

# **A NEW BONANZA FOR PLAINTIFF'S LAWYERS ? MULTI-MILLION DOLLAR COPYRIGHT LIABILITY IN THE U.S.A.**

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## **§ Introduction**

Most American business executives, if asked, would disapprove of copyright infringement; some might add that they have a policy warning employees not to infringe. But a policy may not be enough according to a recent decision affirming almost twenty million dollars in damages against a company whose employees did what a lot of employees in the U.S. do everyday; they faxed, downloaded and forwarded on-line issues of a copyrighted newsletter to which their employer subscribed.

## **§ The Problem**

Contrary to the common assumption that - *if it's on the Internet, it's public domain*, in fact much material on the worldwide web is copyrighted.<sup>1</sup> While some copyright owners freely grant permission to download or forward materials, many licenses severely restrict any such use. Permission to download may not include permission to photocopy; authorization to use within a corporation's headquarters may not include permission to forward to branch offices, much less to customers.

Another common assumption—that a company can rely on the *fair use* doctrine when copying and distributing periodicals for which it has a subscription also is questionable. References in the U.S. Copyright Act<sup>2</sup> to possible *fair use* for teaching, scholarship, comment and research will not reliably provide a safe harbor for commercial users even if the use is characterized as for education or research.

## **§ The Potential Legal Exposure**

### **A. Liability**

Copyright protection under U.S. law vests, automatically in the author of an *original* work (the *originality* standard is quite low) fixed in a tangible medium of expression (e.g., print, software, video, etc.). Infringement can be proved simply by demonstrating *ownership* (a *prima facie* case is made by offering in evidence a Certificate of Registration of the claim of copyright) and *copying* (an unauthorized electronic transmission of a protected work from one computer's memory to another's generally creates an infringing *copy*). Moreover, as discussed below, defenses such as *estoppel*, implied license and *fair use* may not shield an employer, even an employer that instructs its employees never to infringe copyrights. In other words, liability for copyright infringement is often easy to prove.

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<sup>1</sup> As a condition of U.S. membership in the Berne Convention, since March 1, 1989, it has been unnecessary to include a copyright notice on a work; and even items that once were in the public domain may be protected if they are part of an original compilation or have been revised.

<sup>2</sup> 17 U.S.C. 107.

## B. Damages

The U.S. Copyright Act provides for recovery of three kinds of damages at the election of the plaintiff—actual damages (e.g., lost licensing revenue); profits attributable to the infringement; or statutory damages (from \$750 to \$150,000 for each infringed work). Because each infringed work constitutes a separate offense for the purpose of statutory damages liability can skyrocket, e.g., where daily or weekly newsletters are infringed. That is just what happened in *Lowry's Reports, Inc. v. Legg Mason, Inc.*, (hereinafter referred to as *Legg Mason 1*<sup>3</sup> and *Legg Mason 2*<sup>4</sup>). In *Legg Mason 1*, the Court granted summary judgment as to liability for copyright infringement where a financial services firm, which subscribed to the plaintiff's stock market newsletter, faxed and emailed copies to branch offices and the brokerage's research department. The following holdings by the Court deserve attention.

1. *Vicarious liability of the employer*: The Court rejected the defense that because the copying contravened several memoranda from the defendant's legal and compliance department warning employees not to infringe copyright, the employer could not be liable for vicarious infringement. Noting that "*liability takes no cognizance of a defendant's knowledge or intent*"<sup>5</sup>, the Court added, "*The fact that [defendant's] employees infringed [plaintiff's] copyrights in contravention of policy or order bears not on [defendant's] liability, but rather on the amount of statutory and punitive damages and the award of attorney's fees*"<sup>6</sup>.

2. *Equitable estoppel*: To establish an estoppel defense, defendant Legg Mason had to show, among other things, that plaintiff Lowry's, through misrepresentation or concealment, induced Legg Mason to reasonably believe that Lowry's did not intend to enforce its rights. The Court rejected this defense because the plaintiff included a copyright notice on its works, finding that "*the mere affixation of the copyright notice on copies of the work if seen by the Defendant speaks loudly and clearly enough to counter an estoppel...*"<sup>7</sup>

3. *Fair use*: The defendant did not even argue that its posting and downloading of copies within its office intranet constituted *fair use*, and as the Court observed, "*Nor would such an argument prevail*". Rather, the defendant contended that limited copying by paper and email within its research department was defensible as *fair use*. The Court, however, summarily rejected the defense, holding that the first, third and fourth factors under 17 USC 107 weighed heavily against the defendant, "*To the extent that the [defendant's] six or more [unauthorized] copies represented additional potential subscriptions, the copying within the research department diminished [plaintiff's] market*"<sup>8</sup>.

4. *Implied license*: The Court easily rejected the implied license defense because "*No rational fact finder could conclude*"<sup>9</sup> that the plaintiff and defendant mutually assented to the defendant's copying.

5. *Disgorgement of profits*: As mentioned above, a plaintiff can elect to recover, rather than actual or statutory damages, a defendant's profits attributable to an infringement. Significantly, a

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<sup>3</sup> 271 F.Supp.2d 737 (USDC MD 2003).

<sup>4</sup> 302 F.Supp.2d.455 (USDC MD 2004).

<sup>5</sup> 271 F.Supp.2d 737, 746.

<sup>6</sup> 271 F.Supp.2d 737, 746.

<sup>7</sup> 271 F.Supp.2d 737, 747.

<sup>8</sup> 271 F.Supp.2d 737, 749.

<sup>9</sup> 271 F.Supp.2d 737, 750.

plaintiff need only show a defendant's gross revenue; it then falls to the defendant to prove the permissibility of each and every deduction and the elements of profit attributable to factors other than the copyrighted work. Although the Court declined to award a share of Legg Mason's revenue of more than \$4 billion, it appears that the Court might have reached a different conclusion had the plaintiff's expert, on deposition, not admitted that *"he could not say whether a causal link connected the infringement to [defendant's] profits"*<sup>10</sup>. On the other hand, the Court concluded, *"although it seems that some of [defendant's] profits 'should' relate to its infringing use ... the appearance defies reason. The complex, variable, independent thought processes of hundreds of individual brokers intervene between the copying and any subsequent gain"*<sup>11</sup>.

6. *Statutory damages*: Noting that the Copyright Act authorizes statutory damages of up to \$150,000 for each willfully infringed work (i.e. for each daily and weekly newsletter), the Court held that the issue of "willfulness" was best *"left to the jury"*<sup>12</sup>. In early 2004, following a jury trial on the issue of willfulness in *Legg Mason 2*, the Court upheld a jury verdict of \$19.7 million. Legg Mason argued that only \$59,000 of actual harm was shown, and that accordingly, the verdict was so disproportionate as to violate due process. The Court rejected the argument, noting that substantial deference must be accorded to Congress in exercising its constitutional authority to protect copyrights; and that in 1999, Congress amended the Copyright Act by increasing statutory damages *"in order to provide 'more stringent deterrents' to copyright violations including those involving computer users and Internet activity"*<sup>13</sup>. Observing that Legg Mason's maximum liability for willful infringement was \$36 million, the Court concluded:

*"The jury was not required to believe Legg Mason's assertions that the repeated infringement was due to its oversights and set its damages award accordingly. Further, the evidence indicated that Legg Mason was a sophisticated entity that repeatedly infringed Lowry's copyrights, even when asked to stop. In light of this evidence, the Court will not modify the jury's award or order a new trial because of its size."*<sup>14</sup>

## **§ So What's An Employer to Do?**

The answer will depend upon an employer's research needs and market strategies—upon how and how much it uses newsletters, magazines and other copyrighted works. Therefore, preparing a copyright compliance policy, corporate counsel, with the assistance of personnel from information technology and the corporate library, should identify what kinds of uses are being made of what kinds of copyrighted works. The policy that evolves can then be tailored to a company's needs. For example, a company that relies primarily on a relative handful of scientific journals may want to pursue licenses with the authors covering the uses needed. Of course, the terms of the licenses will need to be explained to employees, coupled with a reminder that the company does not countenance use in violation of the licenses nor other infringement, and that violators will be disciplined. Companies that rely on newsletters and other limited circulation works may be particularly vulnerable to infringement claims, and, therefore, particularly in need of an effective compliance policy. As noted in the U.S. House of Representatives Report accompanying the revision to the 1976 U.S. Copyright Act:

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<sup>10</sup> 271 F.Supp.2d 737, 752.

<sup>11</sup> 271 F.Supp.2d 737, 752.

<sup>12</sup> 271 F.Supp.2d 737, 753.

<sup>13</sup> 302 F.Supp.2d.455, 458.

<sup>14</sup> 302 F.Supp.2d.455, 459.

*“It is argued that newsletters are particularly vulnerable to mass photocopying, and that most newsletters have fairly modest circulations. Whether the copying of portions of a newsletter is an act of infringement or a fair use will necessarily turn on the facts of the individual case. However, as a general principle, it seems clear that the scope of the fair use doctrine should be considerably narrower in the case of newsletters than in that of either mass circulation periodicals or scientific journals. The commercial nature of the user is a significant factor in such cases: copying by a profit making user of even a small portion of a newsletter may have a significant impact on the commercial market for the work.”*<sup>15</sup>

What was true in 1976 for newsletter photocopying could prove to be all the more true today, given the widespread opportunity for infringing use of works on the Internet. Indeed, some of this language from the 1976 House Report was cited by the Court in *Legg Mason 1* in the course of denying the *fair use* defense for online infringement of a newsletter.

Many companies rely upon a wide variety of copyrighted materials; in those cases, individual licenses for newsletters will not solve the problem of online copying. Nor is a license from the Copyright Clearance Center (CCC) necessarily a complete solution. The CCC can only license rights which it has acquired, and a number of copyrighted works are not available for license through the CCC. *Legg Mason* teaches that a corporate policy requiring copyright compliance may reduce the amount of damages; therefore, adoption of a clear, written corporate policy is recommended. However *Legg Mason* also teaches that such a policy will not insulate a company from millions of dollars in liability if the policy is not followed by employees.

