Journal of Intellectual Property Law 47 (Fall, 2003).
5. For those unaware, a patent is a kind of intellectual property right (IPR). It allows rights (including exclusive manufacturing and marketing rights) pertaining to an object (product) and/or a means (process), with a view to reward the invention of the inventor. A "product patent" allows rights (including exclusive manufacturing and marketing rights) relating to the object, while a "process patent" relates to the means by which the product is derived. A product patent grants more benefits to the owner as no one can, by any means, produce that product without the consent of the patent holder. S. Panchal, *Just what is a Patent?* Apr. 6, 2005. http://www.rediff.com/money/2005/apr/06patent.htm.
6. Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (codified in scattered sections of 21 U.S.C., 35 U.S.C., and 42 U.S.C.)
7. The Hatch-Waxman Act, named for the two sponsoring Congressmen, was enacted into law in 1984. Representative Henry Waxman began his drive to institute pharmaceutical patent reform in the summer of 1983. Senator Orrin Hatch assisted Representative Waxman by sponsoring the legislation in the Senate. Alan D. Lourie, *Patent Term Restoration*, 66 Journal of the Patent & Trademark Office Society 526, 533 (1984).
8. A generic drug is identical, or bioequivalent to a brand name drug in dosage form, safety, strength, route of administration, quality, performance characteristics and intended use. Although generic drugs are chemically identical to their branded counterparts, they are typically sold at substantial discounts from the branded price. According to the Congressional Budget Office, generic drugs save consumers an estimated $8 to $10 billion a year at retail pharmacies. http://www.fda.gov/cder/ogd/#Introduction .
9. "Two pharmaceutical products are bioequivalent if they are pharmaceutically equivalent and

Prior to the Hatch-Waxman Act, in order to obtain FDA approval, manufacturers of generic drugs were required to conduct the same clinical tests as manufacturers of new, brand-name drugs.[10] The rigorous requirements for FDA approval narrowed the generic drug manufacturers' profit margin and stifled their growth, inhibiting consumer's access to affordable medicine. Thus, the Hatch-Waxman Act marked the dawn of the generic drug era.

Object of the Hatch Waxman Act

The dual purposes or the main object behind the Hatch-Waxman Act was to reimburse pharmaceutical patent holders for time lost due to the long review period needed to achieve FDA approval and to encourage generic drugs to enter the market by enacting procedures that expedite and incentivize their introduction.[11] However, several provisions of the Act have been abused time and again which has impeded the designed effect of higher availability of generic drugs.[12]

Historical background to the act

This Act was necessitated by the following observations:[13]

1. Dearth of generic drugs:

Somewhere in the year 1962 it was observed in the U.S.A. that out of the 150 'off patent drugs' in the market, there were no generic drugs[14] because generic companies simply would not spend the time and money doing the clinical trials to get to the market. Owing to the burdensome measures

their bioavailability (rate and extent of availability) after administration in the same molar doseare similar to such a degree that their effects, with respect to both efficacy and safety, can be expected to be essentially the same. Pharmaceutical equivalence implies the same amount of the same active substance(s), in the same dosage form, for the same route of administration and meeting the same or comparable standards." Donald J. Birkett, *Generics - equal or not?* http://www.australianprescriber.com/magazine/26/4/85/7/.

10. A manufacturer of a new drug can file an application for FDA approval after completion of required clinical trials, if the data support the safety and effectiveness of the compound. These applications typically are 100,000 pages or longer and include all the data gathered during development and in clinical testing. The FDA is legally allowed six months for review of the application, however, the average new drug application takes 30 months for review. See 21 C.F.R. § 312 (2007).
11. Drug Price Competition and Patent Restoration Act of 1984, Pub. L. No. 98-417, 98 Stat. 1585 (1984) (codified as amended at 21 U.S.C. § 355 (2000)); Muris Statement http://www.ftc.gov/os/2002/10/generictestimony021009.pdf.
12. John R. McNair, *If Hatch Wins, Make Waxman Pay: One-Way Fee Shifting As A Substitute Incentive To Resolve Abuse of the Hatch-Waxman Act*, University of Illinois Journal of Law, Technology and Policy (Spring 2007) http://www.jltp.uiuc.edu/archives/McNair.pdf.
13. Parikshit Bansal and Anand Sharma, *Generic Drugs and Their Approval - Part I of II, Jul. 25, 2005,* http://www.ipfrontline.com/depts/article.asp?id=4477&deptid=4.
14. *The Hatch-Waxman Act: Tool for Approving Generic Drugs*, TIFAC Bulletin, Feb. – Mar., 2004, http://pfc.org.in/fac/feb04.pdf.

involved, manufacturers were simply blasé to take up manufacture of these, even though these were cheaper.

2. Elusive regulatory procedures:

Most of the generic drug manufacturers refrained from manufacturing drugs due to the infeasible and un-scientific method by which the regulatory authorities viewed the drug approval process and insisted upon proving the obvious.

3. Denial of cheaper drugs to patients:

Generics were required to demonstrate the safety and effectiveness of their drug products through several clinical trials.[15] Therefore, if a generic drug manufacturer wanted to market a drug after the innovator's patent had expired, that manufacturer would have to repeat extensive clinical trials to prove the drug's safety and effectiveness to the FDA.[16]

Owing to the difficult procedures insisted upon by regulatory authorities, drug companies avoided wasting time and money on clinical trials of generic drugs; therefore, the loss was faced directly by poor patients.

II. ESSENTIAL ELEMENTS OF THE HATCH WAXMAN ACT

The enactment of the Hatch Waxman Act created a balance between the innovator drug company and the generic manufacturer of the drug. The three essential elements in the Hatch Waxman Act were:

1. **Experimental Use Exception** - The new law permitted a generic drug company to begin the testing required for FDA approval while the pioneer drug company's patent was still in force and shortened the period needed to obtain generic drug approval by eliminating the need for safety and efficacy data.[17]

2. **Patent term Extension**- Patents are granted for a period of 20 years,[18] however, it is often less than 20 years because patents, especially

15. Alfred B. Engelberg, *Special Patent Provisions for Pharmaceuticals: Have They Outlived Their Usefulness?,* 39 IDEA JOURNAL OF LAW AND TECHNOLOGY 389 (1999).
16. Joseph P. Reid, *A Generic Drug Price Scandal: Too Bitter a Pill for the Drug Price Competition and Patent Term Restoration Act to Swallow?*, 75 NOTRE DAME LAW REVIEW 309, 314 (1999).
17. "It shall not be an act of infringement to make, use, offer to sell, or sell ... a patented invention ... solely for uses reasonably related to the development and submission of information under a Federal law which regulates the manufacture, use, or sale of drugs ..."35 U.S.C. 271(e) (1).
18. The period of market exclusivity when the product is actually on the market (without generic competition)– is generally calculated by subtracting the number of years it took to receive

for prescription[19] drugs, are typically obtained prior to marketing. Patents on drug products are typically conferred very early in the development process[20].

Before a drug can be marketed in the U.S., it needs to be approved by the U.S Food and Drug Administration as safe and effective. Therefore, many years of additional research and clinical trials was required to obtain FDA approval to market the drug and the time it took for FDA approval process also "counted against" the drug's patent time clock which means that this period ran concurrently with any patent term for the drug. Thus, the regulatory review period usually eroded much of the patent term.

The Hatch Waxman Act provided a time extension for patents to make up the drug testing and approval time.[21]

3. **Abbreviated New Drug Application (ANDA) filing:** Under this new law, there is also a provision to challenge the validity of the issued patent, thereby allowing Generic Manufacturers a route into the market. The validity of the patent can be challenged through Paragraph – IV and most of the challenges to the patent validity mostly arise from the Indian Generic manufactures by filing Paragraph – IV. The Act provides that the generics can enter the market by either of the following ways as mentioned below:

The generic companies can make any one of the four certifications for each Patent. This certification shall state one of the following**:**

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final FDA marketing approval from the date the patent was filed (not the date the patent was granted). Robin J. Strong, *Hatch-Waxman, Generics, and Patents: Balancing Prescription Drug Innovation, Competition, and Affordability* http://www.nhpf.org/library/background-papers/BP_HatchWaxman_6-02.pdf.

19. A "prescription drug" is a licensed medicine that is regulated by legislation to require a prescription before it can be obtained. The term is used to distinguish it from over-the-counter drugs which can be obtained without a prescription. Prescription drugs are generally authorized by veterinarians, dentists, optometrists, and medical practitioners. http://en.wikipedia.org/wiki/Prescription_drug.

20. Patent is granted by the U.S.P.T.O. (United States Patent and Trade Mark Office) but approval is needed from FDA to market the drug so this process takes quite a long time.

21. The extension term for a pioneer drug is equal to one-half of the time of the investigational new drug ("IND") period, running from the time in which a pioneer can begin human clinical trials plus the time during the NDA review period. However, if the patent was issued after the date of enactment or if the patent was issued before the date of enactment and no clinical testing had been conducted, the extension cannot exceed five years. If the patent was issued for a drug before the date of enactment and clinical testing had begun, it was considered a pipeline drug that could not obtain an extension exceeding two years. The reason for this distinction was "to encourage the research and development of future products. All products which had not yet undergone testing or review by the Food and Drug Administration were judged to be appropriately eligible for the full five years of patent extension." Gerald J. Mossinghoff, *Overview of the Hatch-Waxman Act and Its Impact on the Drug Development Process*, 54 FOOD AND DRUG LAW JOURNAL 187 (1999).

Paragraph - I: A Paragraph - I certification is made when the innovator has not made the required patent information available in the "Orange Book".[22]

Paragraph - II: A Paragraph - II certification is appropriate when there is a patent listed in the Orange Book, but it has expired. The Abbreviated New Drug Application (ANDA)[23] applicant simply has to certify that the patent has expired, and provide the patent number and the date on which the patent has expired.

Paragraph - III: A Paragraph - III certification acknowledges that there is a patent that has not expired and that the "Abbreviated New Drug Application (ANDA)" applicant does not plan to market its product prior to the expiration of the patent.

Paragraph IV: A Paragraph - IV certification signifies that the ANDA applicant plans to challenge one or more of the listed patents. The ANDA holder hence claims that the patent is invalid, unenforceable, or, will not be infringed by the manufacture, use, or sale of the generic product. A generic applicant makes a Paragraph - IV certification only when its intention is to market the drug product prior to the expiration date of the patent.[24]

When any generic company files Paragraph I or II certification, the Food and Drug Authority of the U.S.A. may approve its ANDA immediately.[25] While the Food and Drug Administration (FDA) may approve a Paragraph - III certification filed by an ANDA holder, anytime after the

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22. Orange Book - The Hatch-Waxman Act allows an NDA (New Drug Application) holder, purportedly the original pharmaceutical company that invented the drug, to list its patent in what is called "Approved Drug Products with Therapeutic Equivalence Evaluations" or "the Orange Book." The Orange Book is something that the Food and Drug Administration keeps. Once those patents are listed in the Orange Book, a generic company that would like to market the same drug must assert that those patents in the Orange Book are somehow invalid or not infringed by what the ANDA filer plans to do. http://www.law.washington.edu/CASRIP/Symposium/Number7/1-Borecki.pdf.
23. ANDA - Abbreviated New Drug Application - The Drug Price Competition and Patent Term Restoration Act of 1984 (Public Law 98-417) (the Hatch-Waxman Amendments) created section 505(j) of the act (21 U.S.C. 355(j)). Section 505(j) established the ANDA approval process, which allows a generic version of a previously approved innovator drug to be approved without submission of a full new drug application (NDA). An ANDA refers to a previously approved new drug application (the "listed drug") and relies upon the agency's finding of safety and effectiveness for that drug product. Innovator drug applicants must include in NDA information about patents for the drug product that is the subject of the NDA. FDA publishes this patent information as part of the agency's publication "Approved Drug". http://www.fda.gov/cder/about/smallbiz/FR_generic_exclusivity.htm.
24. Federal Trade Commission, *Generic Drug Entry Prior to Patent Expiration: An FTC Study*, July 2002. http://www.ftc.gov/os/2002/07/genericdrugstudy.pdf.
25. 21 U.S.C. § 355(c) (3) (A).

patent's expiration date[26] but the implications of a Paragraph - IV certification are not nearly as simple as the above three certifications. A generic company makes a Paragraph - IV certification when it does not want to wait for the expiration of the innovator companies' patent rights before it begins to market its own generic version of the drug instead, it alleges that it is justified in early market entry because its drug does not infringe the innovator's patent or because the patent is invalid.[27]

III. BENEFITS AND LOSSES TO THE GENERIC MANUFACTURERS AND THE INNOVATOR COMPANIES

Benefits accruable to Generic Manufacturers

Market Exclusivity

The statute provides an incentive of "180 days (6 months) of Market Exclusivity"[28] to the "first" generic applicant who challenges a listed patent by filing a Paragraph - IV certification[29] and thereby upon the courts finding, that the innovator's patent is invalid or not infringed. During this period of 180 days, a huge profit is earned by the generics as they are the sole dealers or exclusive market holders of the drug.

For example, Ranbaxy, a pharmaceutical major, won the 180 day market exclusivity for "Simvastatin", an 80 mg, anti-cholesterol drug, in June, 2006. This exclusivity period gave the company a share of more than 55 percent in that market. It also earned about $60 million during the same period.[30] Similarly, Dr Reddy's Laboratories' 'Fluxotene', a 40mg generic version of Eli Lilly's blockbuster drug 'Prozac', made $70 million during the exclusivity period.[31]

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26. 21 U.S.C. § 355(c) (3) (B).
27. 21 U.S.C. § 355(b) (2) (A) (iv).
28. In certain circumstances, the first applicant whose "Abbreviated New Drug Application (ANDA)" contains a Para - IV certification is protected from competition from subsequent generic versions of the same drug product for 180 days from either the date the first applicant's drug product is first commercially marketed or the date of a final court decision holding the patent that is the subject of the Para - IV certification invalid, unenforceable, or not infringed. This marketing protection is commonly known as "180-day exclusivity". http://www.fda.gov/cder/about/smallbiz/FR_generic_exclusivity.htm.
29. 21 U.S.C. 355 (j) (5) (B) (iv).
30. R. Rao, *Para - IV filing - The fight Continues*, Modern Pharmaceuticals, August – September 2007. http://www.law.ou.edu/faculty/facfiles/Modern_Inervirew_2.pdf.
31. *You may have to pay more for Patented Drugs,* Jan. 10, 2005, http://www.netdr.com/healthnews/patented-drugs.htm.

Collusive Agreements

Sometimes, the innovator and the generic manufacturer enter into an agreement wherein the generic drug manufacturer is asked to refrain from entering the market on payment of a lump-sum amount by the innovator company. This practice prevents the entry of the other generic drug manufacturers from entering the market with a generic form of drug.

An illustration of such agreements can be found in the agreement entered into between Abbott Laboratories and Geneva Pharmaceuticals[32] wherein Abbott marketed a pioneer brand-name anti-hypertension drug named "Hytrin" and Geneva Pharmaceuticals obtained approval for launching a generic version of "Hytrin".[33] Hytrin, which is manufactured and marketed by Abbott, is the pioneer brand name drug in the United States containing terazosin HCL. Hytrin was introduced in 1987. It was the only terazosin HCL product sold in the United States until Geneva introduced such a product on or around August 13, 1999.[34] Abbott expected Geneva Pharmaceuticals to earn between $1 million and $1.5 million a month from the sale of that generic version[35] and to deter that generic version to enter the market, Abbott entered into an agreement with Geneva Pharmaceuticals. In the agreement, Abbott agreed to pay Geneva $4.5 million per month[36] for not making and selling its competing generic version. This amount was very much less than what Abbott would stand to lose from the generic competition had Geneva's generic version was launched, but, more than Geneva would make from the sale of its generic version.

So, such an agreement favored both the parties discarding the interest of the patients who would be compelled to purchase the original branded drug until the generic version was launched.[37]

In another instance Schering – Plough a pharmaceutical giant, owned the patents for drugs named "K-Dur 20" and "K-Dur 10"[38] whose term was to expire on September 5, 2006. These drugs were used to treat patients with low potassium or hypokalemia. In August 1995, under procedures established

32. In re: Abbott Lab. & Geneva Pharmaceuticals, C - 3945, 2000 FTC http://www.ftc.gov/os/2000/05/c3945complaint.htm.
33. *Ibid.* Para. 24.
34. *Ibid.* Para. 11.
35. *Ibid.* Para. 25.
36. That is less than ten percent of what Abbott earns from sales of "Hytrin" per month. Total U.S. sales of Abbott's terazosin HCL amount to approximately $540 million per year. Ibid. Para. 10.
37. *For more details see* In re Abbott Lab. & Geneva Pharmaceuticals, C-3945, 2000 FTC, http://www.ftc.gov/os/2000/05/c3945complaint.htm.
38. The number in the product names refers to dosage strengths: the "20" tablets contain twice as much potassium as the "10" tablets. In the Matter of Schering-Plough Corporation, et al. Docket No. 9297, Leary, Commissioner, "Opinion of the Commission", http://www.ftc.gov/os/adjpro/d9297/031218commissionopinion.pdf.

by the Hatch-Waxman Act, Upsher-Smith, a generic manufacturer, filed an ANDA with the FDA to market "Klor Con M20", a generic version of Schering's "K-Dur 20"[39] with a Paragraph - IV certification in which Upsher certified that Schering's patent was either invalid or not infringed by the Upsher's generic version.[40] It received 180 days of "Market Exclusivity" to market its generic version; the period of which was to begin when the generic drug entered the market. Upsher subsequently notified Schering of this application and certification, as required by the Act.[41] Schering then sued Upsher for patent infringement in the United States District Court for the District of New Jersey on December 15, 1995.[42] Under Hatch - Waxman, this lawsuit triggered an automatic waiting period of up to 30 months (2.5 years approximately) for final FDA approval of Upsher's product.

On June 17, 1997, on the eve of trial, Schering and Upsher settled their patent litigation by entering into a settlement agreement.[43] The automatic 30-month stay was still in effect, but was about to expire in a year, at the latest. In this settlement agreement, Schering-Plough also unlike Abbott, agreed to pay Upsher-Smith sixty million dollars and in return, Upsher-Smith agreed to wait almost four years (three years and three months from the agreement plus 180 days of exclusivity that will begin once Upsher-Smith begins the marketing.) before marketing its generic drug.[44]

In light of the favour to the various pharmaceutical companies, this agreement can be of utmost importance but the real loss, as we can infer from the above mentioned examples, is faced by the low income patient groups because of such settlements, since they can never afford the price of the branded drug.

MEASURES THAT MAY BE ADOPTED BY INNOVATOR COMPANIES

Filing of Infringement Suit by the Innovator Company

In order to prevent frivolous Paragraph - IV certifications, the U.S. Congress made the "mere filing of the certification itself an act of infringement"

39. K-Dur 20 is used to treat patients who suffer from insufficient levels of potassium, a condition that can lead to serious cardiac problems. http://www.ftc.gov/os/2002/02/ahpanalysis.htm.
40. In the Matter of Schering-Plough Corporation, et al., Docket No. 9297, Leary, Commissioner, "Opinion of the Commission", 3. http://www.ftc.gov/os/adjpro/d9297/031218commissionop-inion.pdf.
41. 21 U.S.C. § 355(j).
42. In the Matter of Schering-Plough Corporation, et al. Docket No. 9297, Leary, Commissioner, "Opinion of the Commission", 4. http://www.ftc.gov/os/adjpro/d9297/031218commissiono-pinion.pdf.
43. *Ibid.*
44. *Ibid.*

that gives the brand company the right to sue the generic company.

When the potential generic manufacturers files Paragraph - IV certification, the original patent holder is granted a period of 45 days from the day of notice to sue the generic manufacturer for infringing its patent. As soon as the infringement suit is filed by the innovator company, the statute provides that an automatic stay runs against that generic company for a period of 30 months during which the innovator company continues to have the "Exclusive Marketing Rights" (EMR)[45] to sell the drug even if the patent is proved to be invalid later. The innovator company continues to sell the drug at a higher price for a period of 30 months or until the Court decides the patent as invalid. Thus, the patients are deprived of the cheaper version of the drug for such further period and during this period the innovator company makes a huge profit out of the drug being the sole and exclusive dealer of the drug.

Evergreening

The innovators also resort to the practice of "Evergreening"[46] the patented drug by incorporating minor changes in the drug so as to keep the generics off the market by combining two different drugs sold separately into a single one as another strategy to thwart the generic competition[47]. A glaring example of the successful use of evergreening strategies to obtain extended protection is GlaxoSmithKline's version of the anti-depressant, "Paroxetine", where the 'base' patent expired in the late 1990s', but ancillary patents covering new forms, tablets, uses and processes will not expire until between 2006 and 2018.[48]

Authorized Generics (AG)

Another way to prevent the entry of the generics in the market is through "Authorized Generics". When the patent on the drug of the innovator is about to expire, the innovator company grants to any major generic

45. The term EMR means the Exclusive Marketing Rights to sell or distribute the article or substance covered in a patent or patent application in the country. The purpose of EMR's is to ensure that the innovator can market free copies of the patented product. George Kutty, *India Patents - Exclusive Marketing Rights (EMR)*, http://ezinearticles.com/?India-Patents--Exclusive-Marketing-Rights-(EMR)&id=79426.
46. "Evergreening" is a method by which technology producers keep their products updated, with the intent of maintaining patent protection for longer periods of time than would normally be permissible under the law, http://en.wikipedia.org/wiki/Evergreening.
47. Claritin D-24**,** a combination of decongestant and antihistamine in a once-daily dosage form, launched by Schering-Plough is an example of combination medicine. http://quamut.com/quamut/antihistaminedecongestant_combination.
48. M. Hutchins, *Using Interlocking Additional Early Stage Patents to Improve and Extend Patent Protection*, 3 International Journal of Medical Marketing 212, 215 (2003).

company the right to market a generic version of its drug before any of its competitors launch a generic version of that drug.

"Authorized Version" of the drug may be marketed by the innovator company itself or through its subsidiary, or by another company which has obtained a license from the innovator company on the product for marketing, in return for royalties.[49]

A classic example can be taken of the pharmaceutical giant "Pfizer" who licensed its patented product to one of its own "Greenstone" subsidiary when it released a generic "Gabapentin" (Neurontin).[50] Similarly, "Novartis" has "Sandoz" as its subsidiary. These companies are launching their own Authorized Generic Drug Versions.[51]

The Authorized Generic Drug is sold at a lower cost as compared to the original branded drug and as an alternative to the branded product. For instance, Dr. Reddy's was appointed as the Authorized Generic Company to launch the generic version of Merck's cholesterol lowering drug, "Zocor" (Simvastatin) and "Proscar" (Finasteride).[52]

Due to the Authorized Generic manufacturers, the drugs are still sold at higher prices and remain out of reach of the economically disadvantaged.

MEASURES THAT MAY BE ADOPTED BY GENERIC MANUFACTURERS

De-risking Option

Now, when the other generic companies were faced with the prospect of heavy losses because of the settlements between the innovator of the drug and any particular generic manufacturer, they also began to devise methods in order to safeguard their individual interests.

So, in order to de-risk their businesses, major generic manufacturers like Dr. Reddy's entered into partnerships with ICICI and Citigroup Venture funds, whereby it was agreed that ICICI and Citigroup Venture funds will

49. Narinder Banait, *Authorized Generics: Antitrust Issues and the Hatch-Waxman Act*, http://www.fenwick.com/docstore/Publications/IP/Authorized_Generics.pdf.
50. Peter Wittner, *Authorized Generics - What are they?*, May 2006, http://www.genericsweb.com/index.php?object_id=380.
51. R. Unnikrishnan and K. Kabtta, *Indian Generic Companies may tread Ranbaxy Path*, Jun. 19, 2008, http://economictimes.indiatimes.com/News/News_By_Industry/Healthcare__Biotech/Pharmaceuticals/Indian_generic_companies_may_tread_Ranbaxy_path/articleshow/3143221.cms.
52. Rakesh Rao, *Para - IV filing - The fight Continues*, Modern Pharmaceuticals, Aug. – Sept. 2007, http://www.law.ou.edu/faculty/facfiles/Modern_Inervirew_2.pdf.

fund a part of the Research and Development and litigation costs incurred by Dr. Reddy's.[53] In a $56 million deal, ICICI Ventures would fund the development, registration and legal costs related to the commercialization of most of the U.S. ANDA's filed in 2004-05 and 2005-06.[54]

ICICI Ventures would in turn receive a royalty on sales over a period of five years as and when Dr Reddy's would launch any of its generic versions of the drugs.[55] Ranbaxy too, while looking at other markets, is taken up by the Japanese Pharmaceutical major Diachii Sankyo.[56]

Some Perils of Paragraph – IV Filing

Paragraph - IV filings are not everyone's cup of tea. The companies resorting to a Paragraph - IV filing must have the financial muscle and ability to make the drug and face the onslaught of litigation.

In spite of the interest in this field, Paragraph - IV filings are risky, due to high litigation expenses. There is also the uncertainty of the legal outcome. However, on winning litigation, the costs are covered in approximately six months, which makes generic companies enthusiastic about such options. The huge cost involved in the patent challenge route is one of the major factors which have led to the decline in the number of challenge to the patent's validity.

According to experts, on an average, Paragraph - IV ANDA filing with the U.S. FDA costs about $2 million including bio-studies preparation and ANDA draft. In addition, it costs, on an average, about $15 - $20 million to litigate a Drug Patent Case through appeal[57] and most companies lack the financial strength to bear the loss in case the company loses the litigation.

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53. Ravi Krishnan and B.V. Mahalakshmi, *A Tale of Two Pharmacos*, THE FINANCIAL EXPRESS, Nov. 05, 2005, http://www.financialexpress.com/old/fe_archive_full_story.php?content_id=107658.
54. Sapna Dogra, *The Para – IV Charm continues*, Dec. 1 - 15, 2006. http://www.expresspharmaonline.com/20060815/market11.shtml.
55. *Supra* note. 53.
56. The takeover valued Ranbaxy, which will become a Daiichi subsidiary, at over $8.4 billion, while making the Japanese company the world's fifteenth-largest drug maker from its current rating of 22. Daiichi will raise its Ranbaxy holding to a minimum of 50.1% through an open offer to shareholders at 737 rupees (US$17) per share. Ranbaxy now has an opportunity to expand its presence in the global mart while finding a much-larger partner to help shoulder its $600 million in debt, picked up during a spending spree this decade. That will give Ranbaxy more freedom to consolidate its position in other sectors, such as financial services and healthcare. It will also be able to channel to India new high-quality drugs from Daiichi, noted for its innovation and excellent research base. Neeta Lal, *Ranbaxy Sale a Perfect Match,* ASIA TIMES, Jun. 19, 2008, http://www.atimes.com/atimes/South_Asia/JF19Df02.html.
57. *Increased ANDA Filing By Indian Generic Pharma*, http://www.lexorbis.com/Increased_ANDA_Filing_By_Indian_Generic_Pharma.htm.

Hence, unless generic companies have the financial strength to sop-up the losses, this may be a dicey escalation strategy.

IV. CONCLUSION

It can be stated that the worldwide benefits of ever better medicines have been tremendous. In recent decades, life expectancy has been increasing steadily in many parts of the world, often due to the availability of life – saving drugs. Consumers receive benefits from generic drugs because they are less expensive, cost effective and grant a better quality of life especially to those consumers with limited income.

The Hatch-Waxman Act has been an overall success, responsible for creating a generic drug industry.[58] Before the Hatch-Waxman Act, only 35% of branded drugs met generic competitors upon the expiration of the drug's patent, but now nearly every patented drug has a generic competitor upon expiration of the drug's patent.[59]

Although intense price competition reduces the financial returns for brand-name drugs, at the same time, the patent period provides important protections, enabling the investment of U.S. drug companies in research and development which has grown rapidly with time – from $26 billion in 2000 to about $43 billion in 2006.[60]

The Hatch Waxman Act has been successful in assisting more affordable generics into the market while at the same time maintaining the incentive for innovator companies to design and develop new life-saving drugs.

Since its enactment, however, several areas of abuse have delayed the entry of more affordable generic versions of drugs into the drug market. The 2003 Amendment to the Act[61] has helped in removing some of the loopholes that existed, but has not proved to be completely successful.

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58. A. Maureen Rouhi, *Beyond Hatch-Waxman: Legislative Action Seeks to Close Loopholes in U.S. Law that Delay Entry of Generics into the Market*, 80 Chemical & Engineering News 38, 53 (2002).
59. *Ibid.*
60. Richard G. Frank, *Regulation of Follow on Biologics*, 357 New England Journal of Medicine 841, 843 (2007).
61. Drug Price Competition and Patent Term Restoration Act, 21 U.S.C. § 355 (j) (5) (B) (iv) (2000). This provision was later amended in 2003 in "Title XI of the Medicare Prescription Drug Improvement and Modernization Act" so that the 180-day exclusivity begins running only upon first commercial marketing subject to forfeiture events. 'Medicare Prescription Drug Improvement

In accordance with the purpose of the Hatch Waxman Act, it is vital to challenge settlements that act to keep generic drugs off the market. This is because the very purpose of enacting of the Hatch Waxman Act, i.e. "the access to medicines for the poor" and to strike a balance between the generics and the innovator's drug still remains frustrated, as, both the innovator and the generic manufacturers are fighting to survive in the market while the loser remains the patient.

Broad Suggestions

There are two ways by which drugs may be accessible to the poor while protecting the rights of the innovator company. Firstly, the innovator company while investing a huge sum on the drug wants to recover the cost invested in the innovation and development of the drug. This cost is recovered from the sale of the drug and consumers are denied access to the affordable medicine for quite a long period. However, alternative mechanisms should be attuned to encourage Research and Development without relying on drug sales to fund drug development. Secondly, the brand payments must be considered per se invalid due to their anti-competitive nature and evergreening of patented drugs should not be allowed in any country.

With an increasing number of patent disputes breaking out across the globe, and increasing governmental concern that the current system is failing to deliver, it is in everyone's interest that new mechanisms are found, at the earliest, as the pharmaceutical industry seeks to meet the needs of a highly competitive marketplace. It is likely that new legislative initiatives will be necessary to address concerns and confront challenges from both sides of the pharmaceutical industry.

The question still lingers, are we pleased with a system that is a problem solver to people with high incomes and which ignores the impact of inventions on the need of the general strata of society, the consuming public and the patients.

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and Modernization Act' of 2003, Pub. L. No. 108-173, § 1101, 117 Stat. 2066, 2457 [Codified at 21 U.S.C. § 355 (j) (5) (B) (2003)].

Comparative Advertisements: Balancing Consumer Interest vis-à-vis IPR Infringement

Swaraj Paul Barooah
*Shivaji Bhattacharya**

I. INTRODUCTION

On May 3, 2007 the Times of India published an advertisement[1] for the promotion of the website timesjobs.com. The campaign line was 'It took us 25 days to move 1,28,370 steps further ahead of our competitor' and this was followed by some comparative graphs and charts without mentioning specifically who their competitor was, although it was quite obvious to all who read it as to who their unnamed competitor was. This type of non-disclosure is commonly employed nowadays to avoid legal pitfalls regarding the veracity of the published information. This form of advertising, promoting one product / service or brand by comparing it to similar products is known as comparative advertising. As defined in EU Directive 97/55/EC, it is "any advertising which explicitly or by implication identifies a competitor or goods or services offered by a competitor."[2]

The opening up of the Indian economy has lead to a plethora of brands in the markets with each one out to capture a portion of the market. While comparative advertising may be one of the best ways of relaying relative information to the consumers, advertisers should tread carefully as it often leads to a clash of legal and ethical principles. Honest, non-misleading and fair comparative advertising is generally viewed positively by law as well as by the public. Comparative advertising can play the role of a salesman who helps remove and clarify doubts about a brand. A person who has already gone through the various buying processes like need, recognition and information search may be stuck because he is not able to make a comparative evaluation between the brands on which he has zeroed in. It is at this stage that comparative advertising helps him to take a better decision. If it gives very compulsive reasons to a potential consumer to buy a product, it can't be faulted.[3] Thus it can be seen that comparative advertising affects three parties - the advertising company, the rival company or companies and the consumers.

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* Students, V Year, NALSAR University of Law, Hyderabad, India.

1. *See* Times of India, May 03, 2007, http://timesofindia.indiatimes.com/.
2. *See* EU Directive 97/55/EC, OJ L290 23/10/1997 at pg. 8.
3. *See* Sukanya Ashok Kumar, *Comparative Advertisement: Benefit to Consumers,* The Hindu, Jun. 15, 2000, http://www.hinduonnet.com/thehindu/2000/06/15/stories/0615000h.htm.

In this paper the authors seek to lay out the law as it is today. Thereafter the authors seek to critically analyse the balancing of interests of the parties affected by comparative advertising and the extent to which this fine balance can be stretched under the law.

II. STATUTORY FRAMEWORK OF COMPARATIVE ADVERTISING IN INDIA

In the legal framework governing comparative advertising, there has been a shift from curbing monopolies to encouraging competition. The basic legal structure has been laid down by the Monopolies of Restrictive Trade Practices Act, 1984 (M.R.T.P Act) and the Trade Marks Act, 1999 (T.M.A.)

It's interesting to note how the earlier law came into place. The Government of India, in 1964 appointed the Monopolies Inquiry Commission to inquire into the extent and effect of concentration of economic power in private hands and the prevalence of monopolistic and restrictive trade practices in important sectors of economic activity.[4] Along with the report that the Commission submitted was a draft bill (The Monopolies and Restrictive Trade Practices Bill, 1965) which was passed as the M.R.T.P. Act, 1969. The initial purpose behind the Act was the control of monopolies and prohibition of restrictive trade practices;[5] however the Act was amended several times to suit the changing circumstances until it was finally rendered obsolete by the economic reforms of 1990s as stronger pro-competition laws were required.

The Trade Marks Act, 1999 came into place after The Trade and Merchandise Act Marks Act, 1958 was repealed. "India enacted its new Trademarks Act 1999 (the TM Act) and the Trademarks Rules 2002, with effect from 15th September 2003, to ensure adequate protection to domestic and international brand owners, in compliance with the TRIPS Agreement."[6] Certain rights of trademark owners were extended – such as the protection of trademarks was extended to cover not only goods but services as well. However another provision of the TMA imports a defence to an otherwise infringing use of a trademark. This can be seen as a delicate balancing of interests – the rights of the trademark owners on one hand and the consumers' interest in informative advertising on the other.

4. *See* Anurag K. Agarwal, *Competition Law in India: Need to Go Slow and Steady*, IIM Ahmedabad, W.P. No. 2005-10-05, Oct. 5, 2005, http://www.iimahd.ernet.in/publications/data/2005-10-05anurag.pdf.
5. Monopolies and Restrictive Trade Practices (Act No. 54 of 1969), Statement of Object and Reason.
6. *See* Priya Bansal, *Use of Trademark in Comparative Advertising: Situation in India,* http://www.legalserviceindia.com/articles/tadv.htm.

The various legislative developments and amendments in the law governing competitive advertising in India have gone hand in hand with India's economy. Comparative advertisement is permitted by section 30 of the Trade Marks Act, 1999 which allows the use of registered trademarks provided that it is honest use, that it does not take unfair advantage of the trademark and that it does not damage the goodwill associated with the trademark.[7] To infringe the use of a registered mark, the conditions stated in the relevant provisions of the Paris Convention[8] and the Trademark Approximation Directive[9] must be fulfilled. In other words, it must (a) be otherwise than in accordance with honest practices in industrial or commercial matters and (b) without due cause take unfair advantage of, or be detrimental to, the distinctive character or repute of the mark.[10]

Section 36A of MRTP Act lists several actions to be 'unfair trade practices'.[11] Unfair trade practices in comparative representation include any promotion of goods or services that deceives or gives false information regarding the goods or services of another person. Other instances of unfair trade practices include the adoption of any unfair or misleading methods or practices in the representation of goods and services. The entire concept of 'disparagement of goods of another person' thus flows from the MRTP Act.

The Trade Marks Act, 1999 provides protection against 'passing off' for registered trademarks as well as well known unregistered marks. The essence of an action of passing-off is confusion. The proprietor thereby has a statutory alternative to the common law action of passing off.

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7. Section 30 of the Trade Marks Act, 1999 states: "Nothing in section 29 shall be preventing the use of registered trademark by any person with the purposes of identifying goods or services as those of the proprietor provided the use:-
   a) is in accordance with the honest practices in industrial or commercial matters, and
   b) is not such as to take unfair advantage of or be detrimental to the distinctive character or repute of the trade mark." But with *certain limitations* which are provided under § 29(8) of the Trade Marks Act, 1999 which reads as:

   A registered trademark is infringed by any advertising of that trademark if such advertising:-
   a) takes unfair advantage and is contrary to honest practices in industrial or commercial matters; or
   b) is detrimental to its distinctive character; or
   c) is against the reputation of the trademark."
8. *See* Paris Convention for the Protection of Industrial Property, art. 10bis (2), Mar. 20, 1883, 6 I.L.M 806.
9. *See* First Council Dir.89/104/EEC of Dec. 21, 1988.
10. *See* Navpreet Panjrath and Kanwardeep Singh, *Comparative Advertising- A Brief Overview*, 1 Manupatra Intellectual Property Report A-200, A-203 (2007).
11. The provision which pertains to comparative representation is contained in § 36A(1)(x) of the Monopolies and Restrictive Trade Practices Act, 1969 which reads as follows: "Definition of unfair trade practice: .... "unfair trade practice" means a trade practice which, for the

III. JUDICIAL PRECEDENTS IN INDIA

As can be noted from above, comparative advertising in India was initially covered by the MRTP Act, 1984 as being a potentially unfair trade practice. It was only after the recent enactment of the Trade Marks Act, 1999 that some headway was made in the direction of comparative advertising vis-à-vis intellectual property jurisprudence. However, as the said Act was only made enforceable in 2003, comparative advertising case law in India is yet to truly develop.

There are a significant number of comparative advertising cases decided by the courts under the MRTP regime. While the focus of these cases was largely on the protection of the consumer rather than the use of infringed trademarks, they provided the groundwork for the present legal stance towards comparative advertising in India.

The leading judgments in this respect were the two *Reckitt & Colman cases*[12] . In the case of *Reckitt & Colman of India Ltd. v Kiwi TTK*[13] the Delhi High Court held that statements made by manufacturers claiming their product to be the best or puffing up their goods will not give a cause of action for disparagement. However, any statements that portrays competitors' similar goods in bad light while simultaneously promoting the manufacturers own goods is not permitted and will be tantamount to disparagement.[14] In the given case, both parties were in the business of manufacturing shoe polish. The defendants, whose brand name was 'Kiwi' marketed an advertisement comparing a bottle of their shoe polish with another bottle, marked as 'Product X' whereby the virtues of the defendant's product were extolled while disparaging the other unnamed product. The plaintiff claimed that 'Product X' bore a striking resemblance in design to their own product namely, 'Cherry Blossom' and that the advertisement disparaged its product. Based on the stated reasoning, the Delhi High Court granted an injunction against the defendants for the disparaging contents of the advertisement.

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purpose of promoting the sale, use or supply of any goods or for the provisions of any services, adopts any unfair method or unfair or deceptive practice including any of the following practices, namely :-

(1) the practice of making any statement, whether orally or in writing or by visible representation which,- xxx

(x) gives false or misleading facts disparaging the goods, services or trade of another person."

12. *See* Reckitt & Colman of India Ltd. v. Kiwi T.T.K., 1996 P.T.C. 193 T 399 (hereinafter referred to as Reckitt Colman-1); Reckitt & Colman of India Ltd. v. M.P. Ramachandran & Anr., 1999 P.T.C. (19) 741 (hereinafter referred to as Reckitt Colman-2).

13. *See generally* Reckitt Colman 1, 1996 P.T.C. 193 T 399.

14. *Id.*, at ¶ 12.

The Calcutta High Court took it a step further in the case of *Reckitt & Colman of India Ltd. v. MP Ramachandran & Anr.*[15] As per the facts of this case the plaintiffs were engaged in the manufacturing of blue whitener under the name of 'Robin Blue' for which they had a design registration over the bottle. The defendants, who were in the same business, issued an advertisement comparing their product to others stating that not only was their product cheaper, but also more effective. In this depiction they compared their product to a bottle having the same shape and pricing as that of the plaintiff's product. While holding that the advertisement was made with the intent to disparage and derogate the plaintiff's product, the Calcutta High Court laid down five principles in aiding the grant of injunctions in such matters, stating that:[16]

1. A tradesman is entitled to declare his goods to be best in the world, even though the declaration is untrue;
2. He can also say that my goods are better than his competitors', even though such statement is untrue;
3. For the purpose of saying that his goods are the best in the world or his goods are better than his competitors' he can even compare the advantages of his goods over the goods of others;
4. He, however, cannot while saying his goods are better than his competitors', say that his competitors' goods are bad. If he says so, he really slanders the goods of his competitors. In other words he defames his competitors and their goods, which is not permissible;
5. If there is no defamation to the goods or to the manufacturer of such goods no action lies, but if there is such defamation an action lies and if an action lies for recovery of damages for defamation, then the Court is also competent to grant an order of injunction restraining repetition of such defamation.

These principles were used in the much publicized case of *Pepsi Co. Inc. v. Hindustan Coca Cola Ltd.*[17] However, this case differed from the cases aforementioned in respect of the fact that herein the Delhi High Court also dealt with copyrights and trademark related issues.

15. *See* Reckitt Colman 2, 1999 P.T.C. (19) 741.
16. *Id.*, at 476.
17. 2001 (21) P.T.C. 699.

The plaintiff in the instant case claimed disparagement of trademark and copyright in two advertisements of the defendants. Both advertisements allegedly desecrated the plaintiff's products with derogatory remarks. One of the advertisements depicted a thinly veiled substitute of Pepsi as a "bachhon wali drink" while mocking Pepsi's advertising slogan by saying "Yeh Dil Mange No More".[18] The entire commercial conveyed to the viewers that kids should prefer 'Thums Up' over 'Pepsi' if they want to grow up.[19] The court while using the principles laid down in the two aforementioned cases also went onto state that in order to decide questions of disparagement, the following factors have to be kept in mind, namely:[20]

1. Intent of the commercial;
2. Manner of the commercial;
3. Story line of the commercial and the message sought to be conveyed by the commercial.

Although it is unclear whether these factors are to be read conjunctively or disjunctively, the Delhi High Court used the second factor as the determining one. It ruled that if the manner in showing the commercial is only to show that the product is better without derogating somebody else's product, then no actionable claim lies. But if the manner of the commercial is ridiculing or condemning the product of the consumer then it amounts to disparagement. In essence, this is reflective of the ratio of the *Reckitt & Colman* cases. Therefore, the Court while concluding that there was no disparagement also went onto hold, without precedent, that Pepsi's advertising slogan was copyrightable. The Court however also mentioned that mere use of the trademark protected Pepsi logo and parody of the slogan does not give rise to *ipso facto* infringement.

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18. Hindustan Coca Cola and others endorse their product with the help of a commercial wherein the lead actor asks a child which is his favourite drink. He mutters the word "Pepsi", which can be seen from his lip movement though the same is muted. The lead actor thereafter asks the boy to taste two drinks in two different bottles covered with lids and the question asked by the lead actor is that "Bacchon Ko Konsi pasand aayegi?" After taste the boy points out to one drink and says that that drink would be liked by the children because it is sweet. In his words he says. "Who meethi hain, Bacchon ko meethi cheese pasand hai". He preferred the other drink which according to him tastes strong and that grown up people would prefer the same. And later the stronger one came out be "Thums Up", and one which is sweet, word "Pappi" is written on the bottle with a globe device and the colour that of the "Pepsi". The boy feels embarrassed about the fact that he chose "Pepsi", which he himself felt was a childrens' drink.: *See generally* Bansal, *supra* note 6.
19. *See* Navpreet Panjrath and Kanwardeep Singh, *Comparative Advertising: Things You Can Do and Things You Can't*, http://news.indlaw.com/guest/columns/default.asp?navpreet.
20. *See* Pepsi Co. Inc. v. Hindustan Coca Cola Ltd., 2001 (21) P.T.C. 722.

The other advertisement was alleged to have copied substantial portions of the plaintiff's commercial thereby amounting to copyright infringement by the defendants.[21] The plaintiff also went on to claim that the portrayal did not constitute fair use or claim to be a parody. The court concluded that the commercial was nothing but a literal imitation of the plaintiff's work subject to minor and insufficient changes. As the commercial squarely violated the meaning of copyright under the statute,[22] the court granted an injunction to the effect that the defendant should be refrained from showing the advertisement in its present form.

IV. JUDGMENTS UNDER THE TRADEMARK ACT ERA

With the enforcement of the Trademarks Act in 2003, there have been only a handful of judgments in the new era of comparative advertising governance. The first of these was the triumvirate of *Dabur cases*.[23] In *Dabur India Ltd v. Colgate Palmolive India Ltd.*[24] the standards used by the Delhi High Court were not unlike those previously used. The facts delineated an open-shut case of clear disparagement. The sum and substance of the commercial showed a film actor rubbing the plaintiff's dental powder on the surface of a purchaser's spectacles, leaving marks and depicting it to be akin to sandpapering. The advertisement went onto to show how the defendant's product was sixteen times less abrasive than the plaintiff's product and thereby less damaging to the teeth.[25] Using the principles laid down through judicial precedent in the pre-Trademarks Act era, the court stated that this was a straightforward case of disparagement, which could not be allowed under any circumstances.

However, the decision in the case of *Dabur India Ltd. v. Emami Limited*[26] has possibly set the law governing comparative advertising down a potentially dangerous path. In the judgement the court ruled that even if there is no direct reference to the product of a competitor and only a reference is made

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21. The advertisement was concerning a roller coaster, of which portions were identically copied by the defendant in the advertisement for their product 'Sprite'. The copied commercial went to the extent of copying whereby even the characters wore the identical clothes as compared to those in the 'Pepsi' commercial: *The Famous Cola War (Copyright of Advertisement Phrases and Themes),* TIFAC BULLETIN, May 2004, www.pfc.org.in/fac/may04.pdf.
22. Section 14, Indian Copyright Act, 1957.
23. *See* Dabur India Ltd v. Colgate Palmolive India Ltd., 2004 (29) P.T.C. 401 (hereinafter referred to as Dabur-Colgate); Dabur India Ltd v. Emami Limited, 2004 (29) P.T.C. 1 (hereinafter referred to as Dabur-Emami); Dabur India Ltd.v. Wipro Ltd., Bangalore, 2006 (32) P.T.C. 677 (hereinafter referred to as Dabur-Wipro).
24. *See* Dabur-Colgate, 2004 (29) P.T.C. 401.
25. *See* Panjrath and Singh, *supra* note 10, at A-208.
26. *See* Dabur-Emami, 2004 (29) P.T.C. 1.

to the entire class in a generic sense, a case of disparagement in such circumstances is still possible. As per the given facts, an advertisement issued by the defendant stating that consumers should not use "Chayawanprash" in the summers but use the defendant's product, which was more effective in the summer months. Although no insinuation was specifically made against the plaintiff's product, the court went onto issue an injunction stating that the commercial denigrated Dabur's product.

In *Dabur India Ltd. v. Wipro Limited, Bangalore*[27] the judiciary added a new dimension to the existing tests for determining disparagement. The court stated that in comparative advertising, the degree of disparagement should be such that it would be tantamount to, or almost tantamount to defamation.[28] Only at such levels of disparagement would the court interfere with the marketing strategies employed.

The decision in *Godrej Sara Lee Ltd. v. Reckitt Benckiser (I) Ltd.*[29] was reflective of what the courts thought honest comparative advertising to mean. In the case, the defendants advertised their product 'Mortein' which was meant to kill both cockroaches and mosquitoes and the commercial highlighted this aspect. The plaintiff claimed that this disparaged their product 'Hit', which had two separate versions for killing cockroaches and mosquitoes. The court in its judgment stated that the advertiser has a right to boast of its technological superiority in comparison with product of the competitor. Telling the consumer that he could use one single product to kill two different species of insects without undermining the plaintiff's products, by no stretch of imagination amounted to disparaging the product of the plaintiff.[30]

V. WHERE DID IT ALL GO WRONG?

As a direct consequence of the liberalization and globalization of the Indian economy, the Indian consumer is now faced with an onslaught of products and services. Foreign brands are pouring in and their Indian counterparts, both new and old are bidding to gain a foothold in the market leaving the consumer drowning in a sea of choice. In such a scenario comparative advertising gives scope to the consumer to resolve some of the ambiguity and facilitates in the making of more informed choices.

In comparative advertising the underlying assumption is that the consumer is made aware of differences in features/prices/utility etc. between

27. *See* Dabur-Wipro, 2006 (32) P.T.C. 677.
28. *See* Panjrath and Singh, *supra* note 10, at A-208-209.
29. 2006 (32) P.T.C. 307.
30. *See* Manisha Singh Nair, *India: Roads Ahead- Comparative Advertisement,* http://www.mondaq. com/article.asp?article_id=39572.

the compared products. However, while aggressively and vigorously promoting their products and services, firms have often disregarded truthfulness and fairness of representation. The United States Federal Trade Commission legalized comparative advertising in 1971 with the intention that increasing the awareness of consumers would allow them to make more well informed choices.[31] Comparative advertising was legalized in India for the same reasons. What needs to be examined is whether the law has succeeded in fulfilling what it set out to do.

Amongst numerous instances, the most illustrative example of contemporary comparative advertisement in India would be the recent Cola War campaigns. These advertisements are subverting the very essence of comparative advertisement and are degenerating it into mere mockery. In their game of one-upmanship the cola companies have reduced themselves to merely puffing up their products and not providing the consumer with any useful information about the product itself. Unfortunately this form of comparative advertising seems to be a growing trend in advertising today.