It will not be enough, therefore, to prepare and disseminate a written policy. In order for copyright compliance to take root within an organization, it is recommended that counsel ensure that the policy is thoroughly and repeatedly explained in employee meetings. Participation by senior management and frequent reminders can build a corporate culture of respecting copyright.

Finally, copyright protection is a two-way street. Virtually every business creates copyrightable and often, quite valuable intellectual property in the normal course of its daily operations. Protection of that intellectual property, in particular, protection of the all important remedies of statutory damages and attorney’s fees is relatively simple and inexpensive. Indeed, given the ease and low cost of securing effective copyright protection (especially in comparison with the cost of patents and trademarks), companies would be remiss in not inventorying their own copyrightable property in the course of establishing a compliance policy. An additional dividend, in the author’s experience, is that companies that protect their own copyrights are much less likely to infringe the rights of others.

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<sup>15</sup> H.R. Rep. No. 94-1476 (1976) Page 073.djvu [http://en.wikisource.org/wiki/Page:H.R. Rep. No. 94-1476 \(1976\) Page 073.djvu](http://en.wikisource.org/wiki/Page:H.R._Rep._No._94-1476_(1976)_Page_073.djvu). (Last visited on July 4, 2008).

# INTERPRETATION OF SECTION 3(D) IN THE INDIAN PATENTS ACT 2005: A CASE STUDY OF NOVARTIS

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## § Introduction

A recent judgment<sup>1</sup> of the Madras High Court in India (referred to as *Novartis* case) raised many questions of international law and the compatibility of the Indian Patents (Amendment) Act, 2005 with Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs agreement) of the World Trade Organisation (WTO). The Patents (Amendment) Act, 2005, was passed by the Indian Parliament to comply with the TRIPs obligations leading to the introduction of the product patent system in India for the first time.<sup>2</sup> The loss in the *India–Patent Protection for Pharmaceutical and Agricultural Chemical Products*<sup>3</sup> (referred to as Patent case) at WTO was one of the main reasons for this.<sup>4</sup> Even though India was a founder member of the WTO since 1995, it had opted for the Mail Box system according to Article 70(8) of the TRIPs<sup>5</sup> agreement. During the transitional period, between 1995-2005, Exclusive Marketing Rights (referred to as EMRs)<sup>6</sup> were to be granted for a period of five years from the date of obtaining marketing approval in any country or until a product patent is granted or rejected, whichever was shorter with a cut off date from January 1, 1995. India granted only few EMRs for pharmaceuticals and agrochemicals during the transition period. Under this scheme, the following companies got marketing approval:

- Novartis AG for anti-blood cancer medicine, *Glivec/Gleevec* (beta crystalline form of imatinib mesylate).
- Eli Lilly & Company, USA for erectile dysfunction medicine, *Cialis (Tadalafil)*.

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<sup>1</sup> *Novartis AG represented by it's Power of Attorney Ranjna Mehta Dutt v. Union of India (UOI) through the Secretary, Department of Industry, Ministry of Industry and Commerce and Ors.*, (2007) 4 MLJ 1153, decided on 6 August 2007.

<sup>2</sup> The Uruguay Round commitments compelled India to amend its patent regime in 1999, 2002 and 2005.

<sup>3</sup> *India–Patent Protection for Pharmaceutical and Agricultural Chemical Products*, WT/DS50, WT/DS79.

<sup>4</sup> The US and EU complained to the WTO Dispute Settlement Body (DSB) regarding the absence of either patent protection for pharmaceutical and agricultural chemical products or formal systems in India that permit the filing of patent applications for pharmaceutical and agricultural chemical products and that there is a need to provide for the grant of exclusive marketing rights for such products.

<sup>5</sup> The “mail box” system is a TRIPs-imposed obligation on developing countries that wished to benefit from the TRIPs transitional period by delaying granting of patents for pharmaceutical products until 2005. In exchange for not granting patents, these countries had to establish a “mail box” system for receiving and filing patent applications from the beginning of the transitional period in 1995.

<sup>6</sup> Exclusive Marketing Rights were applied in case a product “waiting for a patent in the “mail box” obtained marketing approval before the “mail box” is opened and a decision is made on whether or not to grant the patent. In such a case, the manufacturer could request exclusive marketing rights for up to five years or until a decision is rendered on the patentability of the product, whichever is shorter. However, exclusive marketing rights were subject to two preconditions: a patent should have been granted for the same product in another WTO member country after 1995 (the date of entry into force of TRIPs), and marketing approval should have been obtained for this product in the other member country. EMRs were supposed to prevent others from coming onto the market until the patent would be granted or rejected. It is not surprising that in India the only drug that got exclusive marketing rights was *Glivec*.

- Wockhardt for *Nadifloxacin* under the brand name NADOXIN.
- United Phosphorus for *fungicide saaf, a combination of carbendazim and mancozeb*.<sup>7</sup>

Civil society organisations raised serious questions regarding the access to medicines in India especially in the treatment of grave diseases such as cancer and HIV/AIDS, after the adoption of the product patent regime. The introduction of the product patent system had adversely affected many generic pharmaceutical companies in India which hitherto supplied low priced medicine to many developing countries in the world. In November 2003, the Controller General of Patents & Trademarks of India granted EMR to Novartis A.G. for *Glivec*, the blood cancer drug for a period of five years. In 2004, Novartis approached the court for restraining generic manufacturers from producing the generic version of the drug. Once the generic manufacturers stopped producing *Glivec*, the price of the drug rose from approximately Rs.10,000 for a month's requirement to a whopping Rs.1,20,000/-<sup>8</sup> and thereby, leading to the question of the social cost of protection of higher intellectual property and the ability of the government of a developing country to maintain public health. This is a contentious issue and reflects the growing crisis of a developing country's preparedness in fighting diseases like cancer and HIV/AIDS.<sup>9</sup>

The debate on the accessibility to medicines, in the WTO Doha Ministerial conference led to the adoption of the Doha Declaration on TRIPs and Public Health, in order to help the least developed and developing countries that do not have sufficient manufacturing facilities of essential medicines. The Doha declaration states: "*We agree the TRIPs Agreement does not and should not prevent a Member from taking measures to protect public health*"<sup>10</sup>. However, the problems of developing countries are not addressed by multinational pharmaceutical companies. The *Novartis* case in India is only a starting point in its innings. The case raised substantial questions of TRIPs Agreement compliance and interpretation of international law by national courts.

## § The *Novartis* case

The *Novartis* case can be traced to 1997 when a patent application was filed by Novartis AG for the  $\beta$ -crystalline of imatinib mesylate (brand name *Glivec*) which was a slightly different version of their 1993 patent,<sup>11</sup> a vital anti-leukaemia drug, filed in the Chennai (Madras) Patent Office.<sup>12</sup>

<sup>7</sup> George Kutty, "India Patents - Exclusive Marketing Rights (EMR)", [http://ezinearticles.com/?India-Patents---Exclusive-Marketing-Rights-\(EMR\)&id=79426](http://ezinearticles.com/?India-Patents---Exclusive-Marketing-Rights-(EMR)&id=79426). (Last visited on December 27, 2007).

<sup>8</sup> *The Hindu Business Line* Daily, Delhi, June 7, 2007.

<sup>9</sup> Frederick M. Abbot and Jerome H. Reichman, "The Doha Round Public Health Legacy: Strategies for the Production and Diffusion of Patented Medicines under the Amended TRIPs Provisions," *Journal of International Economic Law*, Vol. 10, p. 927.

<sup>10</sup> Declaration on the TRIPs Agreement and Public Health, Doha, 9-14 November, 2001 WT/MIN(01)/DEC/W/2, <http://www.who.int/entity/medicines/areas/policy/tripshealth.pdf>.

<sup>11</sup> It was  $\alpha$  - form of imatinib mesylate.

<sup>12</sup> The Petitioner holds patents for "Pyrimidineamine Derivatives" in countries like Canada (patent No. 2093203) filed on April 1, 1993 and granted on November 26, 2002 and the European Union (patent No. EP0564409), Patent No. US5521184.

The petitioner claimed that they had invented the beta crystalline salt from the free base of imatinib.<sup>13</sup> In 2003, *Glivec* was granted EMR in the Indian market.<sup>14</sup> Novartis obtained orders preventing some of the generic manufacturers from producing the generic equivalents of *Glivec* in India. Soon, Novartis was selling *Gleevec* at USD 2666 per patient per year.<sup>15</sup> Generic companies had been selling their generic versions at USD 177 to 266 per patient per month.<sup>16</sup>

Pre-grant oppositions were filed by Natco Pharma Ltd., M/s Cipla Ltd., M/s Hetro Drugs Ltd., M/s Cancer Patient Aid Association and M/s Ranbaxy Laboratories Ltd., India and in an order dated January 25, 2006, the Assistant Controller of Patents and Designs, Chennai Patent Office rejected the Novartis application.<sup>17</sup>

Novartis AG and its Indian subsidiary, Novartis India Ltd., filed writ petitions, in the Madras High Court challenging the decision of the Controller.<sup>18</sup> The petitioner alleged that Section 3(d) of the Patents Act, 1970, as amended by the Patents (Amendment) Act, 2005, is invalid, illegal and unconstitutional on the ground that there is arbitrary power vested in the executive according to Article 253 read with Article 73 of the Constitution of India. The petitioner, further, submitted that when enacting Section 3(d) of the Patents Act, the legislature had completely ignored the rationale underlying Articles 253 and 51(c) of the Indian Constitution,<sup>19</sup> which allows the Parliament to mould municipal law in harmony with international treaties like the TRIPs Agreement of which India is a party.