In the landmark decisions of *Reckitt-Colman of India Ltd. v. Kiwi TTK*[32] and *Reckitt Coleman of India Ltd. v. M.P. Ramachandran*[33] the courts have encouraged this disturbing development by allowing mere puffing up without any basis whatsoever. The focus has only been on the prohibition of disparagement. The attitude of the courts has been such that the promotion of hot air is allowed just so long as a competitor is not denigrated. While focusing on unfair trade practices and the protection of intellectual property rights, the courts seem to have disregarded the consumers' interest. This can be seen in a recent Madras High Court case, wherein Justice Banumathi opined that comparative advertisement at present involved a balancing of interests of advertisers in promoting their products on one hand and the interest of those who might be damaged by competitor's attacks on their products on the other.[34]

VI. THE POSITION OF LAW IN THE UNITED KINGDOM

Considering that a significant portion of intellectual property jurisprudence in India is derived from English law, perhaps the Indian judiciary should take a leaf out of the UK courts. They have applied the law in a

31. *See* Kumar, *supra* note 3.
32. 1996 P.T.C. 193 T 399.
33. 1999 P.T.C. (19) 741.
34. *See Comparative ads Need to be Curtailed: HC*, The Hindu Business Line, Dec. 15, 2005, http://www.thehindubusinessline.com/2005/12/15/stories/ 20051215008308 00.htm.

manner whereby the regulation of comparative advertising is such that the interest of the consumer is not completely eclipsed.

The landmark case of *O2 Holdings Ltd. and Others v. Hutchison 3G Ltd.*[35] introduced a new defence to trade mark infringement under the Comparative Advertising Directive. The petitioners, a leading provider of mobile telecommunication services in the United Kingdom, had been using imagery including bubbles in its advertisements since 2002 and had spent £320 million on advertising and promotion. The bubble formed a part of the petitioner's identity. The respondents, a rival company that had launched a new service under the name "ThreePay", advertised with a stream of bubbles in black and white and information about O2's prices and services. Even though the Judge accepted the claim by them that the bubbles in the respondent's advertisement was similar to O2's bubble and that it could have caused confusion, the respondents took the defence under the Comparative Advertising Directive; which lays down conditions for acceptable comparative advertising:

1. Must not be misleading;
2. Must compare goods or services meeting the same needs or intended for the same purpose;
3. Must objectively compare one or more material, relevant, verifiable and representative features;
4. Must not create confusion, discredit or denigrate the competitor or its trademarks;
5. Must not take unfair advantage of the reputation of the competitor's trade mark; and
6. Must not present goods or services as imitations or replicas of goods or services of the competitor trade mark owner.

The Judge held that an advertisement must comply with the Directive in order to avoid trademark infringement. Hence the suit for trademark infringement failed.

As can be seen, unlike the principles adopted by the Indian courts, as per the standards applied in UK, a statement made by an advertisement needs to be verifiable and true thereby not allowing the same amount of puffing up that occurs in the Indian scenario.

35. [2006] E.W.H.C. 534 (Ch). 12.

An extension to this line of thought brings up a more fundamental question of whether the truth, in any form, disparaging or otherwise, ought or ought not to be suppressed. Stripping it down to the basics, advertising is for the consumers' benefit. Take the instance of the landmark English case of *Cable & Wireless PLC v. British Telecommunications*.[36] The defendants issued an advertisement brochure comparing the prices of its telephone services with those of the plaintiff. The court refused the injunction because the information which the defendant advertised was not false. Similar rulings have been given in numerous English cases[37], all indicating that as long as the comparison is honest then it should be allowed irrespective of it being disparaging or not. While there have not been too many cases of honest comparative advertising coming before the courts in India, a similar stance such as that of the UK ought to be taken. An early indication of a step in this direction can be found in *Godrej Sara Lee Ltd. v. Reckitt Benckisser*[38] where the court upheld honest comparative advertising despite certain overtones of disparagement.

VII. TREADING A DANGEROUS PATH?

On a different note, precedents like the one laid down in *Dabur India Ltd. v. Emami Ltd.*[39] could severely curtail the scope of comparative advertising. Jurisprudentially speaking, the concept of defamation has to be specific or individualized in nature.[40] In the present case, the courts seem to have overlooked this premise, as the court's ruling in the case laid down that even a reference to a generic class of products could be potentially disparaging. This could be viewed as dangerous precedent as it would disallow a competitor to even make comparisons on a general basis. Hypothetically if the newly launched Tata Nano were to put out an advertisement giving out the impression that bike owners could 'progress' in life by graduating to a car, then based on the ratio of this case, any bike company would be able to successfully sue Tata for disparagement.

Perhaps the position of the courts has been relaxed with the decision in the case of *Dabur India Ltd. v. Wipro Ltd., Bangalore*.[41] In this case, the court added a new dimension to the existing test for disparagement by laying down that the degree of disparagement must be tantamount to, or almost tantamount to defamation. The judgment further went on to say that a manufacturer of a product ought not to be hyper-sensitive in such matters. It

36. 1998 F.S.R. 383.
37. See British Airways PLC v Ryanair Ltd., 2001 F.S.R. 32; O2 Holdings Ltd. & Ors. v. Hutchison 3G Ltd., [2006] E.W.H.C. 534 (Ch). 12. [2006] E.W.H.C. 534 (Ch).
38. 2006 (32) P.T.C. 307.
39. *See* Dabur-Emami, 2004 (29) P.T.C. 1.
40. *See* RATANLAL & DHIRAJLAL, THE LAW OF TORTS 259-261 (G.P. Singh ed., Wadhwa & Co. 2004).
41. *See* Dabur-Wipro, 2006 (32) P.T.C. 677.

is necessary to remember that market forces are far stronger than the best advertisements. If a product is good and can stand up to be counted, adverse advertising may temporarily damage its market acceptability, but certainly not in the long run.[42]

VIII. CONCLUSION

While there is no doubt that the law in India with regard to comparative advertising is well settled, the question that still remains unanswered is whether it has been settled in the right manner? By liberally allowing puffing up in marketing strategies, so long as a competitor is not adversely affected, the courts have turned a blind eye towards the equally important consumer and his interests. The manner in which competitive advertising is panning out in the Indian sphere, the focus only seems directed towards the grabbing of eyeballs, without providing any productive information for the consumer to utilize. The objective behind comparative advertising was not only being informative and an important tool to promote competition but for comparisons to serve as benchmarks to help consumers focus on the product's main qualities.[43] In India, the courts have been oblivious to these aspects.

Even on the stand of honest comparative advertising, the Indian position remains ambiguous and unsteady. While there is international consensus on the fact that any form of comparative advertising, whether disparaging or not, is permissible so long as it is based on facts and is verifiable, it is unclear whether the position is the same in India. It is true that most cases that have come before the courts depict instances of disparagement in an unequivocal manner but decisions like the one given in *Dabur India Ltd. v. Emami Limited*[44] sow seeds of doubt with regard to the Indian position.

Having said that, the latest set of judgments to emerge from the Indian courts seem to be taking comparative advertising in the direction of restoring some parity with the international position. Decisions like those made in the cases of *Dabur India Ltd.v. Wipro Limited, Bangalore*[45] and *Godrej Sara Lee Ltd. v. Reckitt Benckiser (I) Ltd.*[46] are in conformity with the position of law in the UK and USA.

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42. *See* Panjrath and Singh, *supra* note 10, at A-209.
43. *See* Keshav S. Dhadak and Vaishali Mittal, *India: How to Gain From Comparative Advertising,* http://www.managingip.com/Article.aspx?ArticleID=1321496.
44. *See* Dabur-Emami, 2004 (29) P.T.C. 1.
45. *See* Dabur-Wipro, 2006 (32) P.T.C. 677.
46. *See* Godrej Sara Lee Ltd. v. Reckitt Benckisser, 2006 (32) P.T.C. 307.

The onus of ensuring healthy competition however does not merely lie with the courts. It is of equal importance that the marketers of products engage in comparative advertising engage in the activity within the permissible parameters of the law. Establishing a brand marketing policy within a company ought to be as important as watching for use and misuse of a brand by other competitors. It is important to keep the following guidelines in mind while engaging in the activity:[47]

1. A comparison should be made based on verifiable facts about the advertisers' and the competitors' products/services, which can be substantiated.
2. If a comparison is based on clinical tests results there should be sufficient proof that they were conducted by an independent/objective body. Partial results or differences should not be shown in the advertisements because consumers may draw improper conclusions from them.
3. Always accurately depict the competitor's mark with appropriate trade mark symbols/notices and add a footnote identifying the correct owner and disclaiming any affiliation. A competitor's mark should not be altered in any form.
4. Avoid using a rival mark in a highlighted or prominent fashion that implies an affiliation with or sponsorship by the competitor of your advertisement.
5. Keep the primary goal of your advertisement limited to inform the consumer and not to unfairly attack, criticize, or discredit other products, advertisers or advertisements directly or by implication.
6. The product or services being compared should reflect their value and usefulness to the consumer. The comparative advertisement should be informative and convey positive merits of the product/service.
7. The advertisement should not make unjustifiable use of any firm, company or institution and should not take unfair advantage of the goodwill of any trade name or symbol of another firm.

If guidelines along these lines are followed by the product marketers, it allows for the fostering of a better corporate environment to invest in. It is of utmost importance for both companies and the judiciary to work in tandem to restore the parity in comparative advertising whereby fair trade practices; intellectual property protection and consumer interest can go hand in hand.

47. *See* Dhadak and Mittal, *supra* note 43.

IMPOSING IP COMPLIANCE: TRENDS IN THE USTR SPECIAL 301 REPORTS FOR INDIA AND CHINA FROM 2000-2008

*Nadia Lambek**

INTRODUCTION

The 21st century brought with it hopes for change in the global power structure – with a different set of voices arising, and a different set of ideas finally being heard. In this chorus, intellectual property policy has been an area of particular controversy as nations attempt to balance public and private interests, as well as regional, national, and international ones. International bodies, governments, and activists are questioning the very foundation and goals of trade and intellectual property laws and many are advocating a reorientation of the entire regime. With the recent breakdown of the Doha rounds[1] and the emergence of the WIPO development agenda,[2] the seeds of possibility for a new global order in the realm of intellectual property rights have been sown. Yet, despite the call for more inclusive international multilateral structures and decision-making forums, the continuing instances of nations attempting to set international policy unilaterally threaten to stall global inclusivity.

The United States of America is facing serious economic and political challenges from several large-market developing countries, such as India and China. These nations have begun to change the current global geo-political and economic structure, and are expected to have an ever-increasing impact. With a different set of intellectual property ideals and priorities, these nations are representative of the growing trend towards - at least a consideration of - an alternative approach to IP and free-trade maximization. However, their approach to IP laws is in stark contrast to that of the United States.

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1. *See Dismay at Collapse of Trade Talks*, BBC NEWS, Jul. 30, 2008, http://news.bbc.co.uk/2/hi/business/7532302.stm, for a discussion of the 2008 breakdowns of the Trade Talks with particular focus on the relations between China, India and the United States. See also Barrie McKenna, *India Nixes WTO Deal to Cut Tariffs*, THE GLOBE AND MAIL, Jul. 29, 2008, http://www.reportonbusiness.com/servlet/story/RTGAM.20080729.wwto30/BNStory/Business/home, for a more in depth look at India's role in the talks.
2. For more information on the WIPO Development Agenda, *see generally*, Development Agenda for WIPO, http://www.wipo.int/ip-development/en/agenda/.

This paper looks at the way the U.S. government approaches India and China with respect to IP laws and enforcement in one particular forum. It examines what critiques are offered and what demands are made on India and China between 2000 and 2008 in the yearly Special 301 Reports put out by the Office of the United States Trade Representative [USTR]. The USTR Special 301 Reports survey the state and progress state of intellectual property laws and their enforcement abroad and, place countries on various lists depending on their perceived level of IP norms and standards violations. For example, by putting a country on the Priority Watch List, the United States government opens the door to initiating trade sanctions. In this way the Reports can play a role in shaping intellectual property models around the globe, sometimes coercing nations into changing their IP regimes.

In the past ten years, over 65 countries have been placed on the various degrees of watch lists. India has always had a prominent place on the lists, but no country has been as heavily monitored and criticized as China. Examining how the Special 301 Reports critique India and China, and the trends in these descriptions, provides valuable information about the concerns of the U.S.A over India and China's IP regimes, the direction these concerns are going, and the places where the U.S.A. feels exerting pressure could lead to changes. As India, China and the United States struggle to build their economies and become or remain key economic and political forces, the ways in which the U.S.A. attempts to exert control or power over Indian and Chinese IP regimes becomes increasingly important.

This paper focuses only on and is bounded by, the language and content of the USTR Reports. It does not discuss actual changes initiated by India and China that may have been compelled by the reports. Its aim is to understand what the United States would like to change in India and China's intellectual property regimes and the ways in which this view has changed over the past 9 years. In so doing, it hopes to develop a framework and begin a discussion on the substance and direction of the Reports.

Specifically, this paper analyzes two broad trends within the Reports from 2000 to 2008.[3] It examines both the changes in the general tenor of reporting and the changes in the types of demands being made. Section One of the paper provides an overview of the USTR Reports, looking at their legal basis, current structure, and the ways in which they use threats to

3. The data for this paper was collected from a meticulous reading of all the USTR Reports between 2000 and 2008. Each report was compared and contrasted to the other reports for the various critiques offered, demands made, and calls for continuous monitoring articulated. The trends were drawn from this process.

spur changes in the IP policies of nations around the globe. Section Two Part A argues that, over time, the trend in Special 301 reporting on China has been a move away from vague lists of disappointments, to specific targeted critiques and demands, looking at individual markets and regions as areas in need of greater enforcement efforts. In Section Two Part B the paper turns to the descriptions of India, which focus on individual industries as locales of IP infringement. Section Three looks at the specific types of demands manifested by these trends. It argues that there has been a strong trend towards demanding greater, stricter and more frequent criminal responses to infringements of IP rights both in addition to and as replacements of current civil mechanisms. It also notes a trend of demands on India and China that are not necessarily in the public interest, that require anti-democratic policy implementation and that are counter to sovereign independence in law making.

(I) The USTR Special 301 Reports

The Special 301 Reports

The Special 301 Reports are published annually by the office of the USTR and, in their own words, examine "in detail the adequacy and effectiveness of intellectual property rights protection" in countries around the globe.[4] The Special 301 Reports get their name from Section 301 of the United States Trade Act of 1974 amended by the Omnibus Trade and Competitiveness Act of 1988. Under Section 301, the USTR is required to take action, when the intellectual property rights of the U.S.A. or of persons in the U.S.A. have been violated in international trade or in a foreign country.[5] The following paragraphs lay out the USTR process, starting from the identification of countries where violations are occurring, to the implementation of sanctions.

Identifying countries where violations are occurring is the first step in the Special 301 process. The Trade Act of 1974 lays out the standard for being identified by the USTR. The Act mandates that the USTR identify countries that "deny adequate and effective protection of intellectual property rights, or deny fair market access to the United States persons that rely upon intellectual property protection."[6] Following the Uruguay Rounds in 1994,

4. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 1 (2005), http://www.ustr.gov/Document_Library/Reports_Publications/2005/2005_Special_301/Section_Index.html?ht= [hereinafter *2005 Special 301 Report*].
5. 19 U.S.C. § 2411.
6. *Id.* at § 2242 (a)(1)(A) – (B) (2000).

the Act was again amended, requiring the USTR to also identify countries that despite being TRIPS-compliant do not have intellectual property regimes that the United States deems adequate.[7]

The USTR identifies which nations to include in the Special 301 Reports through several means. First, the USTR must consult with the Register of Copyrights, the Under Secretary of Commerce for Intellectual Property, the Director of the United States Patent and Trademark Office and other appropriate officers of the Federal Government to gather their complaints and research.[8] Second, the USTR must "take into account information from such sources as may be available to the Trade Representative and such information as may be submitted to the Trade Representative by interested persons."[9] This information can come from reports done yearly for the President, the Committee on Finance of the Senate, and various committees of the House of Representatives.[10] It can also come from private individuals through petitions filed at the USTR.[11] These private individuals can include members of specific industries and lobbyists. Finally, the USTR can initiate investigations of its own accord.[12] In any case the USTR investigates each claim before identifying the country in question in the Report.[13]

The USTR may only identify foreign countries where research has shown that "there is a factual basis for the denial of fair and equitable market access as a result of the violation of international law or agreement, or the existence of barriers...." These barriers can include denying "access to a market for a product protected by a copyright or related right, patent, trademark, mask work, trade secret or plant breeder's right, through the use of laws, procedures, practices or regulations" which violate "international law or agreements to which both the United States and the foreign country are parties" or which "constitute discriminatory nontariff trade barriers."[14] However, protecting certain rights, while not protecting others, can still lead to a ranking on the USTR Special 301 lists. So while a country may be taking ameliorative steps in one area, by introducing a new Copyright Act,

7. 2005 Special 301 Report, *supra* note 4, 14. *See also* 19 U.S.C. § 2242 (d)(4) ("A foreign country may be determined to deny adequate and effective protection of intellectual property rights, notwithstanding the fact that the foreign country may be in compliance with the specific obligations of the Agreement on Trade-Related Aspects of Intellectual Property Rights referred to in section 3511(d)(15) of this title.").
8. 19 U.S.C. § 2242 (a)(2)(A) (2000).
9. *Id.* at §2242 (b)(2)(B).
10. *See id.* at. § 2241 (b).
11. *See id.* at § 2412 (a).
12. *See id.* at § 2412 (c).
13. *See id.* at § 2412 (a)-(c).
14. 19 U.S.C. § 2242 (d)(3)(A)-(B) (2000).

for example, they could still be failing to enforce another law, and thus remain in the rankings.

In the USTR Reports, countries identified as denying "adequate" and "effective" intellectual property rights protection are placed on a series of different watch lists: Priority Foreign Country, Section 306 Monitoring, Priority Watch List, or Watch List.[15] A ranking of Priority Foreign Country is reserved for those countries that "(1) have the most onerous and egregious acts, policies and practices which have the greatest adverse impact (actual or potential) on the relevant U.S.A. products; and, (2) are not engaged in good faith negotiations or making significant progress in negotiations to address these problems."[16] However, even a ranking of Watch List indicates that the United States is unhappy with the current state of IP law and enforcement within a country. The USTR describes the various rankings as follows,

> *Priority Foreign Countries are those pursuing the most onerous or egregious policies that have the greatest adverse impact on U.S. right holders or products, and are subject to accelerated investigations and possible sanctions. Countries or economies on the Priority Watch List do not provide an adequate level of IPR protection or enforcement, or market access for persons relying on intellectual property protection. ... [P]artners are placed on the Watch List, meriting bilateral attention to address the underlying IPR problems. [Countries], due to their serious IP-related problems are subject to another part of the statute, Section 306 monitoring, because of previous bilateral agreements reached with the United States to address specific problems raised in earlier reports.*[17]

15. The various Watch Lists are not discussed in The Trade Act of 1974, although the statute does note what factors make a country a priority. *See id.* at § 2420 (a)(2) (outlining what factors the USTR must consider when labeling a country a priority foreign country) and *id.* at § 2242 (b) (describing the rules of priority foreign country identification).
16. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 14 (2004), http://www.ustr.gov/Document_Library/Reports_Publications/2004/2004_Special_301/Section_Index.html?ht= [hereinafter *2004 Special 301 Report*]. The language of "good-faith negotiations" in the Reports, presumably comes from language in The Trade Act of 1974, although no cite is give. The Trade Act of 1974 states that "in identifying priority foreign countries ... the Trade Representative shall only identify those foreign countries ... that are not – (i) entering into good faith negotiations, or (ii) making significant progress in bilateral or multilateral negotiations, to provide adequate and effective protection of intellectual property rights." 19 U.S.C. § 2242 (b)(1)(C)(i)-(ii) (2000).
17. See the text introducing the 2004 Special 301 Report, at the Office of the United States Trade Representative website, Office of the United States Trade Representative, Protecting Intellectual Property: The 2004 Special 301 Report, http://www.ustr.gov/Document_Library/Reports_Publications/2004/2004_Special_301/Section_Index.html?ht=.

For each level of ranking, the USTR Reports list all the problems in a country's IP regime at the statutory, judicial and enforcement levels, any improvements that have been made over the year, and often some suggestions by the USTR of specific things the country in question can change to be compliant with the standards espoused by the USTR and the United States broadly.

The Special 301 Reports get their teeth from Section 301 of The Trade Act of 1974. Under Section 301, or 19 U.S.C § 2411, the United States Representative is mandated to take action if,

> *(A) the rights of the United States under any trade agreement are being denied; or (B) an act, policy, or practice of a foreign country – (i) violated, or is inconsistent with, the provisions of, or otherwise denies benefits to the United States under, any trade agreement, or (ii) is unjustifiable, and burdens or restricts United States commerce.*[18]

Therefore, those countries that are placed on the various watch lists, for the reasons stated above, can be subjected to a variety of actions.

The USTR's scope of authority to take action is broad. In order to remedy a country's violations of rights, the USTR can "suspend, withdraw, or prevent the application of, benefits of trade agreement concessions to carry out a trade agreement with the foreign country."[19] The USTR can also "impose duties or other import restrictions on the goods" of the foreign country for a time period to be determined by the USTR.[20] In addition, the USTR can enter into binding agreements with the foreign country "to–(i) eliminate, or phase out, the act, policy, or practice that is the subject of the action to be taken ... (ii) eliminate any burden or restriction on United States commerce resulting from such act, policy, or practice, or (iii) provide the United States with compensatory trade benefits."[21] The actions taken by the USTR may be against particular goods, or a whole sector of the economy, and they can be targeted "on a nondiscriminatory basis or solely against the foreign government."[22]

Structure of the Special 301 Reports

Between 2000 and 2008 the structure and organization of the USTR Reports remained similar. The Reports all begin by highlighting the major

18. 19 U.S.C. § 2411 (a)(1)(A) – (B) (2000).
19. *Id.* at § 2411 (c)(1)(A).
20. *Id.* at § 2411 (c)(1)(B).
21. *Id.* at § 2411 (c)(1)(D).
22. *Id.* at § 2411 (c)(3).

concerns of the United States in relation to IP and trade broadly. This introduction serves as a checklist of the largest perceived challenges across the globe to intellectual property law norms and intellectual property rights, mainly of American rights holders. The Reports continue by ranking countries violating the main-challenges as perceived by the United States. Countries are ranked according to the level of their violations and placed on the different lists. A summary of the disappointments and the measures the U.S.A. hopes each country will take as well as any future-monitoring plan is given for each country.

From 2000 to 2008, the USTR articulates serious challenges by close to 60 countries each year and from a total of about 70 different countries over the years.[23] The common thread that unites the lists of "violators" is not the nature of their violations, their locations around the globe, or their level of "development." Rather, the lists seem to serve as an indication of what countries are of strategic trading importance to the United States and what changes in these countries' policies would be beneficial to American interests.[24]

The only structural change in the Reports between 2000 and 2008 is the elimination of a section entitled "Developments in Intellectual Property Law" in 2006, which highlighted improvements in IPR protections across the globe. The list provided a strategic space to praise countries which feature prominently in the various watch lists for often trivial improvements, and to provide a lengthy list of highlights in the creation of IP laws and mechanisms in countries whose IP laws are largely insignificant to American property rights holders.[25]

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23. The figures in this paragraph were all compiled by gathering data from all the Special 301 Reports between 2000 and 2008. For access to all the Reports, except for the 2000 and 2001 Reports which are not available on the USTR website, see USTR Reports and Publications Home, http://www.ustr.gov/Document_Library/Reports_Publications/Section_Index.html.
24. For example, the only African nation on any list between 2000 and 2008 is Egypt. Egypt was on the Priority Watch List from 2000-2002, followed by a year on the Watch List in 2003, and another term on the Priority Watch List from 2004-2007 before returning to the Watch List in 2008. Nations or collections of nations that occur frequently on the various lists include Argentina (on the Priority Watch List between 2000 and 2008), Canada (on the Watch List between 2000 and 2008), the European Union (on the Priority Watch List between 2000 and 2004, and then on the Watch List until 2006) and Israel (moving between the Watch List and the Priority Watch List over the years).
25. While sub-Saharan African countries are almost never critiqued for poor IPR enforcement, though they likely have weak records of enforcement, they feature prominently on the list of Developments in Intellectual Property Law. The list reads as an homage to U.S. IP standards – creating an impression that U.S. standards are global standards and those nations that diverge are not simply diverging from the American ideal, but from the global norm. This strategic placing of countries in various lists bolsters the American position while creating the marginalization of those with different goals, needs and desires from IP protections.

Noticeably, no sources are provided for any of the claims made or accounts given in the USTR Special 301 Reports. The Trade Act of 1974 indicates who can identify foreign countries and some of the Reports list the general sources, like "industry sponsors,"[26] but the Reports neither cite references nor provide any citations or exact sources for their information. This is particularly problematic when the Reports cite figures to substantiate their arguments. These figures are often used to illustrate the dollar amount of loss to various American industries that the USTR attributes to foreign IP infringements.[27] The Reports give no indication of where the figures were found, or how they were calculated. Hence, there is no way to check the reliability of either the figures or observations listed for each country in the Reports, let alone the conclusions drawn.[28]

Unilateralism and the Use of Threats as a Feature of the Special 301 Reports

The most fundamental feature of the USTR Reports is that they serve as a list of threats to nations to change certain aspects of their IP regimes or face trade sanctions. The USTR claims that the "Special 301 process and report send a message to the governments of countries where serious IP-related problems exist."[29] The Reports are rarely direct in the use of trade sanction threats, and don't often articulate in the text "if you don't do x, we will do y" but the muscle behind the Reports is well known. By listing complaints or commenting on problems within a foreign country's IP regime and laying the possibility of trade sanctions on the table, the USTR Reports use threats to force foreign countries to change their practices.

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26. *See e.g.* Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, 17 (2006), http://www.ustr.gov/Document_Library/Reports_Publications/2006/2006_Special_301_Review/Section_Index.html?ht= [hereinafter *2006 Special 301 Report*] (referring to "industry sources" as providing figures on IP infringements in China).
27. As one example, in 2006 the USTR Special 301 Report noted that "Industry sources in 2005 continued to estimate that levels of piracy in China across all lines of copyright business are 85 to 93 percent, indicating little to no improvement. For example, estimated business software losses fell to $1.27 billion in 2005 from $1.48 billion in 2004." *Id.* The Report gives no indication of who this industry source is, or how reliable their figures are. It provides no citation that can be followed for individuals or countries wanting to further look into truth of the matter asserted by the USTR.
28. The lack of sources is problematic for numerous reasons. The figures create a dramatic effect and stir reactions by attaching some tangible and cognizable loss to the otherwise broad and amorphous complaints. This is problematic because without more information about the acquisitions of these figures, it is impossible to judge their reliability or accuracy. It is unacceptable that a Report that provides the possibility of serious outcomes, and that outright threatens nations, does not have to substantiate its claims with proof.
29. 2004 Special 301 Report, *supra* note 17, 1.

Many critics have expressed deep concern over the use of threats by the reports. Their critiques underscore the importance of understanding the trends as well as the content in the reports. Drahos and Braithwaite use the image of a conveyor belt to describe the various watch lists, commenting that countries ranked in the reports know they are being sent a message, and have been placed "on the 301 conveyor belt that [leads] to trade sanctions."[30] This illustration highlights the construction of the reports – that it is not a country's actions that place it on the conveyor belt, but rather that the United States chooses and "places" countries on the conveyor belt for strategic reasons. The illustration also notes the looming eventuality of sanctions, and the possibility that changes in features (for example new IP laws in line with US norms or greater enforcement of IP violations) could cause the conveyor belt operator, the USTR, to remove a country from the unwanted fate. Drahos and Braithwaite continue to note that, for the purpose of the United States, it is "important to give countries the feeling that their behaviour on intellectual property was the subject of constant surveillance."[31] This conception of the 301 Reports further highlights the way in which the Reports try to force countries to change their IP systems by making them feel as though they are constantly being monitored.

Other critics have commented on the unilateralism of the USTR Reports and the Special 301 provision, claiming the use of threats results in a very one-sided approach to achieving compliance. Richard Shell labels the use of Section 301 of the USTR Reports as a "unilateral trade weapon" because while the USTR files GATT complaints as part of the 301 processes, they are not bound to wait for the results of these disputes before instigating trade sanctions.[32] Jagdish Bhagwati and Hugh T. Patrick compiled a series of essays into a volume called *Aggressive Unilateralism: America's 301 Trade Policy and the World Trading System*, which highlights the development of Section 301

30. Peter Drahos and John Braithwaite, Information Feudalism: Who Owns the Knowledge Economy? 90 (Oxford University Press 2002). They also claim the reports aim "to push and prod developing countries into accepting intellectually property rules" and couch this under the guise that doing so will "allow their economies to be integrated into a global knowledge economy." *Id.* at 100.

31. *Id.* at 100.

32. *See* Richard Shell, *Trade Legalism and International Relations Theory: An Analysis of the World Organization*, 44 Duke Law Journal 829, 844-845 (March 1995). ("Ultimately section 301 gives the President authority to retaliate against foreign protectionist practices by various unilateral measures, including trade sanctions. Significantly, while the filing of GATT complaints was a part of the section 301 process, there was no requirement that the United States await the final results of GATT dispute resolution proceedings before taking unilateral action. The resulting use of section 301 as a unilateral trade weapon against foreign governments and industries outside the legal frame work of the GATT upset many U.S. trading partners and became a major issue in the Uruguay Round.").

and its various uses by the United States.[33] In his introduction, Bhagwati expresses deep concern with the unilateral approach, and notes that the lack of dialogue, debate, and mutual concessions is dangerous and unjust.[34] He argues for a multilateral approach to trade and IP policy.

The unilateral aspect is key, as the Reports threaten nations to change their IP regimes to be more in line with the United States' conception of IP norms without expressly providing any dialogue or exchange between the countries.[35] If the demands made in the Reports were launched in the context of bilateral trade talks, there would be, at least hypothetically, the opportunity of negotiating for some other trade advantage in exchange for providing the demanded action on intellectual property. However, the unilateral aspect of Section 301 results in nations responding to the long lists of demands either by doing nothing and facing trade sanctions, or by complying without any bargained for exchange of mutually beneficial policies.[36]

The USTR makes the actual threats in two broad ways. Firstly, the reports are filled with long lists of criticisms of the IP regimes and enforcement records of various countries. These lists of criticisms are themselves implicit threats.[37] The threats come into play as nations have the possibility of removing themselves from the "conveyor belt"[38] by responding to the critiques in the Special 301 Reports with actual changes in legal and enforcement systems. These threats are just below the surface, as the reports list problems

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33. *See generally* AGGRESSIVE UNILATERALISM: AMERICA'S 301 TRADE POLICY AND THE WORLD TRADING SYSTEM (Jagdish Bhagwati and Hugh T. Patrick eds., University of Michigan Press 1993).

34. Jagdish Bhagwati, *Aggressive Unilateralism: An Overview*, *in* AGGRESSIVE UNILATERALISM: AMERICA'S 301 TRADE POLICY AND THE WORLD TRADING SYSTEM 1, 36 (Jagdish Bhagwati and Hugh T. Patrick eds., University of Michigan Press 1993).

35. Bhagawati notes that even if the consensus is that the United States is protecting valid rights and enforcing just IP regimes through the USTR Reports, it is important "to reject the view that even a fair-minded country such as the United States should be permitted to play the roles of self-appointed "trade cop" and "trade czar" because trade policy "reflects the resolution of sectional interests in the political domain. There is no necessary correspondence, therefore, between the triumphant sectional interests and the national interest and, most important, the international or cosmopolitan interest that must define the world trading regime." *Id.* at 36-37.

36. In addition to the possibility of sanctions, there are other potential harms to being placed on the various Section 301 lists. For example, once on the list, a country is likely to be subjected to greater surveillance than previously, as the USTR continues to monitor developments. In addition there may be reputation or perception costs to being on the lists. Investors might be more cautious in their business plans, or other nations might become more cautious about engaging in trade with a country on a list.

37. The types of critiques made range from commentary on weak criminal sanctions for IP infringements (*see infra* Section III Part A) to concerns "about high levels of counterfeiting, particularly for medicines and auto parts," or commentary along the lines of, India's "court system is extremely slow, and there are only a few reported convictions for copyright infringements resulting from raids. Industry reports significant weaknesses in India's border protection against counterfeit and pirated goods." 2004 SPECIAL 301 REPORT, *supra* note 17, at 16.

38. DRAHOS & BRAITHWAITE, *supra* note 30, at 90.

rather than demands.[39] However, because of the consequences of inaction, the lists of disappointments can be seen as long lists of demands.

In addition to the underlying threat that forms the very substance of the reports themselves are a series of specific targeted threats for non-compliance.[40] These threats offer action in international venues if India and China do not follow the United States' demands. They are usually focused on engaging the WTO to help deal with the conflict – a costly, time-consuming and potentially image-damaging result, which still retains the possibility of leading to trade sanctions. These threats are different from the average threat in the Reports, not only for their specificity, but also in that they change the players in the game – moving away from a unilateral framework towards a multilateral one. If we forget for a moment who is responsible for the current standard embraced by the WTO and which countries had the most influence in developing global trade and IP standards, the engagement with the WTO presents a break from the general trends of the report. The Reports derive their thrust from domestic laws in the United States, which unilaterally compel nations around the globe to act without any participation in defining the terms. The WTO is a multilateral venue, deriving its legitimacy and weight from the ostensible coming together of nations across the world and based on standards hypothetically to everyone's advantage. Theoretically, India and China would have a voice in these settings, as they entail judicial processes, and this should lead to more just results for India and China.

II. GENERAL TRENDS IN REPORTING OVER TIME

China and India have both had a prominent place on the USTR lists over the last nine years. Over sixty countries appear on the lists, but no country is featured more prominently than China. India has been on the Priority Watch List every year since 2000, and China spent 2000 to 2004 subject to Special 306 Monitoring as well as on the Priority Watch List from 2000 to 2008.[41] The two countries appear in all sections of the Reports, as

39. Referring back to examples provided in note 38, the USTR authors could have outright demanded that India address the problem of counterfeit goods, the slow court system or problems of border enforcement. Instead the authors chose to leave the list as a set of critiques and allow the weight of future trade sanctions to inspire compliance by India.
40. Unlike the implicit demands just discussed, the specific demands tend to contain more active language (e.g., that China or India "need to" or "should" do x or y, and say such things as the US "urges" India or China to make x or y changes) or articulate the exact threat or action that the United States will pursue if China or India do not comply with the specified demand.
41. This summary was compiled by gathering data from all the Special 301 Reports between 2000 and 2008. For access to all the Reports, except for the 2000 and 2001 Reports which are not available on the USTR website, see USTR Reports and Publications Home, http://www.ustr.gov/Document_Library/Reports_Publications/Section_Index.html.

well as being recipients of their own individual write-ups each year. While China and India's presence in the report has been continuous, the nature of the critiques offered for their performance has changed through the years. In the last ten years the critique of China has become increasingly specific and targeted, moving away from general disfavor of legal apparatuses and enforcement to focusing on specific physical spaces where IPR infringements, according to the U.S.A., occur. On the other front, the critiques of India remain broad over the years and deal with challenges to the entire system. The critiques are often focused on goods entering the American economy and the challenges this poses to American industry. The following section, beginning with China and then India, outlines the general changes in the reports between 2000 and 2008.

China

Between 2000 and 2008, the USTR Reports developed a two-pronged approach to China's IP regime. Leading up to 2006, the reports primarily focused on holistic approaches - with critiques and demands concerned over the mechanics, legal substance and broad implementation record of China's IP system. In 2006, while employing this first prong, the Reports began to make a significant addition to how they analyzed China. The Reports from 2006-2008 focus more on particular markets and provinces in China, tapering down the critiques to bounded areas where China can police for IP infringements, rather than focusing solely on the system as a whole. This section will outline this evolution in the Reports.

In 2000, the base year for this paper, the Special 301 Report addressed China broadly and holistically with comments directed at the entire legal system, from the contents of the laws to their enforcement.[42] In discussing current Chinese law, the 2000 Report calls attention to the Chinese government's "first major revision" of its intellectual property regime since the bilateral intellectual property rights agreements with the United States in 1992 and 1995 and praises China for agreeing "to implement the TRIPS

42. It is interesting to note that China is given less than a page in the 2001 Report. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 15-16 (2001) [hereinafter *2001 Special 301 Report*]. By 2008, fifteen pages are dedicated to discussions of China, in addition to numerous mentions throughout the general sections of the Report. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 19-33 (2008) http://www.ustr.gov/Document_Library/Reports_Publications/2008/2008_Special_301_Report/Section_Index.html [hereinafter *2008 Special 301 Report*].

Agreement without recourse to any transition period."[43] On the enforcement side, the Report looks most notably at the joining together of four Chinese Authorities to combat the production and sale of pirated DVDs and optical media piracy.[44] In the 2000 Report, the discussion of enforcement, unlike later discussions, is not directed at a particular market or province, but rather to the entire country. Similarly, the discussion addresses the general legal framework, rather than demanding increased sanctions for a particular IP violation in domestic courts or the defining of a new right in intellectual property law.

This broad approach directed at altering national IP laws and increasing their enforcement continued to dominate the format of the reports in following years, even as the reports became more industry-specific in their concerns. In 2002 the Report's commentary was focused on system-wide doctrinal and enforcement problems with China's IP regime while also articulating specific concerns related to the problem of counterfeiting.[45] This same year the Report began to discuss what it labeled as "the disturbing trend" of optical media piracy.[46] The Report claimed that "extremely high levels" of pirated optical media were entering the Chinese market.[47] Over the next few years the reports became increasingly concerned with the rise of optical media piracy; yet these early concerns, from 2002 to 2005, were articulated at a national level, and when solutions were suggested they also remained national in perspective. Between 2000 and 2005, the mechanisms that the Reports use to address concerns continued to be targeted at changing the entire system of legal apparatuses and enforcement mechanisms – they addressed system-wide problems and system-wide solutions for creating more

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43. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 13 (2000) [hereinafter *2000 Special 301 Report*].
44. *See id.* at 37 ("Four Chinese Authorities joined together to conduct another phase of several special enforcement actions specifically against DVD pirates. On March 2, 2000, the State Press and Publication Administration, the National Copyright Administration of China the Ministry of Public Security and the State Administration of Industry and Commerce issued an urgent joint circular to urge every provincial, regional and municipal government authority to launch a special campaign against DVD piracy in China.").
45. The reports express a deep concern over counterfeiting of such objects as video games. It is odd to think that copyright infringements of a children's toy could lead to trade sanctions. *See* Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 17 (2002) http://www.ustr.gov/Document_Library/Reports_Publications/2002/2002_Special_301_Report/Section_Index.html?ht= [hereinafter *2002 Special 301 Report*] ("The levels of optical media piracy (CDs, VCDs and DVDs) in China remain at extremely high levels in the domestic market, and China remains a center for entertainment software piracy and the production of pirated cartridge-based video game products.").
46. "Optical media" is a term used in the Special 301 Reports, but it is never defined. For the purposes of this paper it is used to describe such media storage devices as CDs, CD-ROMs, DVDs, VCDs etc.
47. *Id.* at 17.

IPRs and better protecting those already in existence.[48]

In 2006, the Reports break with the system-wide critiques and begin to take on smaller-scale analysis looking at individual physical and virtual markets,[49] and targeting geographical locations, primarily specific provinces in China. The Reports label these locales as centers of IP rights infringement and areas in need of monitoring. Targeting specific markets has implications that are quite distinct from the previous focus on inadequate laws, policies and enforcement systems. In contrast to a focus on specific laws or the lack thereof, a focus on specific markets and specific provinces lowers the barriers to the success of the recommendations made in the Special 301 Reports. Rather than requiring the creation and implementation of new legislation or demanding that police pursue unnamed defendants, the reports provide an exact location for enforcement. In order to comply with the Reports' demands, Chinese authorities can target specific bounded areas, by shutting down a physical or virtual market, or by monitoring the particular procedural or enforcement inadequacies of a single province. In many ways, by listing physical areas of IPR infringements, the USTR acts as investigatory police for China. Listing physical markets reflects a trend towards encouraging the enforcement of laws in China, rather than the creation of new laws. It also creates new actors/agents of change. Whereas previously legislatures and judges were asked to change their practices, now police officers and law enforcers are called upon to stop operations in place.

The 2006 Report balances the new trend of specific locales with general system wide critiques. In speaking about specific markets, the Report notes four markets in China as "notorious" centers of global counterfeiting[50] and praises a "few bright spots in the area of enforcement."[51] The notorious

48. Even in cases when the reports are not specific in their suggestions, their comments remain unbound by geographic regions, like that of a province, or a local, like a physical market or online website.

49. Individual and physical markets are understood here not as industry markets, for example, the car market, but rather markets that can be described as existing in one bounded location for example a particular area of a city where a collection of retailers sell products in the vicinity of each other, or in a virtual marketplace like a particular website where goods are sold.

50. 2006 Special 301 Report, *supra* note 27, at 47-48. The "notorious markets" include Baidu, Xiangyang, Silk Street Market, and Yiwu Wholesale Market. Report claims "industry has cited Beijing's Silk Street Market as 'perhaps the single biggest symbol of China's IP enforcement problems.'" *Id.* at 48. The Report does not cite what industry has claimed this, or where they found this quote.

51. *Id.* at 19. In 2006 these "bright spots" in the areas of enforcement included the continuing "Mountain Eagle" campaign against crimes of trademark infringements, that according to the Report has "resulted in increased arrests and seizures of infringing materials, although the disposition of seized goods and the outcomes of cases remain largely obscured by lack of transparency." *Id.* at 19. The Report also includes the announcement of a 2006 Action Plan on IPR Protection, the "recent adoption of amended rules governing transfer of administrative and customs cases to criminal authorities," and China's new "enforcement actions again Internet piracy." *Id.* at 19-20.

markets specialize in the counterfeit of a range of products from MP3s,[52] to fashion apparel,[53] and to the bulk sale of small consumer goods.[54] The new trend of looking at locales continues throughout the 2006 Report, with a review of four key "hot spots" requiring "increased attention and resources" – Guangdong Province, Beijing City, Zhejiang Province and Fujian Province. In these geographic locales the United States believes that "there is an acute need for authorities to more effectively establish and sustain proactive, deterrent IPR enforcement."[55] The Report acknowledges that "the U.S. government looks to China to take action" in these areas.[56] Each area is highlighted for different IPR infringements, from Guangdong Province being labeled as the "center of large-scale counterfeit and pirate manufacture" for a variety of goods, to Beijing City and Zhejiang Province noted as centers of distribution and retail of pirated goods.[57] The Report also contains a general critique of the legal system and China's national enforcement scheme. The Report recommends that China be more aggressive in enforcing "actions against internet piracy" and also suggests that China engage in several structural changes in order to better enforce existing laws.[58] The Report in this way followed the similar trend of past years, but also began what would be a new trend of accounting for specific locales as areas of severe IPR infringement, and in need of greater enforcement efforts.

After the introduction of specific locales in the 2006 Report, the trend of combining specific locales and general critiques carried through the

52. See *id.* at 6 for a description of Baidu ("Industry has identified Baidu as the largest of an estimated seven or more China-based "MP3 search engines" offering deep links to song files for downloads or streaming. Baidu has been the target of infringement actions. Notably, in September 2005 the People's Court of Haidian District in Beijing reportedly ordered Baidu to pay RMB 68,000 ($8,400) to a music company for unauthorized downloads. Baidu has reportedly appealed.").

53. See *id.* at 6 for a description of Xiangyang Market ("In early 2006, the Shanghai Municipal Government said it would close this market on grounds of rampant sale of counterfeit fashion and apparel products. More recently, authorities pushed the closure date back to June 30, 2006. The United States welcomes commitments to close Xiangyang Market, and will monitor their implementation. Authorities must remain alert to the possibility that vendors of infringing products may seek to migrate their operations to other Shanghai markets or to the internet").

54. See *id.*at 6 for a description of Yiwu Wholesale Market ("Yiwu Wholesale Market reportedly sells approximately 410,000 different items, mostly consisting of bulk sales of small consumer goods. Market officials recently estimated receiving approximately 400 complaints of IPR violations from buyers in 2005. Local officials have acknowledged certain problems and stressed their commitment to IPR enforcement."). Later the Report also comments "rights holders have repeatedly drawn attention to the City of Yiwu as an important distribution center for small commercial goods, including for example, suspected counterfeit lighter fluid and yellow wristbands suspected of infringing the LIVESTRONG trademark of the Lance Armstrong Foundation." *Id.* 22.

55. *Id.* at 21.

56. *Id.*

57. *Id.* at 21-22.

58. *Id.* at 20.

following years. In 2007 the USTR Report also focused on specific regional and individual markets, in addition to types of IP infringements, and inadequate laws. The list of locales included both physical as well as virtual locations. The list of physical markets noted problems in Beijing's Silk Street Market (which the Report claimed was designated as "'perhaps the single biggest symbol of China's IP enforcement problems'" by the "industry")[59] and Yiwu's China Small Commodities Market (which sells apparently an approximate 410,000 different items and is a "center for wholesaling of infringing goods."[60]) The list of virtual markets reputed as centers of IP rights infringement[61] singled out the Baidu market as "the largest of an estimated seven or more China-based 'MP3 search engines' offering deep links to song files for downloads or streaming."[62] The general system-wide critique of China in 2007 noted inadequate anti-pirating laws and enforcement,[63] as well as legal obstacles in criminal sanctions for IPR infringement.[64] The 2008 Report again noted Baidu as a center of massive IP rights infringement[65] and mentioned two forms of virtual markets, business-to-business (B2B) and business-to-consumer (B2C), like Alibaba and Taobao, prevalent in China and "cited by industry as offering infringing products to consumers and business."[66] The Report also outlined provinces and other markets where IP infringement were problematic, as well as noting general problems in China's legal system.

The change towards a two-pronged approach to China's IPR regime – both the system-wide legal and enforcement accounts and the specific targeted locales – creates a much more in-depth and complete critique of China than that offered of India in the Reports. The Reports not only tell China what to do (close down the specifically identified markets) but how to do it (change IP laws in the manner articulated in the Reports). By singling out laws, enforcement of particular laws, and spaces of infringement, the report

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59. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 7 (2007) http://www.ustr.gov/Document_Library/Reports_Publications/2007/2007_Special_301_Review/Section_Index.html [hereinafter *2007 Special 301 Report*].
60. *Id.* at 7. There is no footnote or source provided for this statistic and no way of verifying its validity.
61. Even though the virtual market itself is not physically tangible, it still presents an exact source or place for change, rather than a national scope. Like a physical market, virtual markets can be easily targeted and the success of any mission to shut them down, and even prosecute them, easily observed.
62. *Id.* at 7.
63. *Id.* at 18-19.
64. *Id.* at 19.
65. 2008 Special 301 Report, *supra* note 42, at 7.
66. *Id.*

demands that China change their entire IP system dramatically and shut down all areas of infringement, or face sanctions. This requires China to make changes at all levels, and indicates the USTR's continuing surveillance of the country's affairs.