In India, international treaties are not directly enforceable at the domestic level. Enabling legislations like the Patents (Amendment) Act, 2005, are necessary in order to fulfill international obligations. It can be argued that the treaties are not binding on Indian courts. However, the Constitution of India permits the Parliament to make any law for the implementation of an international treaty, to be enforced at the domestic level.<sup>20</sup> However, Article 253 is not an overriding power given to the Central Government to make laws to give effect to any treaty. It is

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<sup>13</sup> See Annexure I and II for the chemical composition of the compound.

<sup>14</sup> According to Article 70 (9) of TRIPs, during the transitional period, Exclusive Marketing Rights (EMR) have to be granted for a period of five years from the date of obtaining marketing approval in that country or until a product patent is granted or rejected, whichever is shorter. India opted for EMR and “mailbox” facility for all applications for pharmaceuticals and agro-chemicals from 1 January 1995. This was expressly provided for under the Patents Act, 1970 in Section 24A of Chapter IVA of the Act added by the Patents Amendment Act (17 of 1999).

<sup>15</sup> The drug is marketed under the brand name *Glivec* in Europe/Australia and *Gleevec* in the US.

<sup>16</sup> The Novartis drug costs Rs.1, 20,000 per month in India. At the same time, the generic versions are available in the country which cost only Rs.8000 to Rs.10, 000/month.

<sup>17</sup> Petitioner’s patent application No.1602/MIS/1998 was for the beta crystalline form of imatinib mesylate sold under the brand name *Glivec* used for treating blood cancer (leukaemia) and Gastro-Intestinal Stromal Tumours (GIST).

<sup>18</sup> *Novartis AG represented by it's Power of Attorney Ranjna Mehta Dutt v. Union of India (UOI) through the Secretary, Department of Industry, Ministry of Industry and Commerce and Ors.*, (2007) 4 MLJ 1153.

<sup>19</sup> Article 51(c) of the Indian Constitution provides for “foster respect for international law and treaty obligations in the dealings of organised people with one another.”

<sup>20</sup> Article 253 of the Indian constitution reads – “Legislation for giving effect to international agreements: Notwithstanding anything in the foregoing provisions of this Chapter (Part XI, Chapter 1-Legislative Relations), Parliament has power to make any law for the whole or any part of the territory of India for implementing any treaty, agreement or convention with any other country or countries or any decision made at any international conference, association or other body”.

subject to the other provisions of the Constitution and judicial decisions. For instance, Article 253 is subject to the “Doctrine of Basic Structure.”<sup>21</sup>

Sovereignty of a nation implies absence of any control of internal affairs by a foreign nation or agreement. A sovereign nation is free to make any laws to achieve its social, political and economic goals. Critics of the General Agreement on Tariffs and Trade (GATT) accuse that by acceding to the TRIPs Agreement, India’s sovereignty has been curtailed.<sup>22</sup> Article 13 of the Constitution declares that any laws inconsistent with or in derogation of the fundamental rights under Part III of the Constitution of India, are void.<sup>23</sup> Justice V.R. Krishna Iyer, a former judge of the Supreme Court of India, explains the impact of WTO and the TRIPs Agreement on our economy in the following words: “*the thrust, of course, was the capture of world markets by the international corporate power incarnate, under the hegemony of America Incorporated. The GATT became an instrumentality for the implementation of this planetary big business agenda.*”<sup>24</sup> In *D.S. Nakara v. Union of India*,<sup>25</sup> the Supreme Court held that the basic framework of socialism is to provide a decent standard of life from cradle to grave to the working class. This kind of socialism, a blend of Gandhian and Marxian socialism, has to be established in our country. This has been articulated in Part IV of the Constitution of India elaborating on the directive principles of State policy. Article 47 of the Constitution of India casts a duty on the State to raise the level of nutrition and the standard of living and to improve public health.

Similar provisions can be seen in the Constitutions of developed countries to safeguard the interests of the people. For example, Article 2 of the American Constitution.<sup>26</sup> Section 102(a) of Uruguay Round Agreement Act reads as follows: “*Section 102(a) (a) Relationship of Agreements to United States Law: (1) US Law to Prevail in Conflict: No provision of any of the Uruguay Round Agreements nor the application of any such provision to any person or circumstance, that is inconsistent with any law of the United States shall have effect.*”<sup>27</sup> Therefore, any treaty law which is in conflict with the domestic law will be void and cannot be implemented. Unquestionably the legal position is clear that unless and until a treaty or convention has been given due effect in India under Article 253 of the Constitution of India, it has no binding value except as a moral appeal. A law may be enacted by the Parliament to give effect to an international treaty and the same may have received the approval of the President of India, however, it can still be struck down by the Supreme Court or High Courts of India as unconstitutional, if it violates any of the fundamental rights of citizens. In fact, courts in India have liberally invoked the international treaties and conventions for interpreting fundamental rights in an expansive and harmonious manner on many occasions.

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<sup>21</sup> The ‘Basic Structure’ doctrine is the judge-made doctrine whereby certain features of the Constitution of India are beyond the limits of the powers of amendment of the Parliament of India. The Supreme Court laid down this theory in *Keshavananda Bharati v. The State of Kerala*, AIR 1973 SC 1461.

<sup>22</sup> Manabendra Kumar Nag, “Indian Constitution, Tipped by the GATT, the TRIPs and the Indian Patent Law,” in Shiv Sahai Singh (ed.), *The Law of Intellectual Property Rights*, (New Delhi: Deep and Deep Publications 2004), 87.

<sup>23</sup> Article 13 of the Indian Constitution.

<sup>24</sup> V.R. Krishna Iyer, *Off the Bench*, (New Delhi: Universal Law Publishing), 2002 102.

<sup>25</sup> AIR 1983 SC 130.

<sup>26</sup> Article 2 of the American Constitution provides that “*He shall have Power, by and with the Advice and Consent of the Senate, to make Treaties, provided two thirds of the Senators present concur...*”

<sup>27</sup> Uruguay Round Agreement Act,  
<http://www.copyright.gov/title17/92appiii.html#a3-1>  
(Last visited on July 6, 2008).



On the other hand, on the question of granting patent to the invention of Novartis, the Assistant Controller relied on the following points:

Section 3(d) holding that the subject compound did not differ significantly in properties with regard to *efficacy* as compared to the known compound despite recording that there was a 30 per cent increase in bio-availability of the subject compound over the known substance.

Anticipation by prior publication, *i.e.*, the subject compound is already discussed in public documents and, thereby, destroying the novelty of the invention.

On the question of obviousness, the Assistant Controller has held that the subject compound is in the obviously naturally occurring form and there was no inventive step involved.<sup>28</sup>

On the basis of the aforementioned reasons, the Assistant Controller concluded that imatinib mesylate was already known from prior publications because Claims 6 to 23 of the U.S. Patent application, a pharmaceutically acceptable salt of the base compound and the patent term extension certificate, specifically mentions imatinib mesylate as the product in the earlier patent application. Furthermore, the U.S. Patent discloses methanesulphonic acid as one of the salt forming groups and the patent specification clearly states that the required acid addition salts are obtained in a customary manner. Also that imatinib mesylate normally exist in the beta crystals form, which is thermodynamically a very stable product and, thus, the invention is obvious and anticipated by prior publication. For these reasons, it is not an invention under the Indian Patents Act, 2005.

The petitioner alleged that the decision of the Assistant Controller violated the principles of administrative law crystallised and reiterated by the decisions of the Supreme Court of India, in particular the *Wednesbury* principle.<sup>29</sup> However, in this particular case, it was held that the court would only intervene to correct a bad administrative decision on the grounds of unreasonableness. This position was reaffirmed in the *Council of Civil Service Unions v. Minister for the Civil Service*<sup>30</sup> case. According to Lord Diplock, the court will only intervene if the matter is “*so outrageous in its defiance of logic or accepted moral standards that no sensible person who had applied his mind to the question to be decided could have arrived at it.*”<sup>31</sup> The discretionary powers of patent examiners are not discussed here and not warranted in this discussion.

#### **A. Patentability under TRIPs Agreement and Section 3(d) of the Indian Patents (Amendment) Act, 2005**

Article 27(1) of the TRIPs Agreement provides that:

- Patents shall be available for any inventions, whether product or process, in all fields of technology; and
- Patent rights shall be enjoyable without discrimination in the field of technology.

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<sup>28</sup> *Novartis Case*, (2007) 4 MLJ 1153, 5.

<sup>29</sup> *Associated Provincial Picture Houses Limited v. Wednesbury Corporation*, (1948) 1 KB 223, (1947) 2 All ER 680, per Lord Greene MR.

<sup>30</sup> (1985) AC 374.

<sup>31</sup> (1985) AC 374, 410.

The TRIPs Agreement does not specify what an *invention* is. National laws can define this concept according to the standards generally applied, that is, the tests of novelty, inventiveness and industrial application. It is also required that patents be available and patent rights enjoyable without discrimination irrespective of the place of invention, whether products are imported or produced locally. There is no obligation under the TRIPs to adopt an expansive concept of *invention*. While implementing Article 27(1) of the TRIPs Agreement, each country should carefully consider the economic, legal and ethical aspects involved in the patenting of living materials or certain types thereof.

Section 2(8) of the Patents and Designs Act, 1911, of Bangladesh defines *invention* in the following words: “Any manner of new manufacture and includes an improvement over an allied invention.” Unlike the Patents Act, 1970, in India, the 1911 Act does not specify the requirement of being useful in the definition of *invention*. But the courts have always held the view that a patentable invention, apart from being a new manufacture, must also be useful.”<sup>32</sup> An “*invention is the act or operation of finding out something new; the process of contriving and producing something not previously known or existing, by the exercise of independent investigation and experiment.*”<sup>33</sup>

Some countries may decide not to confer protection on new uses of plants, such as medicinal plants. The exclusion may also be on protection of new uses of plants, or *second uses* of known medicinal products, the patentability of which has been accepted in most industrialised countries. Likewise, computer programmes should be deemed not patentable, as in most countries of the world.

There is no uniform definition available which relates to the distinction between *invention* and *discovery*. According to the basic principles of patent law, the former is patentable and the latter is not. A *discovery* is commonly considered as the mere recognition of what already exists. Therefore, India can legitimately adopt a definition of *invention* that broadly excludes materials pre-existing in nature.

For instance, Argentina’s Patents Law excludes from the concept of invention “*any kind of living materials or substance already existing in nature*”.<sup>34</sup> Mostly the definition of invention is explained in the negative, *i.e.*, what cannot be considered as inventions.

The Indian Patents (Amendment) Act, 2005, defines what a *new invention* is.<sup>35</sup> The definition of *invention* and *inventive step* makes it clear that any existing knowledge or thing cannot be patented. Therefore, discoveries are excluded from patenting, subject to Section 3, unlike the practice of granting patents for a discovery in the United States. Section 3(d) stipulates

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<sup>32</sup> *Biswanath Prasad Radhey Shyam v. Hindustan Metal Industries*, AIR 1982 SC 1444.

<sup>33</sup> *Smith v. Nichols*, 88 U.S. (21 Wall.) 112, 22 LED.566; *Hollister v. Benedict & Burnham Mfg. Co.*, (1885), 113 U.S. 59, 5 S. ct. 717, 28 Led.901.

<sup>34</sup> Article 6(g) of Patent Law, 1995, [http://www.jpo.go.jp/shiryou\\_e/s\\_sonota\\_e/fips\\_e/pdf/argentine\\_e/e\\_tokkyo.pdf](http://www.jpo.go.jp/shiryou_e/s_sonota_e/fips_e/pdf/argentine_e/e_tokkyo.pdf). (Last visited on July 6, 2008); Carlos M. Correa, *Intellectual Property Rights, the WTO and Developing Countries, The TRIPs Agreement and Policy Options*, (Malaysia: Zed Books, 2000).

<sup>35</sup> Section 2(1)(l) defines “*new invention mean any invention or technology which has not been anticipated by publication in any document or used in the country or elsewhere in the world before the date of filing of patent application with complete specification, i.e. the subject matter has not fallen in public domain or that it does not form part of the state of the art*”. Section 2(1)(ja) defines “*inventive step, as a “feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to a person skilled in the art.”*”

the conditions to be fulfilled for patenting of an invention. The *efficacy* criterion is discussed elaborately in the section.

*“the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant.*

*Explanation.—For the purposes of this clause, salts, esters, ethers, polymorphs, metabolites, pure form, particle size, isomers, mixtures of isomers, complexes, combinations and other derivatives of known substance shall be considered to be the same substance, unless they differ significantly in properties with regard to efficacy.”*

In the common parlance, the expression *discovery* refers to “the act, process or an instance of gaining knowledge of or ascertaining the existence of something previously unknown or unrecognised.”<sup>36</sup> A discovery essentially refers to finding out something which already exists in nature but was previously unknown or unrecognised. Therefore, it is unlike an invention which refers to a new product or process involving inventive steps and capable of industrial application.<sup>37</sup>

Section 2(1)(l) provides that a *new invention* means “any invention or technology which has not been anticipated by publication in any document or used in the country or elsewhere in the world before the date of filing of the patent application with complete specification, i.e., the subject matter has not fallen in public domain or that it does not form part of the state of the prior art.”<sup>38</sup> If a protein is engineered by biotechnological process with human intervention, it is not a mere discovery (subject to other conditions in the Act). It should be considered as an invention, but the question raised in the *Novartis* case was the patentability of a new form of already known chemical substances.

## **B. Novelty and Obviousness**

In the *Novartis* case, the petitioners claimed that they had invented a particular form of methanesulfonic acid addition salt of a particular Pyrimidineamine Derivative (Imatinib Mesylate) in the crystal form. Additionally, it was claimed that the petitioners had invented the substance in two forms – *Alpha* and *Beta*- of which the *Beta* form can be stored easier, is less hygroscopic, easier to process and guarantees a constant quality of the final drug product. The *Beta* crystalline form of imatinib mesylate also results in higher bio-availability over the 1993 compound and, hence, differs significantly in properties with respect to *efficacy*.<sup>39</sup> The *Beta* crystalline form of imatinib mesylate was being produced and sold on a commercial scale in India from 2003 after getting EMR.<sup>40</sup>

<sup>36</sup> The Webster’s Third International Dictionary of the English Language.

<sup>37</sup> Section 2(1)(j) of the Patents Act, 1970; Swarup Kumar, *Intellectual Property Watch*, June 2007.

<sup>38</sup> Section 2(1)(l) of the Patents (Amendment) Act, 2005, [http://www.ipindia.nic.in/ipr/patent/patent\\_2005.pdf](http://www.ipindia.nic.in/ipr/patent/patent_2005.pdf). (Last visited on July 6, 2008).

<sup>39</sup> See Annexure I for the chemical combination of the  $\alpha$  and  $\beta$ -form of imatinib mesylate.

<sup>40</sup> The EMR was intended to be in force for a maximum period of 5 years or until grant or rejection of Petitioner's product patent application (Black Box application) for the said drug whichever was earlier.

The generic manufacturers and civil society organisations alleged that Novartis' *invention* lacked novelty, and was obvious to a person skilled in the art, and that it was merely a new form of a known substance that did not enhance the *efficacy* of the substance, and therefore, it was not patentable under Section 3(d) of the Patents Act. Different crystalline forms of imatinib mesylate did not differ in properties with respect to *efficacy*, and thus, the various forms of imatinib mesylate must be considered the same substance under Section 3(d). These arguments were based on the fact that Novartis had already been granted a patent in 1993 for the active molecule, imatinib, and that the present application only concerned a specific crystalline form of the salt form of that compound. It should be observed that Novartis' 1993 patent disclosed both the free base, imatinib, and the acid-addition salt, imatinib mesylate and the crystalline forms of imatinib mesylate claimed in the application in question do not significantly differ in properties with respect to *efficacy*.

Novartis claimed that "*The 1993 patent was for synthesizing the molecule of imatinib; this molecule, however, could not be administered to patients and represented only the first step in the process to develop Glivec. We developed the mesylate salt of imatinib and then the beta crystal form of imatinib mesylate to make it suitable for patients to take in pill form. Glivec was launched globally in 2001, and this is the only form of Glivec we have marketed.*"<sup>41</sup> The petitioner also claimed that the price issue was immaterial since 99 per cent of the patients in India were getting free *Glivec* through their Glivec International Patient Assistance Program (GIPAP).

The petitioners alleged that the subject compound is two step removed from the prior art as it is a two-fold improvement over the prior art- first, the imatinib free base had been chemically changed into a salt form (the methanesulfonic acid addition salt) and second, a particular crystal form of this salt, *i.e.*, the *beta* crystal form which had been made through ingenuity and human intervention. Interestingly, the petitioners claimed that even if it were a discovery of a new form of a known substance, they could claim the patent because, it had resulted in the enhancement of the known efficacy of the known substance, *i.e.*, imatinib free base, thereby making the subject compound more efficacious. Since the expression *discovery* has not been defined in any section of the amended Patents Act, it could be construed in the ordinary meaning.<sup>42</sup>

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<sup>41</sup> "Glivec Patent Case in India: FACT vs. FICTION", [www.novartis.com/downloads/about-novartis/facts-vs-fiction-india-glivec-patent-case.pdf](http://www.novartis.com/downloads/about-novartis/facts-vs-fiction-india-glivec-patent-case.pdf), (Last visited on October 25, 2007).

<sup>42</sup> In the case of *Gopi Lal v. Lakhpai Rai* 1923 PC 103, it was held that the use before the date of the patent negates the novelty criteria in the invention. In this case, a letters patent was granted in respect of improvements in the manufacture of a medicinal preparation which was an improvement in the treatment of a substance found in the interior of some bamboos and known as 'tabakshir' or 'bamboo mannah' for the purpose of refining the same when in the raw state and to convert it into a nutritious and saleable article. The medicinal preparation was named and marketed as "banslochan" and admittedly had sold throughout India for a long time. The letters patent was granted for the improvements alleged to have been discovered by the respondents. This proposition was confirmed in an old case of *Patterson v. Gas Light & Coke Co* (1887) 3 AC 239, 244. It confirmed this position in *Bombay Agrarwal Co., Akola v. Ramchand Diwanchand* AIR 1953 Nag 154. Mere arrangement or re-arrangement or duplication of a known device or material cannot be patented- *Standpick (P) Ltd. v. Oswal Trading Co. Ltd.*, 1999 PTC (19) 479. It was very clear that in the present case also, the 'same' medicine, whether it was beta or alpha crystal form of imatinib mesylate (Pyrimidineamine Derivatives), which was used for curing the same disease is available in the market from 1993, hence the so called 'new' material could not be patented. The mere carrying forward of an original patented thing is like a workman carrying forward old ideas without any innovations *Smith v. Nichols*, 88 US 112. The novelty criterion is crucial in all patent applications.

The law of novelty was recently explained by the House of Lords in *Synthon BV v. Smithkline Beecham Plc*<sup>43</sup>. There are two requirements, first, the matter relied upon as prior art must disclose the subject matter which, if performed, would necessarily result in an infringement of the patent. Second, the said disclosure must have been enabling, that is to say that an ordinary skilled person would have been able to perform the invention if he attempted to do so by using the disclosed matter and common general knowledge. The court also held that enablement and disclosure were distinct concepts and each had to be satisfied separately. For the purpose of disclosure, the prior art had to disclose an invention. Once the subject matter of the invention has been disclosed by the prior art then consideration has to be given to whether it can enable an ordinary skilled man to perform the invention. In *Generics (UK) Ltd. v. H Lundbeck A/S*<sup>44</sup>, the court held that the claims were too broad and invalid for insufficiency. The court interestingly held that “The first person to find a way of achieving an obviously desirable goal is not permitted to monopolise every other way of doing so.”<sup>45</sup>

Mere obvious extensions of inventions are not patentable under any law, because most of the countries patent law rewards only the inventions that are new, useful and non-obvious advances. Indian law also incorporates the requirement of non-obviousness. Section 2(ta) of the Indian Patents Act, 2005, defines *pharmaceutical substance* as “any new entity involving one or more inventive steps”. Section 2(1)(ja) specifies that an *inventive step* refers to “a feature of an invention that involves technical advance as compared to the existing knowledge, or having economic significance or both and that makes the invention not obvious to a person skilled in the art.” The U.S. Supreme Court, in *Graham v. John Deere Co*<sup>46</sup>, laid down a four pronged test (Graham test) which laid out the basic standards for determining *obviousness*. The following are the determinants:

- The scope and content of the prior art.
- The structural similarity between the prior art and the claimed invention.
- Indication of non-obviousness and commercial success.
- The level of ordinary skill in the pertinent art.