India

The critique of India in the USTR Reports focuses less on specific laws or the enforcement of these laws and more on the general problems of piracy and counterfeit. Far less is written in the reports about India than China,[67] and the comments themselves tend to stay at a more general level. There is no discernable change in trends over time, but there is a somewhat consistent trend towards focusing at once on the entire system and on certain sectors of the economy where pirated goods are having industry effects in the United States. In these sectors, the reports are concerned with IP infringements in the creation of physical items, particularly items that can be transported back to the United States. This is unlike the descriptions of China, which focus more on physical markets than on the goods within them.[68]

Between 2000 and 2008 the reports speak about general problems within the India IP rights regime and move between complaints about loose controls over optical media piracy and a variety of other forms of counterfeit goods. In 2001 and again in 2002 the critique of India focused both on the backlog of the legal system and its legal inadequacy.[69] In their general critique, the Reports claim that the process of patenting an item takes too long and the opportunities for competitors to oppose are "overly-generous," leading to the failure of the system.[70] In both 2001 and 2002, the Reports use the same language when speaking about industry concerns and claim "India

67. For example, in 2008 fifteen full pages are dedicated solely to China, whereas India is covered in one paragraph. *See id.* at 35-36 (discussing India); *and id.* at 19-33 (discussing China.).
68. The reasons for this difference are not the subject matter of this paper but could be that the USTR has greater faith in Indian rule of the law and that demanding changes in laws and national policy will result in real changes on the ground. It could also be that monitoring or regulating industry is more successful in India while policing is more successful in China. Alternatively the different approaches may be reflective of the reality of IP violations in the two countries, the size and structure of industry, and whether pirated goods are sold mostly in domestic or foreign markets.
69. The commentary on India in 2001 and 2002 is word for word the same except for two sentences. In 2001 the Report says "India's copyright legislation is generally strong, but poor enforcement allows rampant piracy. Indeed, piracy of motion pictures, music, software, books and video games is widespread; videos and VCDs are often available on the street before titles even open in cinemas." 2001 Special 301 Report, *supra* note 42, at 19. In 2002 the Report says, "in addition, India's copyright law, which is generally consistent with international standards, was weakened by amendments enacted in 2000 that undermine protection for computer programs. Enforcement against piracy remains a growing concern for U.S. copyright industries, especially given that pirated imports are entering the market from Southeast Asia and that there is growing Internet piracy." 2002 Special 301 Report, *supra* note 46, at 21.
70. 2001 Special 301 Report, *supra* note 41, at 19; *and* 2002 Special 301 Report, *supra* note 43, at 21.

fails to provide patent protection for pharmaceutical and agricultural chemical products and the compulsory licensing system seems overly broad."[71] Each Report differs slightly in their other industry specific analysis. The 2001 Report was concerned with the lack of enforcement of IP protections for media oriented products, like "motion pictures, music, software, books and video games"[72] which, in the case of films, are available in India often before they enter theaters. The 2002 Report mentioned concern over goods entering the American market and for general internet piracy.[73]

In 2003, the USTR Report moved away from optical media goods, with the USTR noting a concern over piracy of copyrighted books, particularly fiction and some textbooks, and the other counterfeit goods like auto parts, pharmaceuticals, and consumer goods and apparel that apparently saturate the market.[74] By 2004 the Report returned to optical media piracy and pirated pharmaceuticals.[75] The general critique noted inadequacies in copyright law as well a number of perceived procedural inadequacies[76] and ineffective enforcement.[77] A similar critique to 2004 was offered in 2005, for optical media piracy, but the 2005 Report continued to comment that while India had improved, in their eyes, "its IPR regime in some respects, [and its] protection of intellectual property in many areas remained weak due in part to inadequate laws and to ineffective enforcement."[78] The 2006 Report combined the optical media industry specific concern, with a system wide one, "urging" India to improve its entire intellectual property regime "by providing stronger protection for copyrights, trademarks, and patents, as well as protection against unfair commercial use of undisclosed test and other data submitted by pharmaceutical companies seeking marketing approval for their products."[79]

In the last two Reports, 2007 and 2008, the trends follow a similar model to previous years with a two-sided critique of both the system as a whole and of particular sectors. In 2007, the highlighted sector was

71. 2001 Special 301 Report, *supra* note 43, at 19; *and* 2002 Special 301 Report, *supra* note 46, at 21.
72. 2001 Special 301 Report, *supra* note 43, at 19.
73. 2002 Special 301 Report, *supra* note 46, at 21.
74. Office of the U.S. Trade Representative, Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974, at 13-14 (2003) http://www.ustr.gov/Document_Library/Reports_Publications/2003/2003_Special_301_Report/Section_Index.html?ht= [hereinafter *2003 Special 301 Report*].
75. *See* 2004 Special 301 Report, *supra* note 17, at 16.
76. *Id.* ("Protection of foreign trademarks remains difficult due to procedural barriers and delays.").
77. *Id.* ("while India has improved its IPR regime, protection of intellectual property in some areas remains weak due to inadequate laws and ineffective enforcement.").
78. 2005 Special 301 Report, *supra* note 5, at 27.
79. 2006 Special 301 Report, *supra* note 27, at 28.

pharmaceuticals and the general critique focused on inadequate IPR protection and enforcement relating to copyright, trademark and patent protections.[80] In 2008 the USTR was concerned with the counterfeit of distilled liquor trademarks and noted that copyright laws and general IPR enforcement needed improvement.[81]

Unlike similar critiques of China, the United States expresses the reason for many of their concerns in India. The USTR believes, or at least expresses belief, that the lack of piracy enforcement is a "growing concern for U.S. copyright industries, especially given the pirated imports are entering the market from Southeast Asia."[82] In 2005 the USTR reported, "copyright piracy is rampant, and the U.S. copyright industry estimates that lost sales resulting from piracy in India of U.S. motion pictures, sound recordings, musical compositions, computer programs, and books totaled approximately $500 million in 2004."[83] The Reports express concerns for these goods going elsewhere,[84] but the concern over the goods entering American markets seems to drive many of the comments. Perhaps in part because the Reports focus on specific industries and goods rather than particular markets, they are able to discuss the challenges posed by Indian pirated and counterfeit goods entering American markets, something they do not do for China.

In these ways, the commentary on India remains less in depth than that on China, but both countries are critiqued at multiple levels. They are each critiqued for their laws, as well as the enforcement of the laws, but this critique is focused on different areas, with China's commentary on individual markets, cities and provinces, and India's on specific goods and sectors. The following section draws from the general critiques in the reports to outline two aspects of the changes demanded.

III. THE NATURE OF THE DEMANDS BEING MADE

The demands made in the USTR reports are not always immediately visible. The reports "survey" IP right infringements and the state of IPR across the globe, but don't always make outright demands. As articulated above, they note where the U.S.A. sees the major concerns with China's and India's intellectual property regimes. These articulated concerns are in reality

80. *See* 2007 Special 301 Report, *supra* 60, at 26 ("The United States continues to urge India to improve its IPR regime by providing stronger protection for copyrights, trademarks, and patents, as well as protection against unfair commercial use for data generated to obtain marketing approval.").

81. 2008 Special 301 Report, *supra* 43, at 35-36.

82. 2002 Special 301 Report, *supra* 46, at 21.

83. 2005 Special 301 Report, *supra* 5, at 28.

84. *E.g.,* 2003 Special 301 Report, *supra* 75, at 14 (There are "extensive public health and safety risks posed by counterfeit goods to the Middle East, Southern Africa and Europe.").

demands because of the consequences attached if China and India do not address the problems listed by the USTR Reports. That being said, the reports also make explicit demands. This section of the paper looks at two trends in the nature of the specific demands being made. The first half of the section argues that the reports increasingly push for greater, stricter, and more frequent criminal laws and consequences for IP rights infringement, both in addition to, and in place of, civil laws and remedies. The second half of the section notes that many of the demands made in the report are not only often to the disadvantage of local populations, but often violate the sovereign rights of nation to determine their own political processes.

A) Criminal Sanctions for IP Violations

This section outlines how the trend of criminal sanctions has developed with respect to India and China in the USTR Reports. In the first few years of the 21st century the Reports included minimal commentary on criminal sanctions for IP rights infringements in China, yet the amount and the severity of the commentary increased year to year. In 2001, the Report was concerned not with the availability of criminal sanctions, but that "criminal actions are rarely filed" and the "legal thresholds for prosecution are too high" to deter piracy.[85] In 2003, the USTR Report made a serious legislative and structural challenge to China's IPR regime claiming, "China remains one of the last countries in the world that fails to use, in practice, its criminal law to go after commercial copyright pirates and trademark counterfeiters."[86] In 2004 the Report went even further, criticizing China for "significant deficiencies in" the "application and interpretation of its Criminal Code."[87]

By the middle of the decade the Reports became more focused on criminal sanctions, often demanding China reduce thresholds for criminal sanctions and change its legal culture and institutions to encourage IPR infringements to be brought as criminal rather than civil actions. In the 2005 Report, following a demand made in 2004,[88] China released "new judicial interpretations on the IPR sections of their Criminal Code lowering the

85. 2001 Special 301 Report, *supra* 43, at 15. *See also* 2002 Special 301 Report, *supra* 46, at 17 ("Criminal investigations and sanctions are rare (*i.e.*, administrative fines imposed are nominal), and very few cases are referred to criminal prosecution. The thresholds for initiating criminal cases for IPR infringements remain very high. The United States urges China to ensure that U.S. trademark and copyright holders can enforce their rights through criminal prosecutions and to ensure that the Supreme People's Court amend its interpretations of China's Criminal Code to allow more effective prosecution of cases and the imposition of deterrent sentences.").

86. 2003 Special 301 Report, *supra* 75, at 10 -11.

87. 2004 Special 301 Report, *supra* 17, at 12.

88. *See id.* at 12 ("We expect the new judicial interpretations to address all of these issues and generate stronger criminal sanctions against commercial-scale counterfeiters and pirates.").

minimum threshold required for criminal convictions against IPR violators."[89] In 2006, the Report demands a standardization of "national IPR courts and prosecutors, providing faster trademark examination, and encouraging that the resources [be made] available to local administrative, police, and judicial authorities charged with protecting and enforcing IPR adequate to the task."[90] Just a year later, in 2007, the Report threatens that China's "safe harbors from criminal liability" are a large part of the reason the U.S.A. has requested WTO consultations.[91] By making this claim, the Report essentially demands that China enact legislation to change the legal system, or face serious trade sanctions.[92]

In its critiques of India, the USTR is slower to demand criminal sanctions for IPR infringements than in the case of China. Between 2000 and 2004 there is no mention of criminal sanctions for IPR infringements in India. However, in 2005, the Report lists the weak areas in India's IPR enforcement regime, including "border protection against counterfeit and pirated goods, police action against pirates, following up raids by obtaining convictions for copyright and trademark infringement, courts reaching dispositions and imposing deterrent sentences, and delays in court dispositions."[93] The Report claims that if India can make these improvements it will "strengthen" its IPR regime.[94]

Similar to the 2005 Report, the 2006 Report claims India needs to improve criminal sanctions and enforcement for IPR violations in many areas, most notably "border enforcement against counterfeit and pirated goods, police action against pirates and counterfeiters, judicial dispositions resulting in convictions for copyright and trademark infringement, and imposition of deterrent sentences."[95] In 2007 the Report again claims that "piracy of copyrighted works remain rampant" and that the criminal

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89. 2005 Special 301 Report, *supra* 5, at 59.

90. 2006 Special 301 Report, *supra* 27, at 20. It is unclear from the Reports if China ever followed through on this demand, but the request for WTO consultations the following year, suggests the China did not.

91. *See* 2007 Special 301 Report, *supra* 60, at 19 ("The safe harbors from criminal liability created by China's high thresholds for criminal liability (*i.e.*, minimum values of volumes required to initiate criminal prosecutions, normally calculated on the basis of the infringer's actual or marked price) continue to be a major reason for the lack of an effective criminal deterrent. These safe harbors are among the matters on which the United States has request WTO consultations.").

92. By noting the exact physical markets and specific violators of IPR and pushing towards criminal sanctions, the reports are essentially creating a list of those to be prosecuted and the means by which they should be prosecuted.

93. 2005 Special 301 Report, *supra* 5, at 28.

94. Here, greater criminal sanctions and enforcement are seen as synonymous with a stronger IPR system, which does not have to be the case.

95. 2006 Special 301 Report, *supra* 27, at 47.

enforcement "regime remains weak."[96] The Report continues listing the same areas in need of improvement as 2005 and 2006.[97] Finally, India's supposed "weak" criminal system is again mentioned in the 2008 Report, focused specifically on the need for a greater police presence enforcing IPR infringements through criminal means and "stronger" border control.[98]

The implications of increased demands for criminal sanctions are not the subject of this paper, but it is noteworthy that it is a trend in the commentary for both China and India. Many other nations, particularly the U.S.A., make use of criminal sanctions for IP infringements.[99] However, criminal sanctions are often more severe than civil sanctions, as they can lead to the incarceration and severe restriction of freedom of violators. As countries do or do not respond to the other demands in the USTR Reports, it will be important to follow how the trend in demanding criminal sanctions progresses, and to examine the impact on individuals in India and China who do violate IP laws, which many hold to be already unjust.

B) Demands that Undermine National Sovereignty and Democratic Reform

The USTR Reports show a trend towards imposing demands on China and India to reorient their political systems in ways that are anti-democratic and contrary to the principle of sovereign independence. These demands infringe upon the sovereignty of China and India to develop and enforce their own IPR regimes that reflect their particular needs and the needs of their populations. This trend manifests itself in several ways, from demanding outcomes in court cases, to dictating levels of transparency. In these cases, the USTR undermines the integrity of policy and law-making institutions, as well as the rule of law (or any future attempt at rule of law) in the country. This section focuses solely on the demands made on China because they are more numerous and more clearly specified within the reports.

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96. 2007 Special 301 Report, *supra* 60, at 26.
97. *See id.*
98. 2008 Special 301 Report, *supra* 43, at 35-36.
99. There are several instances where violations of IP rights in the United States have criminal penalties. *See e.g.* 17 U.S.C. § 506 (discussing criminal violations of copyright laws); 18 U.S.C. § 2319A (dealing specifically with the criminal offense of "unauthorized fixation or and trafficking in sound recordings and music videos of live musical performances"); 18 U.S.C. § 2320 (outlining the crime of trafficking in counterfeit goods or services). In addition TRIPS Article 61 articulates when criminal sanctions should be applied in IP rights violations. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments – Results of the Uruguay Round vol. 31; 33 I.L.M. 81, art. 61 (1994) ("Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines

One demand placed on China asks that a judicial decision that sets specific standards for criminal sanctions be promulgated. The 2004 USTR Report contains a detailed list of commitments made by China at the Joint Copyright Cooperative Treaty meetings. At these meetings, the Report claims that Vice Premier Wu "announced that China would undertake a series of near-term actions with the objective of significantly reducing its level of IPR infringement."[100] Among these actions, the Report claims that China would "promulgate a judicial interpretation before the end of the year from the Supreme People's Court and the Supreme People's Procuratorate" that "appropriately lowers thresholds for applying criminal sanctions for acts of IPR infringements" and "stipulates guidelines for applying criminal sanctions for the import, export, storage, and transport of counterfeit and pirated products and for online piracy."[101] The Report goes on to say that this "new judicial interpretation is an attempt to remedy China's failure to make effective use of its criminal enforcement regime to address IPR issues."[102]

This demand for judicial reform is of a different nature than the usual demands within the reports. While the reports generally demand that courts be more vigilant and stringent in their interpretations of legal IPR apparatuses, in 2004 the Report specifies an outcome for a decision supposedly in the hands of the judiciary.[103] Whether or not China has an independent judiciary is not the issue at hand. What is significant, rather, is that the USTR is demanding a foreign country to do something that violates the independence of the judiciary and undermines any attempt to establish rule of law in China.

In addition to interfering with the functioning of judicial institutions, the reports make demands of the legislative process in China. For example, highlighting the importance of transparency, the 2006 Report moves from the general comment that "transparency in rulemaking is also a continuing problem" to stating that "government entities responsible for drafting rules

sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale.").

100. 2004 Special 301 Report, *supra* 17, at 11.

101. *Id.* at 28.

102. *Id.* at 12. While these demands were not originally made by the United States directly on China, by placing them into the reports, they make China liable if they do not succeed in promulgating the decision desired.

103. Many courts, such as the Canadian Supreme Court and the International Court of Justice, allow for advisory opinions, where courts are asked to determine the legality of a certain question even if no case or controversy is at issue. However, here the government is not demanding simply that the court advise on a matter, but what that advice should be.

often refuse to make drafts widely available for public comment and instead limit their 'consultations' to pre-selected industry and trade associations."[104] The Report then continued to say that the USTR "welcomed" being given drafts of legislation in the past to comment upon and would be happy to provide this support again.[105] In fact the Report explicitly complains that the U.S.A. was provided "no opportunity to comment on ... the customs transfer rules or the rules to strengthen crackdowns on trademark infringement crimes."[106] Requesting an opportunity for the USTR to comment on laws before they are enacted further reveals the desire of the USTR, and of the United States more broadly, to be intimately involved in China's domestic policy-making processes on intellectual property.

IV. CONCLUSIONS

The USTR Reports highlight changes that the United States Executive Branch, the United States Trade Representative, and parties who petition the USTR would like to see in the IP regimes of countries across the globe. This paper has looked at the trends over the last nine years in the types of problems and demands made on India and China in relation to their IP regimes. For both India and China, the USTR has noted systemic problems with IP laws and their enforcement. With China, the reports have increasingly demanded the enforcement of IP rights in specific locales, including particular markets, cities and provinces. In India, the reports were more concerned with specific industries, commenting on the pirating of optical media and pharmaceutical goods. Both countries have faced pressure to instigate criminal sanctions, and China has been confronted with demands that threaten its sovereign independence.

These trends in demands point to two broad themes. First, there has been a move in the reports towards greater specificity in the enforcement of IP norms and regulations. This specificity comes in a number of ways. The Reports target their critiques at more specific nodes of prioritization, noting industries, markets and geographic areas where the USTR would like enforcement to be greater and the policing of IP infringements increased. The Reports also suggest more specific enforcement tools or mechanisms to be deployed, highlighting criminal sanctions as an appropriate remedy for a number of IP infringements. This demand for greater specificity in

104. 2006 Special 301 Report, *supra* 27, at 24. The Report further notes "the United States also continues to welcome and encou rage increased efforts by U.S industry to enhance transparency through monitoring of IPR enforcement in China and its results in the Chinese market." *Id.*

105. *Id.*

106. *Id.* at 25.

enforcement might be a result of the USTR's system wide critiques being unsuccessful in the past.

Demanding greater enforcement in specific arenas might be seen as an effort more likely to yield success, as it doesn't require changing laws or legal processes. It also engages a different set of players – rather than lobbying politicians to create new legislation the USTR can work directly with police and prosecutors, bypassing any complicated political arrangements. Indeed, by noting specific markets, the USTR is able to begin the police work of other nations by identifying culprits. The specificity might also be the result of a change in USTR policy towards being more concerned with stopping IP violations that are occurring than creating legal mechanisms to expand the scope of what is even considered an IP violation in India and China through legislation. It could further be an indication of the USTR's exasperation with the lack of affirmative steps in India and China and the hope that a new approach might produce better results.

Secondly, the USTR has demanded increased sanctions for those that violate IP rights through the institution of criminal sanctions and creation of new IP laws that lead to new possibilities for IP violations, and thus new sanctions. Even if other nations like the U.S.A. have criminal sanctions for IP infringements, it is still extremely important to note that demanding a switch from civil to criminal sanctions is dramatic and very significant. Rather than simply paying fines for violations, if the USTR's plans are implemented, individuals in India and China will face incarceration for violations of IP laws. This is especially problematic when one considers that many of the new IP laws posed are not responses to demands by citizens in India and China, but responses to international pressures, from parties like the USTR itself.

By identifying the demands made on China and India since 2000, this paper hopes to set the stage for future research. India and China are two emerging and powerful economies. How they react and what they change in their legal systems based on the types of demands the USTR makes of them will point to the effectiveness of the Reports in achieving American aims in changing IP policy, or at least the effectiveness of the demanded policies in these two very important economies. Noting the demands on India and China and the trends in these demands may also provide information on what type of demands the USTR might place on future emerging powerful markets. Finally, the trends in the reports speak to what the USTR sees as the major concerns for the future of IP policy globally, and the implications this will have for national IP regimes in all countries.

Meet John Doe's Order: Piracy, Temporality and the Question of Asia

Lawrence Liang[*]

In the early days of digital technology Jack Valenti, the former president of the Motion Pictures Association of America triumphantly announced that 'The fury of the future is already upon us. The explosion of channel capacity, the hurling to home by direct satellite, the multiplicity of optical fibre, among other magic are the new centurions of the digital age, they are marching along continents and across geographic boundaries breaking down artificial government barriers, the most powerful audio visual armies ever known'. Within a few years however, he would alter his militaristic metaphor and declare the Computer to be the greatest nemesis of the film industry[1].

Valenti's rather quick turn around seems to be merely symptomatic of the schizoid relationship that cinema has had with technologies of reproduction. Every new technology of reproduction has resulted in euphoric possibilities about the extension of the life of the 'immaterial commodity' and the creation of new markets, while at the same time producing an acute crisis about the ease with which films can be pirated, thereby disrupting the planned march of cinema across the globe. This constant flitting between euphoria and crisis produces delirious effects in the world of law.

In creating for itself a juridical form, cinema always seems to struggle against its own ephemeral form as well as the thingliness of the medium that carries it. Even as more complicated systems of rights management and licensing in copyright law are created to ensure the smooth flow of films across the word, the ordered flow of cinema is constantly frustrated by technologies that enable the reproduction of a 20 million dollar film on a 20 rupee CD.

Just as tobacco, cloth, alcohol and other petty commodities were central to the criminalization of everyday life in the 18th century, it seems that the definition of new forms of criminality in the late 20th and early 21st century

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* Lawrence Liang is a researcher and writer at the Alternative Law Forum, Bangalore. He works on issues of law and culture and has been writing about the politics of intellectual property for a few years. He is currently working on a book on Law and Justice in Hindi Cinema.

1. Valenti was being rather consistent in his demonizing of any untamed technology. When VCR's came on the scene, Valenti described them as the Boston Stranglers of film till Video created a new market of home consumers of film.

belongs to quotidian world of film consumption and circulation[2]. From region control of DVD's to the use of sniffer dogs to track pirated discs, piracy attests to the dynamic and opposing relations between the two major trends that define cinema in our time: the technological and the legal. While the former pushes towards the increasing range of possibilities in filmmaking and distribution, the latter pushes towards greater control and regulation of the media object[3].

In an ongoing case in the Delhi High Court, the eight entertainment majors in the world (Universal, Paramount, 20th Century Fox, Time Warner etc) accounting for close to $500 billion are pitted against Lamhe Music Store, a quintessential pirate DVD store. In Para 28 of the petition, the entertainment majors allege that:

> *Even a single sale or rental of the film by the defendants is capable of causing irreparable injury and damage to the plaintiffs. The single film can act as a plate from which several thousands of other pirate prints can be prepared. If the print reaches the hands of a cable network, even a single telecast on a network is capable of reaching several million homes all over India. The potential for damage is immeasurable and irreparable.*

The plaint is an instance of the deterritorialised form of the global cultural commodity, while the relief sought relies heavily on reterritorialised enforcement at the national level.[4] Piracy seems to occur precisely at the point where deterritorialised forces of capitalism intersect with "the reterritorialised forces of the nation, where the cross bordered flows of information and copyright goods require national laws and enforcement to contain, if not eliminate piracy"[5].

This curious relationship between law and cinema is not unique to the question of piracy, and cinema has always been the site for the production of a number of legal concepts, which have a career even beyond the specific task of the regulation of cinema.[6] The status of film as a particular form of

2. *See* PETER LINEBAUGH, THE MANY-HEADED HYDRA: SAILORS, SLAVES, COMMONERS, AND THE HIDDEN HISTORY OF THE REVOLUTIONARY ATLANTIC (Beacon Press 2000).
3. *See* ANDREW MERTHA, THE POLITICS OF PIRACY: INTELLECTUAL PROPERTY IN CONTEMPORARY CHINA (Cornell University Press 2005).
4. For a reading of the Lamhe petition, *see* Jeebesh Bagchi, *Acceleration and Conflicts: Comments on the Cinematic Object in the 1990's and after*, 5 JOURNAL OF THE MOVING IMAGE 41 (December 2006).
5. SHUJEN WANG, FRAMING PIRACY: GLOBALIZATION AND FILM DISTRIBUTION IN GREATER CHINA 17 (Rowman & Littlefield 2003).
6. For instance the idea of publicness in a number of legal owes its debts to cases related to the idea of cinema as public culture. In Deepak v. State of Punjab, 1992(1) SCC 684 the Supreme

property seems however, to have accelerated the unintended career of cinema not just as a desire producing, but also a law producing machine.

The architecture of global intellectual property laws has been designed keeping the interest of film as property in mind. The TRIPS agreement which harmonized IP laws globally was an agenda firmly driven by Hollywood[7]. In the US the term of copyright was extended specifically to extend the protection afforded to the Disney empire, and in recent times laws related to anti circumvention of technology have been introduced to protect the windowing system of distribution of films. In the Indian context as well, it has been the Eastern Indian Motion Pictures Association which has taken the lead in pushing for copyright reforms.

While there has been considerable amount of work done on the political economy of film, there still seems to be a clear-cut division of labour between those who study film and those who study the political economy of film. But is this division tenable, and what sorts of questions do we abandon when we insist on retaining this bifurcation. When we are examining a legal form such as copyright which seeks to create the basis for the circulation of cultural artifacts, is it possible to study it without an attention to the question of cultural form. How do economic dynamics of production [promote] certain cultural forms over others? How does copyright enable cultural 'texts' to be recognized as commodities and made sense of in a way that is appropriate to their status as commodities? In other words, Copyright law has a discursive as well as a regulatory dimension, and copyright law as discourse is an active force in the construction of the very cultural artifacts that, under capitalism, have become invested with the status of commodity"[8].

The relationship between copyright and film serves as a fertile site through which we can bring questions of political economy and cultural economy together. The recognition of the importance of political economy in cultural studies is clear, but can it ever be done without a consideration of specific cultural forms? In the case of cinema, the distinction between textuality and policy are not only untenable, but also misleading[9]. The semiotics of the images and content analysis are absolutely critical in policy determinations of duplication, while the legal determination of what constitutes infringement or juridical notions of substantial similarity depend closely on textual analysis.

Court held 'There is no compulsion to construct a cinema theatre, but by undertaking to construct a theatre to exhibit cinematograph films therein, the owner created a right in the cine going public, to have an easy access to the theatre'.

7. *See* Susan K. Sell, Private Power, Public Law: The Globalization of Intellectual Property Rights (Cambridge University Press 2003).

8. Anne Barron, *The Legal Properties of Film*, 67 Modern Law Review 177 (2004).

9. Toby Miller et al., Global Hollywood: 2 (British Film Institute 2004).

We can therefore begin with two ways in which we may speak of the properties of film. On the one hand, you have the formal properties of film which has been the traditional domain of film scholars which looks at the diegetic qualities like narrative, film as a special narrative technology, film as a medium of mobilization of the public etc. On the other hand, you have the question of film as property which takes you into the slippery domain of the law of immaterial property, with its division into reproduction rights, distribution rights, format rights etc. While film scholars have concentrated on the formal properties of film, lawyers have focused squarely on the latter.

One of the challenges that exists is what happens when film as property starts encountering the formal properties of film. It is my argument that formal concerns about the properties of film can widen the way that we think of film as property (and its illegal other, piracy). It does this by asking different questions of piracy such as what kind of film culture does piracy enable? How does the phenomenon of piracy enable us to revisit traditional film studies concerns such as production, reception, circulation and distribution? What kind of public forms of association do these new modes of circulation enable? How do we rethink the career of a cinematic object when it exists now as a bundle of rights? What are the specific implications of piracy for scholars interested in the question of Asian cinema?