But this test was converted into a synergism of the existing product or at least produces a synergistic effect in the *Burland v. Trippe Manufacturing Co.*<sup>47</sup> but the Supreme Court affirmed the *Graham test*. It seems that the *Graham test* is still valid today and adopted in India also.<sup>48</sup>

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<sup>43</sup> [2005] UKHL 59; [2006] *RPC* 10.

<sup>44</sup> [2007] *RPC* 32.

<sup>45</sup> *Ibid.*, para. 265.

<sup>46</sup> 383 U.S. 1, 17-18 (1966).

<sup>47</sup> 43 F. 2d 588 (7<sup>th</sup> Cir. 1976).

<sup>48</sup> The US Supreme Court in the famous case of *KSR International Co. v. Teleflex Inc., et al* 127 S. Ct. 1727 (2007), analysed the test of obviousness and held that “In determining whether the subject matter of a patent claim is obvious, neither the particular motivation nor the avowed purpose of the patentee controls. What matters is the objective reach of the claim. If the claim extends to what is obvious, it is invalid under §103 of US Patent law . One of the ways in which a patent’s subject matter can be proved obvious is by noting that there existed at the time of invention a known problem for which there was an obvious solution encompassed by the patent’s claims. The proper question to have asked was whether a pedal designer of ordinary skill, facing the wide range of needs created by developments in the field of endeavor, would have seen a benefit to upgrading [a prior art patent] with a sensor.”

However, obviousness rests on prior art and the structure of each chemical compound and a new compound's enhanced bio-availability and *efficacy*.<sup>49</sup>

In the case of pharmaceuticals and chemical compounds, proving novelty is very difficult. In *In Re Williams*<sup>50</sup>, the Board of Appeals rejected a claim on a single-enantiomer compound on the grounds of lack of novelty as well as lack of invention. Rejection on the basis of lack of novelty was based on a prior art reference that disclosed the production of a compound having a formula identical to the claimed compound.<sup>51</sup> In the case of chemical compounds, in *In re Henze*,<sup>52</sup> it was held that if the compound is closely related to the prior art compound, a presumption in favour of obviousness or a *prima facie* case of obviousness arises. This particular case established that, unless an applicant showed that the prior art compound lacked the property or advantages asserted for the claimed compound, the presumption of unpatentability was not overcome.<sup>53</sup> Finally, in *In re Merck & Co.*<sup>54</sup>, the prior art not only disclosed a similar compound but “*expressly stated that [the claimed compound] was expected to resemble [the prior art compound] clinically, in its depression alleviation effects.*”<sup>55</sup>

Recently, in *Angiotech Pharmaceuticals v. Conor Medsystems Inc.*,<sup>56</sup> it was held that the question of invention depends on many factors, especially what is claimed and what is prior art. Obviousness always depends on technicality rather than commercial considerations.<sup>57</sup> In *Teva Pharmaceutical Industries Limited, Teva UK Limited v. Merrell Pharmaceuticals Inc, Aventis Inc., Sepracor Inc.*<sup>58</sup>, the court considered the question of ever greening of a patent in the anti-histaminic drug called terfenadine and its acid metabolite, terfenadine carboxylate, which also has the generic name fexofenadine. The court rejected the claims on the ground of lack of novelty.

In other jurisdiction, like the European Union (EU), courts have held, as in *Bayer AG (Meyer's) Application*<sup>59</sup>, that a new use of a known substance is patentable if a newly discovered technical effect is described in the patent application. In *Ciba-Geigy's (Durr) Application*,<sup>60</sup> the plaintiff discovered that a known chemical could be used as a selective weed killer to kill monocotyledonous weeds occurring in a monocotyledonous crop and they sought a packed claim. It was held that a pack containing only a well-known and admittedly old material, has not by the words used, in any way, modified their pack or qualified it for the purpose for which the material is intended to be used. It was also held that one cannot have a patent for the new use of an old product unless there is an invention in the adaptation of the old product to the new use.<sup>61</sup> A patent that did not reflect any new scientific insight but the manufacture of a known product from known materials, selected to achieve commercially acceptable efficiency loss, was considered as

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<sup>49</sup> Jonathan J. Darrow, “The Patentability of Enantiomers: Implications for the Pharmaceutical Industry,” *Stanford Technology Law Review*, 2007, vol. 2, p. 10.

<sup>50</sup> 171 F.2d 319 (C.C.P.A. 1948).

<sup>51</sup> 171 F.2d 319 (C.C.P.A. 1948).

<sup>52</sup> 181 F. 2d 196 (C.C.P.A 1950).

<sup>53</sup> Elizabeth Verkey, *Law of Patents*, (Lucknow: Eastern Book Company), p. 45.

<sup>54</sup> 800 F.2d 1091.

<sup>55</sup> *In re Merck & Co.*, 800 F.2d 1091, 1096.

<sup>56</sup> [2007] EWCA Civ 5, para. 45.

<sup>57</sup> *Dyson v Hoover* [2002] *RPC* 22 at paras 56-67.

<sup>58</sup> [2007] EWHC 2276 (Ch).

<sup>59</sup> [1984] *RPC* 11 (UK Pat Ct).

<sup>60</sup> 1977 R.P.C. 83, CA.

<sup>61</sup> *Acetylene Illuminating Co. Ltd. v. United Alkali Co. Ltd.*, (1904) 22 *RPC* 145.

not patentable.<sup>62</sup> It can be concluded that some times novelty and obviousness are misnomers when the properties and structure of the compound are similar. An increased *efficacy* of a known compound may not satisfy the novelty and obviousness criteria, but even then it is patentable under Section 3(d) of the Indian Patent Act, 2005. A significant improvement in the activity level may be considered as an increased *efficacy* level. However, exactly what is the level of improvement required for meeting the *efficacy* criterion under Section 3(d) is a question of public policy.

### C. Efficacy

In the present case, the petitioners held patents for a form of *Pyrimidineamine Derivatives* which was patented in many countries (*Alpha* crystal form). Thus, the subject matter of the patent was already in the public domain and had already been published. The petitioners claimed that the new medicine developed from the *Beta* crystalline form showed a 30 per cent increased bio-availability over the known substance of the 1993 patent. The US Patent and Trademark Office (USPTO) issued a certificate to extend the patent validity of Patent No.5521184, based on the same product (*Gleevec*) imatinib mesylate patented in 1996.<sup>63</sup> This clearly shows that the same product was anticipated and published.<sup>64</sup> The Novartis' argument that Section 3(d) discriminates between pharmaceutical inventions and other inventions also did not hold good, because, the chemical combinations used for pharmaceutical purposes are required to meet a higher level of *efficacy*. The petitioner also claimed that the present application is for the *Beta* crystal form that they had invented in 1997 and that the earlier version was the *Alpha* crystal form. The petitioners claimed that imatinib mesylate exists in several forms including *alpha*, *alpha* 2, *beta* and H1 form. No teaching or suggestion existed in any prior art document to identify and anticipate the favourable properties or characteristics of the *beta* crystal form of Imatinib mesylate prior to it being invented. It is possible to obtain a patent for the first medical use of a known substance or composition, where this substance or composition was not previously known to have any medical application.<sup>65</sup> However, in the present case, the Imatinib mesylate was used in the manufacture of *Glivec* and therefore, it was obvious.

The most pertinent question was not whether the patented subject matter was an *invention* or mere *discovery*, but about the significantly increased level of *efficacy* of the new substance. In the case of pharmaceutical substances, the crucial question is with regard to its increased *efficacy* rather than the new substance. It is true that the standard of *efficacy* is neither prescribed in Section 3(d) nor under the Rules. It is vague and not in accordance with the policy of the country which is vigorously going for more and more foreign investment in the pharmaceutical sector and increased level of patent protection.

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<sup>62</sup> *NV Philips v. Mirabella*, (1992) 24 IPR 1.

<sup>63</sup> In India, the medicine was marketed under the name of *Glivec*.

<sup>64</sup> The efficacy criterion has not been discussed in any of the popular patent legislations such as in the US or in the EU. The US patent law defines invention as a term meaning invention or discovery, Title 35, Part II, Chapter 10, § 100. Unlike in India, discoveries also can be patented in the US. The patentability criteria are loosely defined in the US law. It provides that “*whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.*” But the patentability criteria laid down that if the invention was known or used by others in the country or published in a printed format within or in a foreign country or in public use for more than one year prior to the filing of the application, then they are not eligible for a patent in the US. The non-obviousness clause also says, “*A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title...*” We can see the similar language used in the Indian patent law also.

<sup>65</sup> Sopharma SA's Application, [1983] *RPC* 195.

The earlier provision, Section 3(d) in the Patents Act, 1970, provided that “*the mere discovery of any new property of new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant.*” It clearly excludes “*mere discovery of any new property of new use*” from the ambit of patenting. The explanation to Section 3(d) of 1970 Act also excludes derivatives of known substances of esters and salts from patenting unless the new substance significantly differs in properties with regard to *efficacy*.