Jane Gaines has already shown us how fruitful it can be when a film scholar starts reading copyright cases to discover an uncanny double life that film has always led, as cultural history but equally as cultural property. For her, copyright disputes over cinema show us film studies in inverted form

> *In entertainment law, Gaslight (1942) is important not as a canonical film melodrama but as the object of a radio parody; The Maltese Falcon (1941) is the center of a dispute over serial rights; and Warner Brothers' Dark Passage (1947), which later became the television series "The Fugitive," figures in the definitive case on the "indivisibility of copyright." Reading Nimmer's Cases and Materials is an uncanny experience for the historian of American film. It begins exactly where film historians begin: with photographic technology and popular entertainment forms. The first case reprinted in Nimmer deals with issues surrounding the reproduction of a circus poster, the second with copyright in an 1882 photographic portrait. In a way, my approach in this book has been to write a series of essays that construct Nimmer's entertainment law volume as a companion piece to American film history and to contemporary film and television theory.*[10]

10. *See* JANE M. GAINES, CONTESTED CULTURE: THE IMAGE, THE VOICE, AND THE LAW (University of North Carolina Press 1991).

Perhaps it is time for lawyers and film scholars to start bringing back the question of film into the question of property. I will attempt to look at some of these questions by looking at one particular thematic, namely the question of temporality and the fate of cinema as property.

TEMPORALITY AND CRISIS OF THE IMMATERIAL COMMODITY

Right from the earliest history of legal disputes over cinema, one of the key issues has been the legal ordering of the spatio-temporal dimension of film. *Mutual v. Ohio*[11] which is the first case that challenges the constitutional validity of censorship of films had more to do with the interruption of film circulation than with content regulation. Mutual in fact only produced family films which would never get into any kind of censorship problems, but what the Mutual Company feared was that the censorship laws would mean additional fees and delays. "It is the custom of the motion picture business," Mutual informed the Supreme Court, "that a subject [film] shall be released or published in all theaters in the United States on the same day."[12]

Mutual's interest was in establishing a national market for its movies, and in its original form, the Mutual petition prioritized economic arguments, including the contention that the Ohio law imposed unconstitutional burdens on interstate commerce. In the original complaint, the company's attorneys presented seven main charges against the censorship statute. The first five of these concerned the law's invidious effects on property rights. Only the sixth of the firm's seven serious complaints mentioned the freedom of speech. As the litigation progressed, the free-speech argument began to climb to a position of prominence until it finally eclipsed the economic-based arguments that Mutual had stressed in the early stages of the case. By the time the company's lawyers prepared their Supreme Court brief, free speech had won top billing, commanding fifty-one of the brief's sixty-two pages.[13]

Even when discussing free speech, however, Mutual's interest in open markets was manifest. "The court should consider not simply whether the enforcement of that [Ohio] censorship law will prevent appellants from exercising their right to 'freely speak, write and publish their sentiments on all subjects,"' Mutual maintained, "but whether it will infringe upon the similar rights of those persons with whom appellants do business, and thereby

11. Mutual v. Ohio, 236 U.S. 230, 35 S.Ct. 387.
12. John Wertheimer, *Mutual Film Reviewed: The Movies, Censorship, and Free Speech in Progressive America*, 37 American Journal of Legal History 158, 176 (1993).
13. *Ibid* at 179.

less directly, but no less certainly, impose a burden upon the interstate commerce in which appellants are engaged."

WINDOWING AND THE LOGIC OF DISTRIBUTION

At the heart of the crisis of pirated films lies its disruption of the traditional spatial and temporal aspect of film distribution and circulation.

Windowing has been one of the time-tested techniques used by the film industry to extend their markets and to maximize consumption and revenues. Film producers and makers use various strategies to segment the audiences, to differentiate among different outlets of distribution and their times of release, and price discrimination strategies, charging audiences different prices to see the film via different outlets, depending on when and where they see the film. The ability to control a range of new delivery and distribution outlets allows them to spread their risks and maximize their returns. The smooth functioning of the sequence obviously depends in part on the availability of the distribution and transmission technologies appropriate to each phase in the sequence; and it is equally dependent on the existence of administrative machinery for issuing licenses for each type of use and collecting royalties in return for licenses.[14]

Copyright and licensing is the architecture that sustains the windowing system. Indeed every phase in the sequence is underpinned by, and would be inconceivable without, one or other of the exclusive rights comprised in the copyright subsisting in films. The evolutionary dynamic that propelled the expansion of copyright in relation to film is based on the fact that new distribution/exhibition/transmission technologies are continually met by new rights that enable copyright owners to govern the uses to which these technologies are put. The windowing system demonstrates the ultimate control over time and space by capital. Windowing in film distribution has been the one most under attack with new technological innovations.

According to the Lamhe Music store plaint, piracy strikes at the heart of the windowing system, and Chander Lall, the advocate for the entertainment majors writes:

> *If the distribution strategy involves theatrical release as the first window, it is vital that the film be available to the public only at the theatres. Once the film has run its course at theatres / cinema halls, the film is generally released through a second window which is*

14. Shujen Wang and Jonathan Zhu, *Mapping Film Piracy in China*, 20 THEORY, CULTURE, AND SOCIETY 97, (2003).

normally in the form of home videos. Thereafter the stage is set for releases of the film through its other windows and media. The time gap between each window is of utmost importance. At each stage it is important to protect the film from being distributed on any other media, except on media as selected by the distribution strategy. This is absolutely critical for the success of the film. A property worth Rs. 40 Crores can be enjoyed in the comforts of ones home for a paltry Rs. 300/- per month subscription fee charged by the cable operator. Some producers describe a film as a "block of ice" which is melting in their hands, and unless they can quickly make their money, through a planned release programme, they run the risk of having the block of ice melt away and turn to water, without even covering their costs.[15]

Digital technology has disrupted the balance of power in the film industry. If power in late capitalist expansions lies in its ability to overcome the constraints of time and space, digital technology presents a major challenge to existing power due to its capacity to erase space and reward speed. While technological innovations is intrinsic in furthering capitalist market expansions, when used subversively it also undermines and challenges copyright industries need to command space and control time.

REPRODUCTION AND TEMPORALITY

Piracy interrupts the spatial security of legitimate distribution, and if digital technology rewards speed and partnership, then the worldwide entertainment pirate networks are often better equipped and connected and far more flexible than its counterparts. It is a little strange to think of a pirated film as a 'copy'. In the digital era, every commodity is a copy, and even the so-called original is a copy. While it could be argued that the use value of an original and a copy are the same (assuming they are of the same quality), what marks the difference between the two copies is the legal structure underlying the act of reproduction. Legitimate and pirate reproductions operate in two difference circuits of exchange value.

Property regimes determine the legitimacy or authentication of the copy by defining 'who can make a copy' or through the licensing of 'who controls the making of the copy'. Copyright regimes therefore seek to create barriers in reproduction which technologies enable. The act of reproduction outside the sign of the law creates the world of commodities marked by the sign of 'authentic', 'authorised', 'legitimate', 'fake', 'illegal' or 'pirated'. Since Commodities move in time, their reproducibility and control of their

15. Chander Lall, *The Film Industry and Copyright* (Unpublished Paper).

distribution has a crucial temporal dimension.

The proliferation of cheap technologies of reproduction in various social circuits, introduces a major crisis of property. The illegal reproduction of these copies or piracy are enmeshed in the diverse social worlds of livelihood, survival, leisure, desire etc.[16] Excluded social worlds move into this cultural sphere through innovative techno practices that mobilizes and disperses cultural goods at rapid speed and succession. The ways in which they lay claims on cultural participation is not dependent on the 'paternal access' that marked earlier forms of media, but can instead be characterized as a form of defiant access. If Linda Williams is right in her argument that contemporary cinema disciplines the audience into a docile body, movie piracy is nondisciplinary. Spectators of pirated movies do not need to follow the time schedules of theaters or television broadcasts; neither do they need to return the watched films to video rental stores.

These practices of defiant access disrupt legal circuits of reproduction, and create disorder in the traditional revenue loop and value chain of film. Property Rights are therefore mobilized to set in order or control these disruptive circuits along the revenue chain and to smoothen the routes of circulation.[17]

THE LEGAL RESPONSE

Legal instruments and interventions are critical in the process of disciplining these disruptive circuits. The calculus of value chain of a cultural commodity is differentiated and ordered around different temporal paths. It is interesting to see how various metaphors of time attempt to engrain themselves within a legal framework. In 1984 for instance when Universal Studios attempted to outlaw video technologies, they argued that the VCR enabled people to record movies from TV and watch them at a later time thereby engaging in 'time-shifting'. With piracy interrupting the ordered flow of the cinematic commodity, the Legal instruments that we see at present evolving to contain the various disruptive circuits are primarily Raids and Injunctions.

The Raid has been widely recognized to be an inefficient way of tackling the problem of piracy, and is conducted more for its performative role in the press than any real value in preventing the illegal reproduction and circulation of film. The raid can however be strategically used to disrupt the temporal

16. Jeebesh Bagchi, *Acceleration and Conflicts: Comments on the Cinematic Object in the 1990's and after*, 5 Journal of the Moving Image 41 (December 2006).
17. *Ibid.*

logic of the pirated copy. Very often within a day or two of the release of a new film, a pirated copy, either in the form of a camera version or a leaked copy is available in the pirate markets. Raids when successful delay the release of the film in the pirate markets, and while everyone in the game knows that the film will eventually be available in the market, it is the logic of making the best of the melting block of ice that motivates the continuance of raids.

Injunctions are the primary temporal legal tools which are used to bring back order to the disruptive flows of media commodities. But the problem with piracy is that given its tactile mobility, it becomes almost impossible to identify specific culprits, and a distinct dimension of the contemporary film experience lies in its sense of dispersal. Technologies such as the cheap CD writer and MP3 compression undermine centralized locations for reproduction and distribution. New locations emerge, both for reproduction and, indeed, re-assembly, as CDs are customized for the individual consumer of popular music. Portability and cheapness ensure that equipment can be quickly shifted away from the intrusive eye of the detective agency hired to monitor copyright infringements[18].

A number of legal innovations in the realm of injunctions have been developed to tackle the problem of anonymity in this domain. The three specific tools that have been used include:

- Ex-parte injunctions (injunctions that are granted even without hearing the other party)
- John Doe Orders (Issued against anonymous offenders; E.g Mirabhai Films got a John Doe Order before the release of Monsoon Wedding)
- Anton Piller Orders (Search and seizure orders) including breaking down doors of shops which are closed

In addition to these you have two other strategies that are gaining prominence:

- Tying the discourse of illegality to urban reform and renewal; Onslaught via sales tax, commercial taxes raids on prominent media markets; National market in Bangalore for instance is closed for many days a month, depending on the major release of the month; Traders in pirate markets have had to start relying on plying their wares in cars which they direct people to whenever there is a raid and the market is shut.
- Using technological measures and criminalizing their circumvention

18. Ravi Sundaram, *Uncanny Networks, Pirate, Urban and New Globalisation*, 39 Economic and Political Weekly 64 (January 3, 2004).

(DRM and Indian Copyright Act); The amendment to the Indian copyright act for instance makes it criminal to posses any equipment intended for the purpose of circumventing a technological protection.

THE WAITING ROOM OF CINEMA

We have thus far seen the temporal nature of film as a commodity, but cinema- that great eraser of time - can never be limited to a one sided temporal logic. The circulation of the DVD traverses diverse worlds, from that of monetary exchange to barter to gift to ubiquitous reproduction, and acts of circulation always exceed the monetary idea of exchange value. The movement of the DVD from monetary economies to psychic economies has to be seen as a transaction between imaginary capital confronting the world of imagination and desire. The commodity phase of the film is only one phase in its life history as a sensuous object, and this phase does not exhaust its biography as a cultural object. We therefore need to shift our attention to the temporal life of cinema in psychic economies.

The temporal nature of distribution is tied not just to an economic logic, but also to an economy of anticipation. The build up to the latest film, the trailers, the posters, the release of the soundtrack, the first day first show phenomenon all work within an economy of waiting. At the heart of the temporal logic of film is also a culture of aspiration, fulfillment of desire or deferred pleasure. The windowing system of distribution unequally distributes the share of waiting, with the wait getting longer as you move away from the northern hemisphere and move towards different parts of the global south, or from the metropolises to small towns and villages.

In films like Main Madhuri Dixit Banna Chahti Hoon (2003), Haasil (2003) or Pankaj Kumar's documentary Kumar Talkies (1999), we get a glimpse into this – waiting room world of cinema – as a field of differently distributed sensibilities. The newness of the films, the high quality of their reproduction, and the experience of moviegoing come to stand for temporal and cultural difference, between the north and the south, between the town and the city. In a delightful scene in Main Madhuri Dixit, the protagonist goes to watch Devdas, but after a few reels the film stops and they have to wait for the arrival of the other reels from the neighboring village. The audience complains that the last time they had to wait for over two hours since the cycle in which the reels were being brought was punctured. The big city, not surprisingly, becomes the place where this fracture can be repaired, where films are shown in their entirety, and where audiences do not have to confront their physical and cultural marginality every time they attend the cinema[19] and the social life of piracy occurs at the intersection of the economy of anticipation and the culture of aspiration. Cinema history does not merely involve the reinvention of technological formats but also of social selves[20].

Waiting for the latest Hollywood or Bollywood release then become an apt metaphor for those placed differently within the circuit of 'technological time'. A useful way of connecting piracy to the temporal experience of cinema might then be to look at the infrastructure and technology that enables the circulation of films. Brian Larkin and Ravi Sundaram who both study the conditions of the 'pirate modern' argue that in contrast to the dizzying, real-time global integration of the information era, a large number of people experience time not through the trope of speed, but through the experience of interruptions and break downs; Breakdown creates a temporal experience that has less to do with velocity and more to do with the process of waiting.

From waiting for email messages to open, machines to be repaired, or electricity to be restored, the experience of technology is subject to a constant cycle of breakdown and repair. In most countries the promise of technological prosthesis is thwarted by the common experience of technological collapse. Each repair enforces another waiting period, an often frustrating experience of duration brought about by the technology of speed itself. The temporal experience of slowness comes as a consequence of speed-producing technologies, so that speed and acceleration, deceleration and stasis are relative, continually shifting states. The experience of technological modernity in most countries is premised on waiting for it to trickle down; often through pirate indeginizing[21].

An interesting instance of this in film technology is the history of VCDs and DVDs. Sony and Phillips jointly introduced the VCD technology in 1993 to record video on compact discs. It was cheap, digital, convenient, and seemed to be setting the standard. At the time of the introduction of the new format, however, the development of the technologically far superior Digital Video Disc (DVD) was already underway. Even from the beginning, Philips was well aware of the pending arrival of the high-density DVD and the threat it would bring to VCD. Phillips decided then not to further develop or produce VCD but rather to wait for DVD. Seeing the new format facing

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19. Brian Larkin, *Degraded Images, Distorted Sounds: Nigerian Video and the Infrastructure of Piracy*, 16 PUBLIC CULTURE 289 (Spring 2004).
20. Ravi Vasudevan, *Cinema in urban space*, May 2003, Seminar 525, http://www.india-seminar.com/2003/525.htm.
21. *Supra* note 19.

a more or less doomed future, Philips and Sony decided to launch VCD in China instead since it was "a technology that was fit for a poor cousin in laggard developing countries instead of cutting edge economies". The introduction of VCDs into China proved to be the biggest boom to cheap reproduction technologies; ironically the industry believed that CDs could fight the menace of video piracy.[22]

A large number of Asian markets adopted it enthusiastically, bypassing global distribution networks in order to 'steal' enjoyment. Darrell Davis calls VCD a form of cockroach capitalism because of its proliferation; and within a short period of time, VCD became the major movie carrier in many developing countries. If you take China's VCD player production and household presence it is startling; in 1998 there were 16 VCD players per hundred households and by 2000, there were 36.4 VCD players per hundred households; in 2000, there were 14.5 million units manufactured but by 2001, this number falls to 1.2 million units since the manufacturing moves into DVDs.

VCD technology spread rapidly form East Asia to other parts of Asia, and within a few years of their introduction, VCD replaced VHS as the standard format in most parts of Asia. In India for instance, while the price of the VCR never fell below ten thousand rupees, a VCD player was available for as low as a thousand rupees. VCD culture also spread from Asia into other parts of the world very rapidly. In Nigeria, which is incidentally the largest film industry in the world (producing more than 1200 films a year), most of the films are only available on VCD and DVD. But given its complete absence in the western market, there seems to be something distinctly 'Asian' about VCD technology[23].

ASIAN VCDS NOT ASIAN VALUES

This technological emulation of East Asia by other parts of Asia is evident in the case of the VCD, however this has a deeper history, and it is perhaps here that we may start considering the question of Asia in relation to piracy, technology and cultural flows. Since the East Asian miracle and electronic boom, many countries in East Asia have been the symbol of a certain electronic modernity to be emulated. But this was also a very distinct modernity, which did not necessarily place the west as its point of reference.

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22. Shujen Wang, Framing Piracy: Globalization and Film Distribution in Greater China (Rowman & Littlefield 2003); Laikwan Pang, Cultural Control and Globalization in Asia: Copyright, Piracy, and Cinema (Routledge 2006); Shujen Wang and Jonathan Zhu, *Mapping Film Piracy in China*, 20 Theory, Culture, and Society 97, (2003).
23. Kelly Hu, *Made in China: the Cultural Logic of OEMs and the Manufacture of Low-cost Technology*, 9 Inter – Asia Cultural Studies 27 (2008).

Indeed you could even bypass the west by leapfrogging into a distinctly Asian model of technological development.

As is well known, the technological miracle was also strongly fuelled by cold war interests and transfers of technologies, but transfers which moved far beyond the official routes imagined for them. The technological history of East Asia from the eighties is also an account of a 'copy culture' that saw the emergence of very strong manufacturing capabilities, which borrowed and adapted western technology for the Asian region[24].

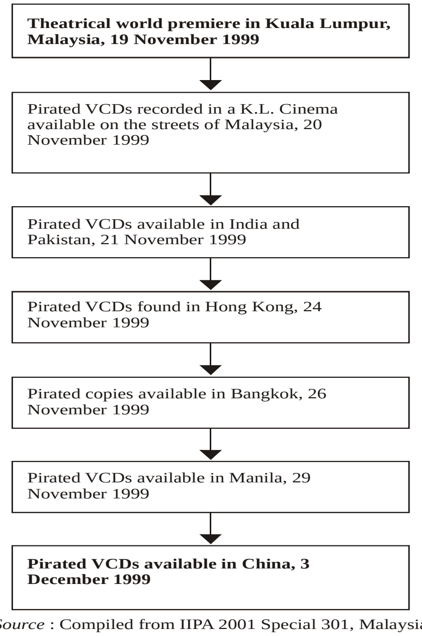
Interestingly, the media landscape that dots many south Asian countries is a landscape chiseled out of another Asia of the mind. This is an imagination of the modern, in which the point of reference is not the enlightenment or the industrial revolution of Europe, but the almost magical transformation of south East Asia. This is an Asian modernity, in which the copying countries of south East Asia serve as the original role models for countries in the rest of Asia. We can illustrate this with one of our favourite maps (and here we use the idea of a map not in the 'disenchanted' way of seeing national territory within a techno-rational grid). Our map belongs to the genres of enchanted maps, in which the imaginary overwhelms the real, and opens out fantastical

24. *Ibid.*

possibilities of seeing. This is our map of an Asian commons of copy culture.

As you step out of National Market in Bangalore, you are faced with a cartographic puzzle. Diagonally opposite the national market - a haven for pirated goods - is the Bangkok Plaza, and a few meters away you have the Burma Bazaar. Smiling across the Burma Bazaar is the New Hong Kong Bazaar, announcing itself with it's not so new signboard in which the Kong is only a matter of an educated guess. While globalization is supposed to have redrawn boundaries and shifted our ideas of time and space, you are still not quite prepared for this distorted sense of Asia, in which you step out of the national to encounter Bangkok, Burma, Hong Kong, gesturing towards a very different experience of the global and of modernity. All these markets which specialize in non legal media commodities from phones to DVD's and software, are the nightmare of global policing institutions such as World Trade Organization and the World Intellectual Property Organization. They also serve as an appropriate metaphors of the contemporary, in which rules of property collides with unofficial cultural flows.

There are various versions of the unofficial Asian maps, and the International Intellectual Property Alliance has also moved into the business of cartography, with its annual production of the Special 301 Report, which has a consistent interest in Asia.



Source : Compiled from IIPA 2001 Special 301, Malaysia

What is interesting is the picture of Asia that emerges from these cultural flows of technology and cinema. In contrast to the heavy civilization claims of Asian values or the geo political approach that sees Asia as a conglomeration of various strategic national units, the informal cultural and technological flows between Asia poses interesting questions of How Asia means.

In the early days of globalization, travel writer Pico Iyer set out in search of what he despairingly called the Ramboization and Coco Colonization of Asia. This is a trope that has been adopted by a number of critics of globalization, who argue that what has taken place is merely the Americanization of the world, with the hegemonic spread of American businesses and culture across the globe. And yet if one were to careful look at what is being sold in the DVD shops in any of these markets and elsewhere in the country too, you find that apart from your standard Hollywood and Bollywood fare, you also increasingly find a range of films from countries whose films do not have any official circulation in India. Whether it is the Korean cult classic Old Boy (aka non incestuous Zinda in India), or lesser known films from all parts of the world.

Beng Huat arguing for the importance of conceptualizing an East Asian popular culture says that:

> *In contrast to the very uneven and abstract presence of Confucianism, since the 1980s popular cultural products have criss-crossed the national borders of the East Asian countries and constituted part of the culture of consumption that defines a very large part of everyday life of the population throughout the region. This empirically highly visible cultural traffic allows for the discursive construction of an 'East Asian Popular Culture' as an object of analysis. 'The dense traffic of popular culture across the national/ cultural boundaries in east Asia have far exceeded the analytical boundaries that are determined by any focus on a specific location.*[25]

There are a number of exciting possibilities being opened out by this new cinephilia[26] where all of a sudden there is a far greater interest in Asian films than in Hollywood or even in European Art house. The immense popularity of film makers like Wong Kar Wai, Tsai Ming Liang and Hou

25. Chua Beng Huat, *Conceptualizing an East Asian Popular Culture*, 5 Inter – Asia Cultural Studies 200 (2004)
26. Moinak Biswas, *Film Studies, Film Practice and Asian Cinema: Points in Re-Connection*, paper was prepared for 'Asian Cinema Conference: CSCS, Bangalore, February, 2007.

Hsiao Hsien stems from their visibility in the film festival route but outside of that you have a range of films from Korea, Thailand, Japan and even Cambodia which find their way into the pirate markets. If one were to compile an alternative list of the top ten films in pirate shops in National Market or in Burma bazaar, one would come up with many surprises. In a screenwriter's conference organized by FTII, Anurag Kashyap says that over ninety percent of the films made in India are DVD remakes and that we celebrate DVD remakes. This, to me is an intriguing formulation. He does not say that the films are remakes of Hollywood films or Japanese films, and he chooses instead to create a new category called the DVD film.

Unlike the category of national cinemas of the world, illicit media always spills over national boundaries and has always had a transnational feel to it (whether it is the ubiquitous foreign blue film or the circulation of a wide range of art house or commercial films within the context of video and DVDs). In Jia Jung He's low budget film "Pirated Copy" about the circulation of pirated films in Beijing, a pirate DVD seller tries to sell Bergman, Tarkovsky and Fellini to her customer. The customer says he has never heard of them and enquires whether Tarkovsky is a Russian composer, and asks instead for the Korean film My Sassy Girl.

While there has been much hype about the idea of transnational cultural flows, it is unclear what the nature and impacts of these flows have been; and more specifically what are the sites in which these flows take place. How do we take into account these unofficial flows that are taking place? What is perhaps interesting about the flows that piracy enables is that all of a sudden they are not restricted merely to East Asia alone, and east Asia presence in the Indian media markets enable us to think differently about the idea of a trans national cinema.

Meaghan Morris says "In an inter-Asian context, it also allows us to reflect historically on transnational industrial as well as aesthetic imaginings, which do not solely derive from the West and which 'flow', as it were, towards and through Western cinemas as well as around the region itself".

The site of illegal cultural flows in Asia is also being mobilized interestingly by media corporations and owners of intellectual property. Consider for instance the following:

> *They run computer manufacturing plants and noodle shops, sell 'designer clothes' and 'bargain basement' CDs. They invest, pay taxes, give to charity, and fly like trapeze artists between one international venue and another. The end game, however, is not to buy a bigger house or send the kids to an Ivy League school -- it's to blow up a*

> *building, to hijack a jet, to release a plague, and to kill thousands of innocent civilians*[27].

Even People like Lawrence Lessig, who would otherwise be considered to be on the left of copyright in the US has to invoke the figure of the Asian pirate to redeem the innocent US downloader;

> *All across the world, but especially in Asia, there are businesses that do nothing but take others people's copyrighted content, copy it, and sell it–all without the permission of a copyright owner.... The copy shops in Asia, by contrast, are violating Asian law. Asian law does protect foreign copyrights, and the actions of the copy shops violate that law. So the wrong of piracy that they engage in is not just a moral wrong, but a legal wrong, and not just an internationally legal wrong, but a locally legal wrong as well.*[28]

If the new forms of film circulation in Asia are to be made sense of, then we have to urgently rescue them from knee jerk responses to piracy, as though piracy arises as a specific moral problem of Asia. It may instead be time to start look past piracy towards a better understanding of the properties of film in the age of the mechanical reproduction.

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27. Report of the U.S. Department of Transportation, C.f. Nitin Govil, *War in the age of Mechanical Reproduction* in SARAI READER 2005: CRISIS MEDIA 379, 380 (SARAI 2005).
28. LAWRENCE LESSIG, FREE CULTURE: HOW BIG MEDIA USES TECHNOLOGY AND THE LAW TO LOCK DOWN CULTURE AND CONTROL CREATIVITY 63 (Penguin Press 2004).

How Fair are The Fair Dealing Exceptions Under Indian Copyright Law?

*Latha R. Nair**

These detailed and pedantic exceptions to copyright protection, and their predecessors in the 1956 Act, are not only difficult to understand in some cases, but they also reinforce the perception that virtually all reproductions of copyright works, no matter how innocuous, are infringements. Is it surprising then, that when, for the purposes of advertising the film "Carry on Cleo', a poster was created which was a harmless but humorous spoof of a similar poster for the Elizabeth Taylor/Richard Burton film "Cleopatra', it was held to infringe copyright. It would be possible to go on criticising the width of our copyright laws, but perhaps I have said enough. It might be more useful to inquire why our law has developed as it has. I have mentioned already the value and size of the industries which now believe they need extensive copyright protection to safeguard their income stream. They, quite properly, lobby for their interests. But who lobbies against them? There is no trade union of copyright infringers. Support for any limitation on copyright is easily portrayed as support for pirates - the usual pejorative global expression for infringers. It is depicted as support for the parasites of industry. Is it surprising, then, that the scope of protection gets ever wider? I suggest that the drafting of the legislation bears all the hallmarks of a complacent certainty that wider copyright protection is morally and economically justified. But is it?[1]

I. INTRODUCTION

The above quote speaks the mind of late Sir Hugh Laddie, a judge of the High Court of United Kingdom, on the issue of 'fair use' of copyrighted works. Known for his audacious opinions on issues of intellectual property rights which often departed from the usual and conventional, his rather daring views above on 'fair use' could annoy those who view copyright only from the protectionist angle.

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* The author is a partner with K&S Partners, a full service Intellectual Property law firm based in Gurgaon. The views are personal.

1. Sir Hugh Laddie, Judge of the High Court of Justice, England, Copyright: Over-Strength, Over-Regulated, Over-Rated, Stephen Stewart Lecture Before the IP Institute, (1995), 18 European Intellectual Property Review 253 – 60 (1996).

What is 'fair use' or 'fair dealing'? While copyright is granted to authors of various works as an exclusive right, public interest in accessing such protected works is achieved by providing for certain fair use exceptions to copyright protection. Use of a work by third parties that falls under these exceptions could be categorized as fair dealing with such work.

This article makes a case for review of the existing provisions on fair dealing and fair use under the Indian Copyright Act, 1957 after reviewing the scope and extent of fair use therein from a practitioner's point of view, comparing these provisions with the copyright practice of other jurisdictions.

II. FAIR USE EXCEPTIONS UNDER INDIAN LAW

There are three separate rights granted under the Indian Copyright Act, 1957 (hereinafter, 'the Act'), being 'copyright' under Section 14, 'broadcast reproduction right' under section 37 and 'performer's right' under section 38. This position finds partial support in *ESPN Star Sports v. Global Broadcast News Limited*[2], a recent judgment of a Division Bench of the High Court of Delhi filed by a broadcaster against certain television channels wherein copyright and broadcast reproduction right were held to be two distinct rights under the Act. The third right, being performer's right, was not discussed in the judgment.

Fair use exceptions to these rights are given under sections 39 and 52 of the Act. While section 39 deals with acts not infringing broadcast reproduction rights and performer's rights, section 52 lists the acts that do not constitute infringement of copyright. Section 39, besides providing for two exceptions to broadcast reproduction rights and performer's rights under sub clauses (a) and (b) thereof, extends the exceptions to the protection of these two rights to those provided in respect of copyright infringement under section 52 of the Act 'with any necessary adaptations and modifications' under sub clause (c). The said sub clause has not specified as to which provisions of section 52 will apply to these two rights and has, therefore, left ample scope for the judiciary to interpret the same. There has not been any occasion for the courts so far to interpret section 39(c) of the Act.

There are several fair use exceptions under the Act that are common to the copyright law of the United Kingdom, based on which the Act was enacted. These provisions relate to criticism, review and news reporting, research and private study, use of works for educational purposes, parliamentary and judicial proceedings, version recordings or sound alike

2. ESPN Star Sports v. Global Broadcast News Limited & Ors., 2008 (2) CTMR 494 (Delhi) (DB).

recordings, use with regard to pictorial, graphic and sculptural works and use with regard to architectural works. However, unlike the law in the United Kingdom, the Indian law has not evenly provided for these exceptions to all categories of work. In order to understand the limitations of the exceptions provided under the Act, it would be necessary to review sections 39 and 52 in detail.

A reading of these provisions reveals that our legislators have overlooked the other side of copyright protection, namely public interest in accessing information contained in protected works while granting rights under the Act to authors and owners. Despite the lengthy provisions, these exceptions are so scant in comparison to international copyright practice that if anyone were to complain about the scope and breadth of protection available under the Act, it would be those at the receiving end for violation of copyright in situations which they believed to be genuine fair use[3]. A feeble attempt to limit the scope of such broad protection by bringing in certain reasonable exceptions can be seen in the amendments proposed to the Act in 2006[4] which are still pending.

III. BROADEST PROTECTION TO CINEMATOGRAPH FILMS

Mysteriously, the broadest protection is offered under the Act to the category of 'cinematograph films' by excluding these from many of the exceptions to protection. The only permitted act in respect of the copyright in cinematograph films that would not amount to infringement under the Act is as provided under sub-section (i) of section 52.

The subsection refers to 'performance' and 'communication to the public' of the cinematograph film. Under sub section (q) of section 2 of the Act, 'performance' has been defined only in respect of performer's right and means 'any visual or acoustic presentation made live by one or more performers'. Further, under subsection (d) of section 14, the exclusive rights granted in respect of a cinematograph film are: (i) to make a copy of the film including a photograph or any image forming part thereof; (ii) to sell or give on hire or offer for sale or hire, any copy of the film, regardless of whether

3. Take the case of a twelve year old girl who started a music band for raising funds for helping underprivileged children. Although she did not receive any monetary benefits from her music shows, her activities were not technically permitted under section 52 of the Act irrespective of the cause she wished to work for and the fact that money for charity was raised from sponsors rather than the audience. Eventually, she decided to seek a license from the relevant copyright society.
4. Proposed Amendment to the Copyright Act, (2006), http://copyright.gov.in/View%20Comments.pdf.

such copy has been sold or given on hire on earlier occasions; and (iii) to communicate the film to the public. Notably, there is no right granted in respect of 'performance' of a cinematograph film. 'Communication to the public' is defined under sub-section (ff) of section 2 to mean 'making any work available for being seen or heard or otherwise enjoyed by the public directly or by any means of display or diffusion other than by issuing copies of such work regardless of whether any member of the public actually sees, hears or otherwise enjoys the work so made available'. The right of performance of a work is granted to the owner of copyright under sub-section (a) of section 14 of the Act only in respect of literary, dramatic or musical works.

It also significant to note that the UK copyright law has clearly reserved rights of "performance" only in respect of literary dramatic and musical works and rights of "playing or showing of the work" (akin to the right of 'communication to the public' under the Indian Act) in respect of sound recordings, films, broadcasts and cable programs[5].

Considered in that light, it is trite to state that an exception from protection could be given only to a right that is provided for under the Act. While there does not appear to be any exclusive right of performance granted to the owner of a cinematograph film, an exception granted to the right to perform a cinematograph film in certain circumstances is rather out of place. Further, the words, '*or the communication to such an audience of a cinematograph film or sound recording*' inserted by the 1994 Amendment seems almost an afterthought and a clumsy attempt to rectify the situation.

IV. WHAT IS NOT PERMITTED UNDER THE ACT IN RESPECT OF A CINEMATOGRAPH FILM?

Barring the exception provided under sub-section (i) of section 52, no other use may be made of a cinematograph film under the Act. While the Hindi film industry, indeed has something to cheer about, there certainly are serious implications for such an omission, whether an oversight or otherwise.

With a booming Hindi film industry in Mumbai and various regional film industries catering to the vernacular language films, cinematography and film-making are much sought after careers in India today. Films being an integral part of teaching the art of cinematography and film making, the absence of provisions making exceptions by way of research, teaching and

5. *See* UK Copyright, Designs and Patents Act § 19, (1988).

private study in respect of cinematograph films appear to make our film institutes and film schools guilty of continuous infringement of copyright in cinematograph films. Further films, effectively used to teach languages, often pose a challenge in terms of advice to a client by a copyright practitioner as to their use.

Is it fair to make a film school or a language school obtain a license from the film producers? If so, what is the process for the same as there are no copyright societies in India that can grant such collective licenses on behalf of film producers? Would this mean that the concerned institute should approach each individual producer for a license? In the absence of an exception to this effect and in order to dodge copyright infringement suits, this would seem to be the most appropriate solution, yet the most impractical one.

The Indian courts have also these days frequently been called upon to examine issues relating to violation of copyright in films and sound recordings. Unfortunately, the Act exempts only the reproduction in the course of a judicial proceeding of literary, dramatic, musical and artistic works from infringement[6]. Hence, strictly speaking, viewing and comparing such works in the course of a judicial proceeding to determine infringement and other legal issues could fall foul of the copyright protection provisions under the Act.

Lastly, the issue of use of a cinematograph film for reporting current events arises more in today's context with the highly pervading electronic media. In the case of *ESPN Star Sports v. Global Broadcast News Limited and Others*[7], although a specific argument that no fair dealing provisions existed in respect of cinematograph films for reporting of current events and that the reporting of a sports event by the news channels, therefore amounting to violation of the copyright in the cinematograph film was raised by the appellant-broadcaster, the High Court of Delhi did not address that same.

Yet another act of infringement in the context of reporting current events is the unauthorized use by newspapers and magazines of photographs of images forming part of a cinematograph film while publishing reviews in the print media. As per sub-section (i) of section 14(d), the producer of the film has the exclusive right to make a copy of the film including a photograph of any image forming part thereof. The photographs of images from films that usually accompany the film reviews in newspapers and magazines would,

6. Indian Copyright Act § 52 (c).
7. ESPN, *Supra* note 2.

therefore, amount to violation of the said right unless expressly permitted by the owner of the cinematograph film.

V. OTHER SIGNIFICANT FAIR USE EXCEPTIONS NOT PROVIDED UNDER THE ACT

Sound recordings

A significant exception to infringement of sound recordings is the provision for making "version recordings" or "sound-alike recordings"[8]. Barring this exception, sound recordings also face an almost similar yet marginally superior treatment under the Act and, almost all the concerns raised in respect of cinematograph films above apply equally to sound recordings.

Literary, dramatic, musical and artistic works

Although a majority of the exceptions provided under section 52 pertain to literary, dramatic, musical and artistic works, the Section has not provided for some important exceptions to acts that constitute infringement of works falling in these categories. One of these exceptions is the archival use of literary, dramatic and musical works by a librarian or archivist. As things stand today, copies of any work in these categories for the purpose of preserving a permanent copy as archive (a common practice by some libraries around the world) would amount to copyright infringement. The laws of the United States of America, the United Kingdom, Australia and New Zealand do have provisions permitting the making of copies for archival purposes. Indian literary culture is rich with works being published in multiple languages. Further, there are numerous works in the category of literary, musical, dramatic and artistic works as well as cinematograph films and sound recordings which are adapted from Indian epics and ancient literature pertaining to various disciplines. Ideally, India should take advantage of its edge in information technology to preserve these works by permitting libraries to create digital archives. An exception ought to be provided under the Act for the unfettered facilitation of the same.

Another exception not provided for under the Act is use of literary, dramatic, musical or artistic works for charitable purposes. The Act does exempt the use by way of performance of a literary, dramatic or musical works by an amateur club or society to a non-paying audience or for the benefit of a religious institution[9]. However, there are certain limitations to

8. Indian Copyright Act, § 52 (j).
9. Indian Copyright Act, § 52 (l).

this exception. First, it has to be by an 'amateur club' to a 'non-paying audience'. So if funds are to be raised for a good cause by performing a work, then use of professionals to perform such work and the collection of fees from the audience would constitute a violation of the copyright in the work. Secondly, such acts are limited to the benefit of only religious institutions, thereby excluding charitable institutions which do not have any religious leanings. Further, why artistic works (and also cinematograph films and sound recordings) are left out of the purview of this section is also something to be inquired into. What about an art collector who wants to hold an exhibition of his art collection consisting of copyrighted artistic works to raise charity money for a good cause?

Lastly and most importantly, the Act overlooks the needs of the visually challenged section of society. There are no exceptions provided under the Act for the reproduction of any of the categories of protected works in Braille format or other kinds of format that would suit the visually challenged. Such a provision can be found in the laws of other jurisdictions such as the United Kingdom, Australia and New Zealand.

VI. AMENDMENTS PROPOSED IN 2006

In 2006, with a view to meet the challenges posed by the digital era, certain amendments were proposed to the Act[10]. While these amendments are still pending, the most significant of these proposed amendments relate to the fair dealing exceptions from a claim of infringement of copyrighted works.

These proposed exceptions to infringement are as follows:

- Non-commercial rental /lease or lending of cinematograph films and sound recordings by a non-profit library or educational institution.
- The making of three dimensional objects from two dimensional artistic works such as a technical drawing.
- The reproduction, issue of copies or communication to the public of any work specially designed for use of person suffering from a disability that prevents their enjoyment of such works in their normal format.
- In the case of "version recordings" or "sound alike recordings".
- The two year wait period for making a version recording following the year in which the first sound recording of the work was made has been extended to five years.

10. *Supra* note 4.

- Requirement of payment of royalty for a minimum of 50,000 copies of each work during each calendar year.
- Upon complaint to the Copyright Board an ex-parte order may be granted to restrain the person making the sound recording from making further copies.[11]

VII. UNFAIRNESS IN THE FAIR USE EXCEPTIONS?

There has not been any challenge to the Act before any judicial authority in India till date relating to the adequacy of the fair use provisions in view of the public interest in accessing the protected works. Most of the decided cases relating to fair use in India have raised the issue whether a particular use of a work amounts to fair use under the Act. Further, most of the users who use these works in fair use contexts not provided under the Act and the respective owners thereof are not aware of the implications of such use. While there have been decisions of Indian courts including the Supreme Court on what amounts to fair use, no court in India has had the occasion to address the issue of adequacy of the fair use provisions under the Act.

Fair use or fair dealing of works in which copyright exists assumes a significant role in copyright law as it blunts the monopolistic sting of copyright granted in favour of authors or owners. An unhappily worded legislation coupled with uneven application of the fair use doctrine in respect of the various categories of works results in unequal treatment of these works; thereby meeting only one part of the dual objectives of copyright protection, namely recognizing creativity. The other part, namely, protecting the public interest in accessing the information contained in these works cannot be achieved if fair use provisions are not adequate. While the proposed amendments in 2006 attempt to restore the current imbalance that exists in the Act vis-à-vis the said dual objectives, it is far from satisfactory.

India has a rich culture of art, music and literature. The film industry in India is the largest in the world and is versatile with multiple languages and cultures. The film industry has created an ancillary music industry which is equally large. In this mélange of culture and multiplicity of languages, the film and music industry churns out scores of copyrighted works every year. Adding to that is the literary, dramatic and artistic works created by Indians every year. With the recognition in the recent years of the creativity of Indian authors, musicians and film producers, it is opportune for India to

11. *Supra* note 4.

consider emulating the international copyright practice to accommodate certain widely recognized exceptions to enrich our copyright jurisprudence and keep it abreast with the international practice.

In conclusion, it is only apt to quote from an article by Pierre N Leval, a Judge of the United States Court of Appeal for the Second Circuit on the doctrine of fair use as follows:

> *The doctrine of fair use need not be so mysterious or dependent on intuitive judgments. Fair use should be perceived not as a disorderly basket of exceptions to the rules of copyright, nor as a departure from the principles governing that body of law, but rather as a rational, integral part of copyright, whose observance is necessary to achieve the objectives of that law.... Fair use should not be considered a bizarre, occasionally tolerated departure from the grand conception of the copyright monopoly. To the contrary, it is a necessary part of the overall design. Briefly stated, the use must be of a character that serves the copyright objective of stimulating productive thought and public instruction without excessively diminishing the incentives for creativity.*[12]

Fair use and copyright are, therefore, two sides of a coin that cannot exist without each other. If the regime of a country is structured to treat copyright with no fair use or without adequate fair use, everything can be appropriated in the name of copyright, thereby creating a monopolistic regime in favour of owners of protected works. The current lacunae in the Act regarding fair use of protected works are surely inadvertent errors that crept in at the time of drafting. However, there have been no subsequent efforts of rectification. The copyright law of a country has to keep pace with developments around the world and appropriate amendments must be made to maintain a balance between protecting creativity and preserving public interest. Copyright laws around the world recognize this aspect and undergo constant revision[13]. As the levels of creativity and creative works continue to mount in India, India needs to wake up to the urgent reforms required to the overall design of its copyright law to drain its monopolistic colour and restore a balance to reflect the current international practices on fair use.

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12. Pierre Leval, *Toward a Fair Use Standard*, 103 HARVARD LAW REVIEW 1105, 1107 (1990).
13. For instance, see the Copyright (Visually Impaired Persons) Act, (2002) which brought about amendments to the UK law by adding provisions permitting reproduction of works for use by visually challenged persons.

INTELLECTUAL PROPERTY: THE DOMINANT FORCE IN FUTURE COMMERCIAL TRANSACTIONS COMPRISING MERGERS AND ACQUISITIONS

*Mandavi Singh**

I. INTRODUCTION

Mergers and Acquisitions ("M&A") have become the corporate world's most popular growth strategies, especially in rapidly-evolving businesses like Information Technology, Telecommunication, Business Process Outsourcing and Pharmaceuticals. This strategy now constitutes the swiftest, surest way to acquiring competencies and funds, opening new market avenues, expanding customer base, snuffing out competition, and thus, maintaining and improving profitability.

The consensus is that when companies combine their core competencies through M&A, both tangible and intangible assets of the Target Company are part of the cash flows to the Acquiring Company, and the most significant of these assets is the Intellectual Property.[1] Indeed, in today's 'idea economy', where knowledge is power, Intellectual Property (IP) has become the dactylogram of a company – the unique and continuing identifier of a company and its creations of products and processes of art, literature, music, science and technology through human endeavour.[2] The world is caught in a frenzy to capture and harvest such assets, through Mergers (which give ownership over assets) and Acquisitions (which give control over assets).[3]

Also, as IP-based deals have become more mainstream and sophisticated, the willingness to divide and assume risk has increased. Companies and Investors are getting more comfortable with IP financing.

As a result of all of these trends, the rate of M&A transactions has increased dramatically (see Table below)[4].

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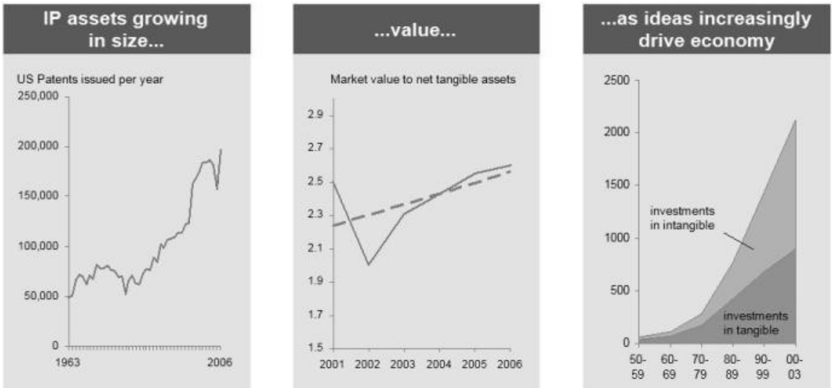
* Student, II Year, NALSAR University of Law, Hyderabad, India.

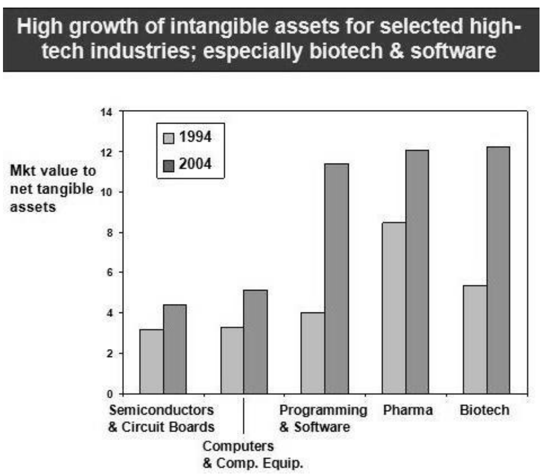
1. Kelvin King, *The Value of Intellectual Property, Intangible Assets And Goodwill*, 7 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS 245 (2002).
2. According to a recent study by Price Waterhouse Coopers, more than 50% of companies' net worth is derived from IP, up from 15% in 1965 to 85% today. *See* P. Walsh, and G. Cohen, *Liquidity in the IP Space- An Overview*, 4 INTELLECTUAL ASSET MANAGEMENT 87(2007).
3. *Supra* note 1.
4. DOING BETTER DEALS: IP AS AN ACQUISITION LENS (The Boston Consulting Group 2007)



II. HOW INTELLECTUAL PROPERTY DRIVES M&A ACTIVITY

How Intellectual Property Fuels Mergers & Acquisition

Intellectual Property exists as the intangibles of Trademarks, world-wide Patents, Copyright Assignments, Trade Secrets, Geographical Indicators, Domain Names, Registered Designs, Plant Breeder's Rights, Technology and Know-How—which create value, special rights, profits and generate goodwill and consumer loyalty. Virtually every business uses computer software, owns Trademarks, uses technology, produces branded goods, runs Research and Development cells, creates designs, invents devices and furbishes techniques. The value of the target firm, therefore, becomes dependent on the value of its earnings, assets and Intellectual Property (see Table below)[5].



5. *Value Creating M&A*, VALUE PROPOSITION (The Boston Consulting Group 2005).

Technology-driven M&A transactions can be the corridors to introducing innovations, increasing the speed of new product introductions, and decreasing the cost of R&D through a more efficient allocation of resources to areas of greatest competency. A recent example of the same is found in CleanTech Biofuels, Inc.'s acquisition of the sophisticated technology of Biomass North America Licensing, Inc. through a strategic Merger to convert municipal solid waste into cellulosic biomass and generate electricity.[6]

Mergers not only allow companies to gain access to Patents to desired or valuable products and processes, but also create Patent Pools which integrate patents relating to a particular technology standard, reduce litigation and licensing costs, and increase royalty shares.