The objective of repealing and including a new criterion in Section 3(d) of the 2005 Act was to increase the ambit of patenting. Under the new provision, the legislators intended to include the discovery of a known substance which has higher *efficacy* than the known substance. However, the Act never fixed a standard definition of *efficacy* for the patenting of such substance. The history of the TRIPs negotiations also does not imply any obligation on the WTO members to implement a uniform standard of inventions.<sup>66</sup> The lack of a uniform definition for an *invention* suggests that the Members of TRIPs Agreement can adopt a definition which is not inconsistent with Article 27(1) of the TRIPs Agreement.

The *efficacy* criterion has to be discussed in detail in the light of Section 3(d) of the Indian Patents Act, 2005. On this aspect, due to the dearth in domestic judicial exegesis, one has to examine cases from the United States for a better understanding of the key issues. In *Bristol-Myers Squibb Company v. Baker Norton Pharmaceuticals Inc. & Napro Biotherapeutics Inc.*,<sup>67</sup> the plaintiff was the proprietor of a European patent, EP 0 584 000, with a priority date of August 3, 1992.<sup>68</sup> The patent claimed the administration of taxol in certain dosages to humans by infusion, for 3 hours or less, following a regime of premedication. The patent disclosed that a 3-hour period of infusion of taxol was safe and more efficacious than a 24-hour infusion period because it produced less neutropenia. In this case, Justice Jacob held that:

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<sup>66</sup> *Bridges Weekly*, Vol.11, No.1, <http://www.iprsonline.org/icts/news/bridges11-1.pg15-16.pdf>. (Last visited on October, 2007).

<sup>67</sup> [2000] E.N.P.R. 57.

<sup>68</sup> The EU Patent Convention stipulates that “*European patents shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step.*” *Discoveries, scientific theories and mathematical methods are specifically excluded. The novelty criterion in Article 54 stipulates that “an invention shall be considered to be new if it does not form part of the state of the art.”* It includes any kind of publication to the public prior to filing of an application. Invention shall be considered as involving an inventive step if it is not obvious to a person skilled in the art. There is no provision with regard to *efficacy* in the US or EU patent law. However, the EU Regulation 2309/93 with regard to the marketing authorisation of medicinal products, Article 11(1) provides that “*a marketing authorisation shall be refused if it appears that the quality, the safety or the efficacy of the medicinal product have not been adequately or sufficiently demonstrated by the applicant.*” Recital 7 of Council Directive 2001/83/EC provides: “*the concept of harmfulness and therapeutic efficacy can only be examined in relation to each other and have only relative significance depending on the progress of scientific knowledge and the use for which the medicinal product is intended. The particulars and documents which must accompany an application for marketing authorisation for a medicinal product demonstrate that potential risks are outweighed by the therapeutic efficacy of the product.*” Annex I of Council Directive 2001/83/EC states that “*... the treatment of the control group will vary from case to case and also will depend on ethical considerations and therapeutic area; thus it may, in some instances, be more pertinent to compare the efficacy of a new medicinal product with that of an established medicinal product of proven therapeutic value rather than with the effect of a placebo.*” It is clear that the marketing approvals of a medicine are subject to its “*efficacy*” and “*safety*” of the product.



*“I finally come to obviousness. I think this is a very plain case. Winograd had disclosed 3-hour infusion with pre-medication was safe from the point of view of toxic shock. It was unknown how efficacious the 3-hour treatment was, save for Winograd’s hint that there were ‘responses in all arms.’ But there was every motive to find out. And in further testing of 3-hour infusion you would surely test for neutropenia. As I have said blood tests were routine in this sort of clinical trial. There simply cannot be any invention in pressing on with the OV.9 trial and finding out about the comparative levels of neutropenia.”*<sup>69</sup>

Accordingly, the court rejected the application for want of novelty and obviousness.<sup>70</sup>

On a closer look, Section 3(d) not only permits patenting of pharmaceutical products, but also new forms of known substances, provided there is a higher standard of *efficacy* of the new product. Neither the Act nor international practice gives a clear definition of *efficacy*. It can be construed that the intention of the legislature, when they re-drafted Section 3(d) in 2005, was to prevent pharmaceutical companies from ever greening their patents by re-combining known substances.<sup>71</sup> The High Court also suggested that *efficacy* can be defined as “*the ability of a drug to produce a desired therapeutic effect.*”<sup>72</sup> It did not provide any guidance on how enhancements might be quantified, such as in terms of fewer side-effects or lower dosages.

## **1. The Madras High Court Judgment**

The complainant prayed to the Court to declare Section 3(d) of the Patents (Amendment) Act, 2005, as inconsistent with the TRIPs Agreement and violative of Article 14 of the Indian Constitution. The second prayer was to allow petitioner’s patent application bearing No.1602/NAS/98 filed before the Madras Patent Office seeking patent. The whole argument with regard to the violation of Article 14 of the Constitution of India was based on arbitrary discretionary power vested in the Patent Controller in the determination of enhanced *efficacy*. The respondents argued that Section 3(d) has complied with the TRIPs Agreement and that the High Court was not the right forum to determine the issue rather the WTO Dispute Settlement Body (DSB) would be the appropriate forum. It was argued that the Members are free to adopt laws within the framework of the TRIPs Agreement, and to adopt and implement national policies, like, the right to health for its citizens.

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<sup>69</sup> Ibid., para. 68 and 69.

<sup>70</sup> The same situation arose when China invalidated Pfizer Inc.’s second use of VIAGRA patent in 2004. Companies like Eli Lilly, Glaxo-SmithKline and Bayer waged legal wars with Pfizer’s VIAGRA patenting. Australia, Canada, Japan, and South Africa, UK and EU invalidated VIAGRA patent citing obviousness and lack of novelty. Richard A. Castellano, “Patent Law for new Medical Uses of Known Compounds and Pfizer’s Viagra Patent,” *The Intellectual Property Law Review*, 2006, Vol. 46, p. 283.

<sup>71</sup> In the U.S. also, it is mandatory to submit evidence of effectiveness of clinical trial, effectiveness of the product and dose comparison trials for getting marketing approval of the drug, Centre for Drug Evaluation and Research Guidance Document, U.S. Food and Drug Administration, <http://www.fda.gov/cder/guidance/2097fnl.htm>, (Last visited on October 6, 2007). Bio-availability and bioequivalence studies in clinical trials of the drug are required for marketing approval, comparing performance of the formulation or dosage form used in clinical trials have to be submitted to the CDER. In India, the therapeutic efficacy, bio-availability studies and bioequivalence data have to be submitted along with the application for marketing approval. However, in none of the regulations the standard of efficacy is clearly defined or distinguished.

The Court mainly considered the jurisdictional issue. The petitioner cited the Privy Council decision in *Equal Opportunities Commission & Another v. Secretary of State for Employment* (referred to *Equal Opportunities Commission case*)<sup>72</sup>. In this case, the question under consideration was whether judicial review is available for the purpose of securing a declaration that certain United Kingdom primary legislation is incompatible with European Community Law. The House of Lords held that this is a private law claim and dismissed the appeal, but declared the Employment Protection (Consolidation) Act, 1978, was incompatible with Article 119 of the EEC Treaty and Council Directive (EEC) 75/117 and Council Directive (EEC) 76/207.

The petitioner argued for a similar declaration in this case, emphasizing that Section 3(d) was not in consonance with the TRIPs Agreement. But the High Court agreed with the respondents' argument that the *Equal Opportunities Commission case* can be distinguished on facts and cannot be said to be applicable in the present case. In that case, the EC Regulations were made applicable through various domestic legislations introduced but the TRIPs Agreement was never adopted in India and in fact the existing Patents Act, 1970, was amended in order to comply with its commitments under the TRIPs Agreement. The respondents cited the decision of *Salomn v. Commissioner of Customs*<sup>73</sup> in which it was held that if any domestic court is approached challenging a municipal law on the ground that it violates international law, then, the remedy for the lies in a forum other than the domestic court.

The High Court on that jurisdiction point held that:

*“... any International Agreement possesses the basic nature of an ordinary contract and when courts respect the choice of jurisdiction fixed under such ordinary contract, we see no compelling reasons to deviate from such judicial approach when we consider the choice of forum arrived at in International Treaties. Since we have held that this court has no jurisdiction to decide the validity of the amended section, being in violation of Article 27 of TRIPS...”*<sup>74</sup>

The High Court refused to look into the question of whether a private party has a right to enforce an international agreement or whether the Patents (Amendment) Act, 2005, is compatible with the TRIPs Agreement. With regard to the declaratory jurisdiction of the court, after referring to earlier decisions of the Supreme Court of India, it held that it is not going to be of any use for the petitioner and so the petitioner is not entitled for any declaratory relief.

Another important question considered by the High Court was, in the absence of guidelines under Section 3(d), how to establish the enhancement of *efficacy* of a known substance from which discoveries and new substances are made. In order to understand the meaning of the word *efficacy*, the Court looked at the meaning of the expression *efficacy* in the field of Pharmacology, as explained in Darland's Medical Dictionary, which defines it as “*the ability of a drug to produce the desired therapeutic effect*” where *efficacy* is independent of the potency of the drug. The dictionary meaning of *therapeutic*, is the “*healing of disease - having a good effect on the body*”<sup>75</sup>

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<sup>72</sup> (1994) 1 All ER 910.

<sup>73</sup> 1966 (3) A.E.R 871.

<sup>74</sup> *Novartis case*, (2007) 4 MLJ 1153, para 8.

<sup>75</sup> *Novartis case*, (2007) 4 MLJ 1153, para 13.

The Court also rejected the argument of the petitioner that the discretion vested in the patent examiners can be misused and the decision to reject the petitioner's patent application was due to the excess discretionary power entrusted with the statutory authority and, thus, it violates Article 14 of the Constitution of India. It was held that the amended provision cannot be invalidated solely on the ground that there is a possibility of misusing the power.<sup>76</sup> Before dismissing the petitions, the Court observed that the "...object which the Amending Act wanted to achieve was namely, to prevent ever-greening; to provide easy access to the citizens of this country to life saving drugs and to discharge their Constitutional obligation of providing good health care to it's citizens."<sup>77</sup>

The implications of this judgment, at the procedural and industrial level, are yet to be assessed.

Pharmaceutical companies spend billions of dollars on research for developing a single product. A company has to spend approximately \$800 million and 15 years to bring a drug into the market.<sup>78</sup> It is estimated that, of every thousand potential drugs screened, only four to five reach the clinical trial stage and only one actually gets approved for marketing.<sup>79</sup> The exclusive rights given to pharmaceutical companies as patentee for 20 years, facilitates them to recover their investments. The prices of such medicines depend upon the pricing strategies and profit margins. This may lead to unaffordable prices of patented medicines in developing countries. The introduction of the product patent system, which did not exist in India earlier, through the Patents (Amendment) Act, 2005, gave multinational companies, EMRs rights over patented drugs in India. This means that the generic version manufacturers had to stop their production of a patented drug. The controversy is not on patenting, but the pricing of such medicines. The Act allowed compulsory licensing of certain patented medicines in certain circumstances.<sup>80</sup> India hardly used this provision against pharmaceutical companies. Other countries like Brazil announced compulsory licensing of several retroviral drugs which were distributed free of cost through its public health system. The Drugs Price Control Order, 1995, works as a strong deterrent of overpricing of medicines in India.<sup>81</sup> However, only 74 medicines have been kept in the list, out of 500 commonly used bulk drugs. The Government has been vested with the powers under the Order in the National Pharmaceutical Pricing Authority (NPPA) to control the prices of medicines.

## 2. Implications of the Judgment and the Way Forward

The *Novartis* case once again raised the question of rationality of patenting and pricing of medicines. It is an open secret that the pharmaceutical companies always try to continue the

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<sup>76</sup> *Novartis* case, (2007) 4 MLJ 1153, para 18.

<sup>77</sup> *Novartis* case, (2007) 4 MLJ 1153, para 19.

<sup>78</sup> Roger Pilon, "China's Viagra Test", Apple Daily (Hong Kong)

[www.cato.org/cgi-bin/scripts/printtech.cgi/dailys/08-13-04.html](http://www.cato.org/cgi-bin/scripts/printtech.cgi/dailys/08-13-04.html), (Last visited on August 11, 2004).

<sup>79</sup> Andrade C, Shah N, Chandra S., "The New Patent Regime: Implications for patients in India," *Indian Journal of Psychiatry*, 2007, vol.49, pp. 56-59.

<sup>80</sup> The law provides for compulsory license under Section 84 of the Indian Patent Act, 1970, to prevent the abuse of patent as a monopoly and to make way for commercial exploitation of invention by an interested person. Under this section, any person can make an application for grant of compulsory licence for a patent after three years, from the date of grant of that patent.

<sup>81</sup> The Drugs Price Control Order (DPCO), 1995 is an order issued by the Government of India under Section 3 of the Essential Commodities Act, 1955 to regulate the prices of drugs. The Order inter alia provides the list of price controlled drugs, procedures for fixation of prices of drugs, method of implementation of prices fixed by Government and penalties for contravention.

protection through ever-greening of their patents by incremental innovations. Despite new drug inventions and life expectancy ratios, most of the people in the developing countries do not have access to these medicines mainly due to price barriers. On the other hand, Novartis argues, “*patents save lives by innovations.*”<sup>82</sup> The Constitution of the WHO emphasises the need to have access to medicines for the poor. In 2005, the World Health Assembly considered a proposal for a Medical Research and Development Treaty (MRDT).<sup>83</sup> The main objective of this treaty was to set-up a new legal framework to promote research and development for pharmaceuticals and other medical treatments that function as an alternative to patents and the monopoly drug pricing. Such international efforts may make an impact on the pricing strategies of the multinational companies.

It is submitted that the judgment of the Madras High Court in the *Novartis* case is in the right direction. Patent law is emerging in India and the Indian courts have followed a strict interpretation of an Indian statute which involves compliance with an international agreement. In history, every monopoly power has been abused and patent monopoly is not an exception. The interests of cancer patients are more important than monopoly rights. However, the ambiguities raised in the case should be filled by appropriate amendments to the patent law in India. The Patent Controller’s decision to reject the claim is fully justified on the following grounds:

- (i) Novartis had not satisfied the pre-requisites for patenting, viz., novelty, inventive step and non-obviousness.
- (ii) There is prior publication of the invention through patent applications filed in many countries, including Canada and U.S., in 1993, by taking priority from the Swiss applications filed in 1992.
- (iii) The patent application does not claim any added therapeutic efficacy from the  $\alpha$ -crystal form disclosed in the earlier applications. Hence, the patent application cannot satisfy the scrutiny of Section 3(d) of the Indian Patents Act, 2005.

Governments can improve access to patented pharmaceuticals in three ways. First, they can utilize the flexibilities which are already embedded in the TRIPs Agreement and Doha Declaration on public health, such as making it mandatory to have a compulsory license issued in order to manufacture generic drugs. Second, they can adopt some mechanisms, such as price information, price competition and price negotiation with public procurement and an insurance scheme, which will enhance the affordability of the drugs. Third, governments can negotiate for a lower price with the pharmaceutical companies, as an incentive extended period of more than 20 years, which is the minimum stipulated under the TRIPs Agreement, can be allowed. The WHO can create a global database of the prices of drugs and the expiry of patent period so that there will be readily available data on the competitiveness of prices of medicines all over the world. Developing countries need cheaper medicines for fighting endemics like HIV/AIDS, Malaria etc.

On the flip side, if Section 3(d) is interpreted as rigidly as done by the Madras High Court in the *Novartis* case, Indian generic companies will never invest in drug research. There should always be incentive for innovation and research and the maintenance of equilibrium between proprietary rights and social interests. After the judgment in the case, Novartis announced that

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<sup>82</sup> “India Glivec patent case”

<http://www.novartis.com/newsroom/india-glivec-patent-case/index.shtml>, (Last visited on July 7, 2008).

<sup>83</sup> However, after the 2005 initiative not much work has been done to achieve the objectives of the treaty to establish a common fund for innovation and research under the WHO.

they will stall all investments in India and transfer it anywhere else where they would get protection. India should commit to intellectual property protection and promote long term investments in the pharmaceutical sector. Short term protection will deter multinational companies from investing in India and, thus, it will affect the availability of new medicines to patients in the coming future. Moreover, it raises serious questions of intellectual property protection, in general according to international standards.

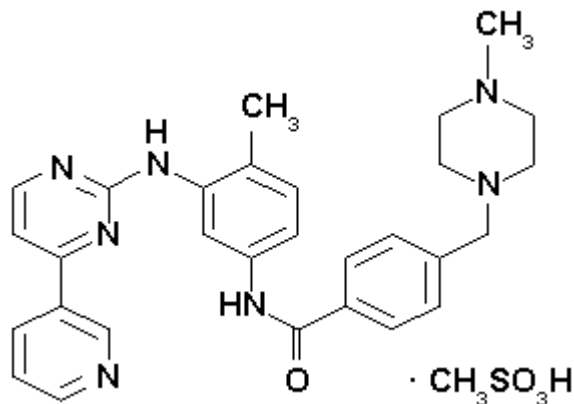
On the other hand, pharmaceutical companies should implement differential pricing in developing countries in order to facilitate affordability of medicine. Simultaneously, innovation and research in the pharmaceutical sector should be adequately compensated. The present experience is that higher intellectual property protection means a higher barrier to accessibility. Economists also agree with the proposition that “*monopolies discourage efficiencies and potentially increase prices.*”<sup>84</sup> This theory seems more accurate when looking into the fact that 75 per cent of anti-retroviral drugs are controlled by monopolies.

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<sup>84</sup> Tejas Sathian, “Patients vs. Patents”, <http://hprsite.squarespace.com/patients-vs-patents-012007>, (Last visited on July 7, 2008)

## Annexure - I

### DESCRIPTION of $\alpha$ -form

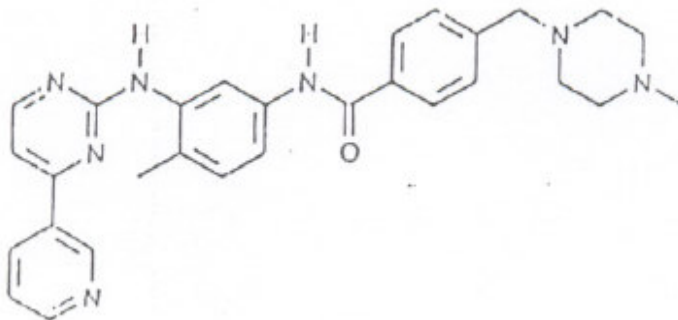


Source: [fda.gov](http://fda.gov)

*Gleevec* (imatinib mesylate) film-coated tablets contain imatinib mesylate equivalent to 100 mg or 400 mg of imatinib free base. Imatinib mesylate is designated chemically as 4-[(4-Methyl-1-piperazinyl)methyl]-N-[4-methyl-3-[[4-(3-pyridinyl)-2-pyrimidinyl]amino]-phenyl]benzamide methanesulfonate and its structural formula, Imatinib mesylate is a white to off-white to brownish or yellowish tinged crystalline powder. Its molecular formula is  $\text{C}_{29}\text{H}_{31}\text{N}_7\text{O} \cdot \text{CH}_4\text{SO}_3$  and its molecular weight is 589.7.

Imatinib mesylate is soluble in aqueous buffers  $\leq \text{pH } 5.5$  but is very slightly soluble to insoluble in neutral/alkaline aqueous buffers. In non-aqueous solvents, the drug substance is freely soluble to very slightly soluble in dimethyl sulfoxide, methanol and ethanol, but is insoluble in n-octanol, acetone and acetonitrile.

## The Patent Claim on $\beta$ Modification of Methanesulfonic Acid.



*Source: Novartis Claim Petition*

The  $\beta$ -crystal form of the 4-(4-methylpiperazin-1-ylmethyl)-N-[4-methyl-3-(4-pyridin-3-yl)pyrimidin-2-ylamino]phenyl]benzamide.