Napster started out in 1999 as a free music swapping website and sought bankruptcy protection in 2002 after record companies sued over alleged copyright violations. German corporate behemoth Bertelsmann then captured it in an acquisition of $8 million in which Napster will charge for its audio-service and pay a portion of the proceeds to artists and record companies.[7]

IBM recently acquired Daksh eServices, the third-largest Indian call centre and back-office service provider, which has revenues of $60 million, for $150 million. IBM thus not only gained a core competency, but also Daksh's copyrighted software codes and related intellectual property.[8]

Similarly, Microsoft's hostile Acquisition of Yahoo in 2008 at USD 45 billion is more an acquisition of intellectual property than any tangible assets or human resources.[9]

How IP Valuation is Crucial to M&A Activity

The cinching of any Merger or Acquisition involves three phases:

1. Pre-acquisition;
2. The Deal;
3. Integration;

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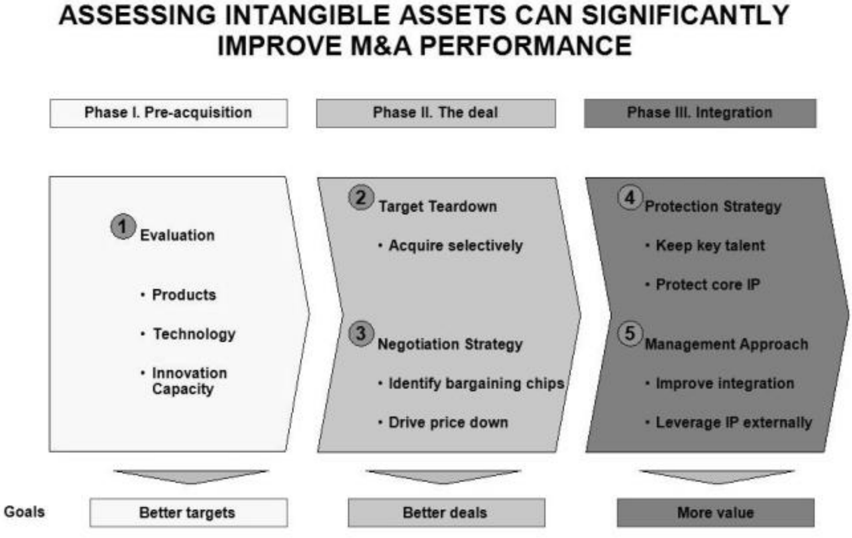
6. *CleanTech Biofuels Enters Into Agreement to Acquire Technology and Develop Commercial Site*, Reuters, Jul. 15 2008, http://www.reuters.com/article/pressRelease/idUS216244+15-Jul-2008+MW20080715.
7. Drew Cullen, *Bertelsmann Saves Napster: For What?,* The Register, May 17, 2002 , http://www.theregister.co.uk/2002/05/17/bertelsmann_saves_napster/.
8. *IBM to Acquire Daksh eServices*, The Hindu, Apr. 8, 2004, http://www.hindu.com/2004/04/08/stories/2004040804721800.htm.
9. H. Moore , *Market Reaction: Microsoft's Offer Looks Like a Knockout*, THE WALL STREET JOURNAL, Feb. 1, 2008.

and all the steps to be undertaken are mainly aimed at preserving, leveraging and harvesting of the Intellectual Property at stake (See Table below[10]).



Considering that a vast proportion of the value of a business may relate to intellectual property rights, probably the first thing that should be determined by an Acquiring Firm is the assessment of its IP assets in order to protect the value of those rights. Research has persistently shown that intellectual asset value is not fully understood by businesses – even those whose value is heavily dependent on their IP.[11]

The negotiation of the final Purchase Price between the seller and buyer can only occur after the credibility of real worth of the target company has been established, through valuation which takes into account the business dynamics of both parties, the rationale for the Merger, industry dynamics, and net likely profits and losses from the synergy. Valuation provides vital information about the economic viability of the acquisition and indicates the levels of present and potential utilization of intellectual property, so that the Acquiring Firm may frame its business development strategies accordingly.[12]

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10. *Value Creating M&A*, VALUE PROPOSITION, (The Boston Consulting Group 2005).
11. A survey by DLA Piper in 2004 of IP-owning businesses found that 38% had never undertaken a formal valuation of their intellectual property. *See How Europe Manages its IP*, MANAGING INTELLECTUAL PROPERTY, Nov. 8 2004, http://www.managingip.com/Article/1258627/How-Europe-manages-its-IP.html.
12. L. PARR AND P. SULLIVAN, TECHNOLOGY LICENSING: CORPORATE STRATEGIES FOR MAXIMIZING VALUE 83 (John Wiley & Sons Inc. 1996).

The valuation is based on dynamic expectations and a dynamic environment, where economic cycles (like changing GDP Growth Rates), stock-market situations and global situations (like wars or terrorism) play havoc with corporate stabilities.[13]

The value of intellectual property is even more volatile. As the value of assets depends on the present value of the future economic benefits or losses that can be reasonably anticipated to accrue to the owner, valuation may yield only relative results. Government Policies, market scenarios, internal work efficiency of corporations, antitrust laws and the impact of globalization also make these Intangible Assets difficult to identify and evaluate.[14]

The controversial float of QinetiQ in the UK in January 2006 for public offering occurred due to the extreme difficulty to determine the value of the company, which heavily resided in its intellectual property.[15]

However, valuation which is based on careful analysis, experience, professional knowledge, expert advice and keen diligence may well produce near infallible answers. Valuation is an art more than a science and is an interdisciplinary study drawing upon law, economics, finance, accounting, and investment.[16] Such a multidisciplinary investigation for assessment and valuation of the assets by the legal and financial professionals along with the IP-owner is called the "Due Diligence Report".

How is Due Diligence Valuation carried out?

Due Diligence valuation of IP is crucial to the transaction due to the disparity of information (about net assets value) between the seller and the buyer.[17] It starts with a Letter of Intent or a Memorandum of Understanding, in which the parties agree to exchange requisite information, documents, business plans, stipulating the schedule, mode and deadlines. A Confidentiality Agreement may be contracted if the IP involves certain trade secrets, protecting Attorney-Client privileges.[18]

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13. T. Copeland et al., Valuation: Measuring and Managing the Value of Companies 128-131 (John Wiley & Sons 2000).
14. *Supra* note 1.
15. *UK to Float Defence Firm Qinetiq*, BBC NEWS, Jan. 12 2006, http://news.bbc.co.uk/1/hi/business/4604568.stm,.
16. *Supra* note 1.
17. D. McGavock and M. Newell , *Five Critical Questions Your CFO Should Be Asking About IP*, 4 Intellectual Asset Management 76, 80 (2007).
18. Glenn A. Gunderson and Paul Kavanaugh, Intellectual Property in Mergers & Acquisitions, Trademarks in Business Transactions Forum 87 (International Trademark Association 1999)

The Rule of the Thumb is first employed to determine the importance of Intellectual Property of the Target Firm.[19]

Subsequently, Due Diligence must quantify the remaining useful life— physical, functional, technological, economic and legal— and decay rates of the IP using 3 possible techniques of the mathematical valuation of Intellectual Property:

1. *Market-Based Value*, i.e. the purchase price determined by market price of a comparable property. This valuation technique is impeded by several factors, such as difficulties of finding property of comparable and compatible value to the IP in hold, special purchasers, different negotiating skills, and the distorting effects of the peaks and troughs of economic cycles etc. [20]

2. *Cost-Based Value*, i.e. the purchase price determined by the cost to create or the cost to replace. Though this valuation-technique is easy in use, it ignores changes in the time value of money and ignores maintenance. As this method takes into account the cost for building up the business from scratch, it is more suitable in cases of build-operate-transfer deals.[21]

3. *Value Based on Estimates of Future Economic Benefits*,[22] i.e. the purchase price determined from an estimate of past and future economic benefits, called the "Discounted Cash Flow" Analysis of: 1) capitalisation of historic profits, 2) gross profit differential methods, 3) excess profits methods, and 4) the relief from royalty. This technique takes into consideration the future earnings of the business and hence the appropriate value depends on historic and potential profitability of assets, projected revenues and costs in future, margin between the branded and the generic equivalents of a product, expected capital outflows, investment prospects, number of years of projection, discounting rate and terminal value of business. Discounted cash flow analysis is probably the most accurate and comprehensive of appraisal

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19. The greater the disparity between the Purchase Price proposed by the seller and the value of the Net Tangible Assets, the greater is the value of the Intellectual Property owned by the seller. A. Lanjouw, J. Pakes and J. Putnam, *How to Count Intellectual Property and Value Intellectual Property: The Use of Patent Renewal and Application Data*, 46 Journal Of Industrial Economics 405, 409 (1998). *See also* Ted Hagelin, *Valuation of Patent Licenses*, 12 Texas Intellectual property Law Journal 423 (2004).
20. *Supra* note 1.
21. H. Harish and C. Srividya, *Rationale and Valuation Techniques for Mergers and Acquisitions*, The Chartered Accountant, May 2004, 1228-1230.
22. *Supra* note 1.

techniques, and is hence, generally the preferred option.[23]

Any of these methods may be used in Due Diligence to measure the real value of IP being used or required to be used in future, examining legal touchstones like:

- The substantive type of IP assets (whether owned, registered, applied for, licensed, etc.);
- The chain of ownership and control in IP usage (such as invention, purchase, assignment, acquisition);
- Interests of any third parties in IP (such as rights infringed); tax considerations (maintenance fees, tax payments and benefits);
- Validity and viability of rights to the IP (whether rights are transferable, lawful, enforceable);
- *Modus operandi* of IP transfer (schedule and medium of cash flow, etc);
- Geographical area of the IP usage (market access, target group, etc.);
- Impact of foreign laws on IP transfer and usage (like jurisdictional issues);
- Obstructions to the use of IP (competitors' dominating assets, fees, defects in IP, unsafe employment agreements etc.);
- Need of warranties and recordal of IP rights;
- Past and potential violations of Antitrust Laws; and
- Disputes related to that IP (infringement-issues, pending applications for patents, etc.).[24]

How Companies Acquire IP Assets

Once the Due Diligence Report has been approved by the parties and a Purchase Price affixed, the Acquisition Agreement calls for a Stock Sale (sale of shares), which constitutes transfer in the eyes of Law. The Assets Sale ensues, but only for the Tangible Assets and non-Intellectual Property Intangibles. The actual IP Assets must be specifically mentioned in the Acquisition Agreement and clearly distinguished during the Assets Sale, or transferred through a separate agreement, because they confer distinct

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23. *Ibid.*
24. Arnold B. Silverman , *The Importance of Intellectual Property Due Diligence in Mergers and Acquisitions*, 56 JOM 76 (2004).

property rights and require recordal[25] of the new owner in the respective jurisdictions in which they are validly owned and used.[26] Intent to transfer Trademark and Goodwill is generally presumed during the Assets Sale, but not in cases where a parent corporation acquires an autonomous subsidiary. Finally, supplemental closing documents are exchanged.[27]

Timing is critical. It may be the case that the major details of a deal can be turned overnight into a reasonable agreement reflecting the deal.[28]

IP Benefits after the Deal

Many companies are afraid to attempt to leverage their IP portfolio for fear of losing their competitive advantage, starting a patent war or gaining a negative reputation for using aggressive IP tactics. But by following a structured process[29], companies can generate incremental value from their IP portfolio—a potential goldmine no matter how small a part of the deal[30]—using a combination of business models:[31]

- IP sale – Sell IP to the highest value user;
- Spin-off – Spin off IP assets as the seed for a startup in exchange for equity;
- Internal licensing program – License patents to obtain a variety of "currencies";
- IP subsidiary – Set up a subsidiary to focus on patent licensing;
- Traditional patent pool – License essential patents along with others;
- Patent platform – License essential patents through a flexible patent platform;
- Donation – Donate patents to achieve strategic goals and gain tax

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25. Glenn A. Gunderson and Paul Kavanaugh, Intellectual Property in Mergers & Acquisitions, Trademarks in Business Transactions Forum 90 (International Trademark Association 1999). "With the exception of all-stock deals or relatively similar stock transactions, the assets, including the intellectual property rights of the acquired company, need to be transferred into the name of the new owner in each jurisdiction where such rights exist. *Timely recordal of a change of ownership is critical to protect the ongoing validity and enforcement of intellectual property rights.*" in Ladas and Perry, *Worldwide Recordal of Intellectual Property Rights*, http://www.ladas.com/IPProperty/IPTransfers/IPTran06.html,.
26. Glenn A. Gunderson and Paul Kavanaugh, Intellectual Property in Mergers & Acquisitions, Trademarks in Business Transactions Forum 87 (International Trademark Association 1999).
27. K. Wilhelm and S. Zimmer, *The Evolving Asset Class*, 4 Intellectual Asset Management 84, 86 (2007).
28. Ilya Kazi , United Kingdom: IP Aspects of Mergers, Acquisitions and Due Diligence (Mathys & Squire 2008).
29. Maximizing the Return on Intellectual Property (The Boston Consulting Group 2005).
30. *Supra* note 28
31. *Supra* note 29.

advantages;

- Funds and Facilities for Investment in R&D Cells;
- Abandonment – Abandon un-leverageable patents to reduce costs.[32]

The most significant of these leverage ideas is the tactic of "licensing" core Intellectual Property Assets by companies to other firms, including competitors. This unconventional strategy would generate enough incremental cash and other financial and strategic benefits to more than offset the potential loss of market exclusivity caused by licensing.[33] For example, Motorola licensed its GSM standard technology to Nokia and Ericsson in 2001, which generated a significant recurring royalty stream and a long-term strategic benefit by helping to direct industry R&D to an area best suited to the company's position and strategy.[34]

Intellectual Property and Tax Optimization

Intellectual Property Assets are often a useful means to tax planning and tax efficiency, whether through third-party transactions or through internal strategies like cross-border transfer pricing and IP-holding companies.[35]

The Acquiring Firm, after obtaining title to an IP asset, may choose to sell it, or license it to another Operating Company, to get tax benefits. The Acquiring Company may also transfer IP ownership to offshore tax havens, so as to "park" the IP until it is ready for the exploitation.[36]

Entities using and controlling IP assets are incumbent to pay a service tax[37], but companies creating and acquiring the IP assets are also privileged to certain tax reductions in lieu of the costs incurred by them, like legal costs, R&D costs, Registration fees, Royalties, salaries, etc, after the year of the Merger.[38]

Transactions wherein one company has a presence in more than one

32. *Ibid.*
33. D. McGavock and M. Newell,. *Five Critical Questions Your CFO Should Be Asking About IP,* 4 INTELLECTUAL ASSET MANAGEMENT 76, 77 (2007).
34. S. Hawkes, *When licensing deals create shareholder value*, 7 INTELLECTUAL ASSET MANAGEMENT, 7, 12 (2003).
35. *Supra* note 33. *See also* P. Chandra, *Financial Management of Mergers and Acquisitions,* FINANCIAL EXPRESS, April 16, 2007at 5.
36. K. SETH, INTELLECTUAL PROPERTY DUE DILIGENCE IN MERGERS AND ACQUISITIONS (Seth Associates 2006).
37. *Example:* Secs. The Income Tax Act (Act No. 43 of) 1961, sections 10A, 10B, 80IA and 80IB of govern service tax issues on Intellectual Property in India.
38. *Supra* note 36.

country can generate more complex tax implications. Pre-transaction considerations during Due Diligence should include whether any tax treaties exist among the respective nations, parent country tax requirements and taxation in the foreign jurisdiction.[39]

Alignment between tax benefit and IP strategy may be marked by a tug-of-war (For example, an acquired patent may be structured as a sale to receive favourable capital gains treatment) or a strong consonance (For example, an IP Management Company may provide tax benefits through intercompany licensing arrangements that shift income from higher to lower tax jurisdictions).[40]

III. INTELLECTUAL PROPERTY – THE WINNER'S CURSE

The Risks of Unsound Due Diligence

In Mergers and Acquisitions, Intellectual Property Assets can be especially difficult to accurately value, most notably in rapidly evolving high-tech industries. Failure to execute a sound IP Due Diligence Report has been the Waterloo of many an Acquiring Company. Indeed, the most oft cited cause for M&A failure is intellectual property, in a notorious phenomenon known as the "*Winner's Curse*" where the Acquiring Firm pays more than market value for an item due to systematically under-estimating their own costs (i.e. over-estimating their own values), and later feels remorse that so much was paid. The curse is common and potentially ruinous.[41] Persons suffering may be punished by capital markets, hamstrung competitively and constrained by burdensome capital structures. They may also get caught in tedious, expensive IP litigation, and contentious antitrust or jurisdictional issues.[42]

Take the purchase of Rolls-Royce in 1998. Volkswagen acquired the plant, the designs for the cars and a range of tangible assets such as the buildings for a whopping USD 780 million. Crucially, however, it did not acquire the Rolls-Royce name–the intellectual property of the trademark. The latter was acquired by BMW at USD 65 million. Economists argue that since the main asset value is in the brand, BMW got the better deal.[43]

Viacom recently launched a USD 1 billion action against Google

39. Intellectual Property: Protecting, Valuing and Optimizing Assets, IP Practice Strategy (Analysis Group: Economic, Financial and Strategy Consultants 2007)
40. D. McGavock and M. Newell, *Five critical questions your CFO should be asking about IP*, 4 Intellectual Asset Management 76, 78 (2007).
41. M. Park, Making M&A Pay: Avoiding the Winner's Curse, Corporate Strategy (Accenture 2005)
42. C. Bady and S. Moeller, Intelligent M&A 96-98 (John Wiley & Sons, 2007).
43. J. Chevron, *How Much for That Brand in the Window? Thoughts about brand valuation*, http://www.jrcanda.com/art_valuation.html.

following its USD 1.6 billion purchase of YouTube, on the basis that YouTube has infringed its rights. Google's Acquisition had not taken into account the fact that YouTube's business conflicts with the rights of other parties.[44]

Intellectual Property Litigation

Both the cost and uncertainty of outcomes associated with IP litigation have never been higher. IP litigation, particularly patent litigation, has become a mainstream topic in the financial markets.[45] Lately, changes in company stock prices have been attributed to IP litigation events. For example, once Affymetrix was granted a favourable verdict in a patent case against Illumina, the stock prices of both companies shifted by about USD 88 million in opposite directions.[46]

All too often, IP litigation takes on a life of its own, driven by an emotional "win at all costs" attitude, straying away from sound business and economic objectives to outflank the other side without considering the costs, benefits and risks of various arguments.[47]

The Sanofi-Aventis Pharmaceuticals Mega-Merger is now locked in patent challenges to its three biggest selling drugs, because product clearance and Due Diligence were not carried out in each geographic market. At present, the drug has generated no revenue and the company has exhausted its initial capital and investment opportunities.[48]

Intellectual Property and Jurisdiction Issues

The Acquiring Firm often uses the Intellectual Property Asset in more than one country. Laws governing IP in parent country of the Acquiring Firm, are usually different from the IP Laws in the host country of the Target Company. Such IP assets become victim to multiple foreign jurisdictions. The Courts have to deal with issues on the basis of the merit of IP alone.[49]

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44. *Viacom Will Sue YouTube*, BBC NEWS, Mar. 13, 2007, http://news.bbc.co.uk/2/hi/business/6446193.stm.
45. In a recent survey of Wall Street professionals conducted by CRA International, 75% of respondents indicated that patent litigation exposure was "important" in valuing investment opportunities. Total cost of litigating significant IP cases in the US alone exceeds USD 5 million. *See New M&A Survey Finds IP Assets Growing in Importance in Deal Transactions*, THE WALL STREET JOURNAL, Dec. 10, 2007, http://www.marketwatch.com/news/story/New-MA-Survey-Finds-IP story.aspx?guid =%7B875B80D5-50D6-4B41-83A8-EDAF0A6C4CBE%,
46. D. McGavock and M. Newell, *Five critical questions your CFO should be asking about IP,* 4 INTELLECTUAL ASSET MANAGEMENT 76, 79 (2007).
47. Ilya Kazi,, *United Kingdom: IP Aspects of Mergers, Acquisitions and Due Diligence*, Strategy Presentation, Mathys & Squire, May 22, 2008.
48. *Sanofi, Aventis to Merge*, PHILADELPHIA BUSINESS JOURNAL, Apr. 26, 2004, http://www.bizjournals.com/philadelphia/stories/2004/04/26/daily4.html.
49. K. SETH, INTELLECTUAL PROPERTY DUE DILIGENCE IN MERGERS AND ACQUISITIONS, CONFERENCE PRESENTATION (Seth Associates 2006).
50. *Ibid.*

One way to thwart such hostile jurisdiction issues would be the timely recordal of intellectual property rights,[50] which would protect the ongoing identity, validity and enforcement of IP Rights and also help to overcome legal difficulties of maintenance, sale, enforcement, licensing, usage etc.[51]

Intellectual Property Conflicting with Antitrust Laws

Most Antitrust Laws prohibit M&A Activities which cause 'substantial' lessening of competition or which show tendencies towards monopoly in any relevant market.[52] Many a time, Merger guidelines have evolved to circumvent anti-competition activities, but though they have been influential, they have not been binding on Courts.[53]

Antitrust issues are more virulent in case of Horizontal Mergers, where firms competing in the same market combine. Here, Courts calculate the Herfindahl-Hirschman Index ("HHI") depending on the market shares and concentration in the market. HHI beyond a particular level indicate anti-competitive effect, which can be rebutted by Defendant by evidencing otherwise.[54]

Wesley-Jessen Corporation, the leading maker of opaque contact lenses – corrective or solely-cosmetic lenses that change the apparent eye colour of the wearer – sought to acquire its main rival, Pilkington Barnes Hind International. In the ensuing lawsuit over antitrust law issues, Wesley-Jessen was required to divest Pilkington Barnes Hind International's opaque lens business. It was also required to license certain intellectual property rights to the acquirer of Pilkington Barnes Hind International's opaque lens business.[55]

Courts are less stringent in cases of Vertical Mergers, where the supplier firm combines with a customer firm, foreclosing rival sellers to such a supplier, and rival customers to such a supplier.[56]

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51. *Ibid.*
52. *Example*: Sec. 7 of The Clayton Antitrust Act, 1914 (U.S.A.) is an example of Antitrust Law often in conflict with Intellectual Property Rights.
53. Intellectual Property and Antitrust Handbook 13-5 (American Bar Association Section 2007).
54. To calculate it, experts take the market share of each firm in the industry, square it, then add them all up. If there are 100 equal-sized firms (a market with close to Perfect Competition) the index is 100. If there are four equal-sized firms (possible Oligopoly) it will be 2,500. The higher the Herfindahl number, the more concentrated is Market Power. *See* S. Rhoades, *The Herfindahl-Hirschman index*, 3 Federal Reserve Bulletin 188, 189 (1993).
55. Wesley-Jessen was required to issue to the company acquiring Pilkington Barnes Hind International's opaque lens business "a non-transferable, irrevocable, non-exclusive, royalty-free license under the patents listed in Appendix B of this Order to manufacture, import, offer for sale, use and sell Opaque Contact Lenses in the Licensed Territory." *See* Wesley-Jessen Corp. v. Pilkington Visioncare, Inc., 123 F.T.C. 4 (1997), 7, Para. L.
56. L. Bryer and M. Simensky, Intellectual Property Assets in Mergers and Acquisitions 186 (John Wiley & Sons 2002).

The European Court of Justice recently adjudicated that the Sony-Bertelsmann Merger to combine their music units into world's second-largest record label was flawed because it was violating antitrust laws.[57]

Antitrust issues are accentuated in cases of Patents, which grant a "limited monopoly", where use of products and processes extends over a limited time only, but to the exclusion of all other competitors. Courts have held that as only those Patents would be violative of Antitrust laws which have been unlawfully acquired (like fraud on the Patents and Trademarks Office) or which have been improperly enforced (used in excess of their limitations), as then they would be running counter to the Antitrust principle of free and open markets.[58]

Such Antitrust difficulties can be overcome by timely and accurate Due Diligence.

Solution to the Winner's Curse: Refocusing of Due Diligence

Globally, across all industries, 25% of Mergers fail to achieve projected revenue synergies falling more than 75% short.[59]

One major cause of the failure of a Merger is due to the erroneous focussing of Due Diligence on historical information rather than the future potential of free cash flows. Most companies only focus on what is readily and already visible in the marketplace–such as past financial performance; current market share and margins; historical growth rates,[60] and not the future value creation potential. In order to identify *better targets*, make *better deals* and extract *more value* from M&A,[61] companies must shift their focus to the things that will create value in the future, including:[62]

- Current products – strength and sustenance of the company's product position, market share and margins.
- Product pipeline – strength of the company's product pipeline and future market-capture capacity.
- Technology position – strength of the company's financial and IP-based position in the key future technologies

57. *See* Bertelsmann Sony Corporation of America v. Impala, European Court of Justice Case C-413/06 P. *See also EU Court says Sony and Bertelsmann Merger Approval was Flawed,* The International Herald Tribune, Jul. 10, 2008.
58. SCM Corp. v. Xerox Corp., 645 F.2d 1195 (2d Cir. 1981), (cert. denied).
59. J. Hendrickson, et al., *Combating the Winner's Curse*, 10 Public Utilities Fortnightly 62, 67 (2006).
60. Maximizing the Return on Intellectual Property (The Boston Consulting Group 2005).
61. *Ibid.*
62. *Id.*
63. *See Supra* note 60.

- Innovative capacity – capacity of the company to produce critical innovations and collaborations in the future[63]

IV. CONCLUSION

There is great diversity across the size of deals, the sectors, as well as the investors in M&A Activity. Over recent years, a plethora of ways to turn IP rights into money has been growing increasingly popular. Licensing and technology transfer, the emergence of Merger-Auctions, direct sales, tax-efficient IP-planning, online IP exchanges, and most importantly, strategic M&A Activity, have broadened Intellectual Property Rights owners' options considerably.

A major component of the fuel of this growth is IP Financing– liquidity in the private equity and hedge fund markets – which continues to grow, ensuring the future health of IP-related alliances.[64] The financial community is waking up to the benefits of generating additional funding on the back of patents, trademarks and copyrights. For IP owners looking to make their assets sweat, therefore, the range of options is greater than ever before.

Indeed, it is anticipated that intellectual property will be the dominant force in future commercial transactions comprising tomorrow's Mergers and Acquisitions.

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64. *Intellectual Property Financing–An Introduction*, WIPO Magazine, Sept. 5, 2008, http://www.wipo.int/wipo_magazine/en/2008/05/article_0001.html.

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