# CULTURAL HERITAGE AND THE COMMONS: SOME VIGNETTES

Prashant Iyengar\*

## § Introduction

India has a rich heritage of composite culture. This is summarily recited in Article 51A(f) of the Constitution of India<sup>1</sup> which makes it every citizen's *fundamental duty* to value and preserve our composite culture. Thus, when Indians speak of culture, it would seem we have little choice, other than being tamely co-opted into the language of individual riches and inheritance; of (exchange) value and conservation - property.

In this article, I will examine the relevance of commons-based approaches to two kinds of crises facing our cultural heritage. First, I would look into the invisibility of cultural heritage due to loss of patronage, or irrelevance due to the evolution of new techniques or technologies. Second, I would examine the misappropriation of cultural artifacts for commercial interests, without compensation to the communities from which these artifacts are retrieved.

For each, I provide anecdotal accounts that perform the twin functions of animating each of these crises and their responses, as well as providing a tapestry view of our cultural heritage.

I would like to begin, by asserting that the term cultural heritage in this article is not limited to material culture (handicrafts, monuments and sites) but includes, equally importantly, our rich heritage of immaterial culture in the form of the performing arts or the healing arts etc. Another important non-distinction I would like to draw attention to here is that cultural heritage is not restricted to its aesthetic component such as artifacts, folklore, etc. but also to those anthropological (agricultural knowledge etc). This clarification is necessary in order to ascertain the context of this enquiry, and particularly to avoid the seductive appeal of solutions that are effective because of their subject's easy amenability to the Internet. Networks predate the Internet. I will proceed on the problematic assumption that we, in fact, have a clear notion of what constitutes our cultural heritage.

In the following sections I deal serially with two crises that our cultural heritage faces with the help of recorded anecdotes.

## § Invisibility/Irrelevance

### Anokhi

My first anecdote relates to the revival of the traditional block printing industry in the state of Rajasthan through the efforts of a private enterprise called *Anokhi* (translated as "unique"). Started in 1970, at a time when, by the founder, Faith Singh's own account<sup>2</sup>, "*the craft was dying in the region*", the organisation has been instrumental in its revival and prosperity in the following three decades. It is imperative to highlight *Anokhi's* three strategic features.

First, *Anokhi* appears to be a federation of craftsmen rather than an employer itself. In the words of its founder, "*the work was decentralised as a matter of policy, interdependence*

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\* Researcher and Internet Activist.

<sup>1</sup> Fundamental Duties: Part IVA of the Constitution of India, <http://lawmin.nic.in/coi.htm>, (Last visited on June 18, 2008).

<sup>2</sup> Faith Singh, "Anokhi", <http://www.india-seminar.com/2005/553/553%20faith%20singh.htm>, (Last visited on June 18, 2008).



and loyalty, each to the other, was an unwritten understanding between us.”<sup>3</sup> Elsewhere, he states that the core mode of *Anokhi* is “the commitment to support the needs and aspirations of the craftspeople and their preferred choices for life, then use design, innovation and marketing so successfully that a steady demand for their skills is sustained from season to season.”<sup>4</sup>

Second, the organisation’s continued success may be attributed to its improved marketing techniques and its adaptation to market conditions by drawing on a diverse pool of aesthetic resources.

Furthermore, the positive impact that the rejuvenation of the craft has had on the region. To quote from the words of the founder: “Those of us who have been with the company from the beginning have witnessed its benefits: cultural pride, revitalised traditional skills, social cohesion through reducing the need to leave home for employment; the affirmation of cultural diversity and respect for cross-community productivity; the possibility to choose continuity, or change, with respect to lifestyle.”<sup>5</sup>

## **Pochampally**

Pochampally is a village in South India that is famous for its handloom industry which produces *ikat* textiles with geometrical designs. About 5,000 weavers are said to inhabit this village and depend on the industry for their livelihood. In the past, the industry has suffered due to the replication of these designs through power looms by industrialists. This has had the effect of making handlooms unfeasible as a source of income as it is more expensive to produce the textiles compared to the identical power loom products. As many as half of the weavers traditionally engaged in this craft are said to have shifted to other occupations.

One of Government’s responses has been to finance the community’s efforts to obtain a Geographical Indication (referred to as GI) protection for the *Pochampally Ikat* mark. An expert committee assured the weavers that their problems would vanish once they obtained GI protection, and this was undertaken with much fanfare in 2005. However, no significant improvement in the condition of the weavers appears to have resulted from this protection. One of the prime reasons for this failure, other than its irrelevance to the problem at hand, is that enforcement of this property interest is prohibitively expensive. For example, the Tea Board of India reportedly spent Rs 90 lakhs (\$200,000) in one year to prevent infringement of the *Darjeeling Tea* mark. The government however, continues to congratulate itself<sup>6</sup> on the Pochampally GI registration and has been touting this as a model remedy for other beleaguered craftsmen communities.

The *Anokhi* story is special for its demonstration that diversity in the public domain rather than protection is a better guarantee for the sustenance of our cultural heritage, and that any efforts at conservation must leverage the skills and aspirations of the community of craftsmen, making them active participants in the process. This is in stark contrast to the approach of the government in the Pochampally case, which appears to proceed from a misdiagnosis of the problem afflicting the community.

What I would like to highlight with both these anecdotes is that there are indeed serious dangers of crafts dying out in India, but the intellectual property based measures that are being promoted as solutions merely ends up masking the question. By contrast, other

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<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> “Pochampally handloom cluster receives IPR protection”, <http://textilescommittee.nic.in/pochampally-GI.pdf>, (Last visited on June 18, 2008).

approaches that focus on the craftsmen themselves and on cultivating the pool of artistic resources present more realistic, though more challenging, alternatives.

## § Misappropriation

Although bootlegging of ancient cultural artifacts remains a concern<sup>7</sup> in India, this section deals with an altogether different kind of misappropriation – the canning of traditional knowledge into tradeable property by third parties.

To quote one example<sup>8</sup>, in a 2004 article Vandana Shiva describes what she terms *biopiracy of wheat* by the company Monsanto. In 2003, the European Patent Office granted Monsanto a patent on a wheat variety that was derived from native Indian wheat. Offering various sources of evidence both to establish the variety's Indian origins as well as to disprove Monsanto's stated origin-claims, Shiva concludes that "*the variety referred to as NapHal was pirated, not collected... The patent is a blatant example of biopiracy as it is tantamount to the theft of the result of endeavours in cultivation made by Indian farmers.*"

What is curious here, as Lawrence Liang has observed, is that "*it responds to a crisis of property, and seeks a strengthening of property rights within a nationalist model.*" In 2001, the Indian Parliament enacted a law titled the Protection Of Plant Varieties And Farmers' Rights Act, 2001<sup>9</sup>, ostensibly in order to comply with Article 27(3) of the TRIPs Agreement<sup>10</sup> which permits *sui generis* protection for plant varieties, but also "*to recognize and protect the rights of the farmers in respect of their contribution made at any time in conserving, improving and making available plant genetic resources for the development of new plant varieties.*" In 2006<sup>11</sup>, a Plant Varieties Registry was installed as envisaged by the Act, and a period of three years was stipulated within which all existent varieties of 12 specified crops, already in the public domain would have to be registered. Effectively the portion of the public domain that is not registered within this period will be deemed to be absent.

Simultaneously, the Act preserves the rights of farmers to "*save, use, sow, re-sow, exchange, share or sell (without branding) his farm produce including seed of a variety protected under this Act*"<sup>12</sup>. In other words, the practices that sustain the public domain have been left unharmed.

This anecdote illustrates the government's reaction in requiring mandatory registration of public domain varieties within three years, and forces us to wonder how much of our heritage is currently being propagated by people to whom registration is at least as valuable as the practice itself. Registration of plant varieties by registration-minded Indians

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<sup>7</sup> Sudha Anantharaman, "Stolen artefacts, lost heritage", July 29, 2007, The Hindu, <http://www.hindu.com/mag/2007/07/29/stories/2007072950040200.htm>, (Last visited on June 18, 2008).

<sup>8</sup> <http://www.zmag.org/zspace/commentaries/1921>, (Last visited on June 18, 2008).

<sup>9</sup> <http://agricoop.nic.in/PPV&FR%20Act,%202001.pdf>, (Last visited on June 18, 2008).

<sup>10</sup> Article 27(3): Patentable Subject Matter: Members may also exclude from patentability:

(a) diagnostic, therapeutic and surgical methods for the treatment of humans or animals;  
(b) plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. The provisions of this subparagraph shall be reviewed four years after the date of entry into force of the WTO Agreement, [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips\\_04c\\_e.htm#5](http://www.wto.org/english/docs_e/legal_e/27-trips_04c_e.htm#5), (Last visited on June 18, 2008).

<sup>11</sup> "Farmers and plant breeders get special registry for IPRs", Financial Express, [http://www.financialexpress.com/old/print.php?content\\_id=146714](http://www.financialexpress.com/old/print.php?content_id=146714), (Last visited on June 18, 2008).

<sup>12</sup> Section 39(1) (iv)- The Protection Of Plant Varieties And Farmers' Rights Act, 2001, <http://agricoop.nic.in/PPV&FR%20Act,%202001.pdf>, (Last visited on June 18, 2008).

(as opposed to the community of cultivators) surely contributes as little to the conservation of Indian heritage as does biopiracy.

Unfortunately, Article 51A(f) with which I began this article, does not discuss *from whom* or to *what end* or *in what manner* this composite rich cultural heritage of ours is to be *preserved*.

# NOT SO FUNNY NOW IS IT ?

## THE SERIOUS ISSUE OF PARODY IN INTELLECTUAL PROPERTY LAW

Rahul Saha  
Sryon Mukherjee\*

### I. Introduction

On December 2, 1987 the Supreme Court of the United States of America (U.S.) was faced with an unusual case<sup>1</sup>: The publisher of a pornographic magazine called *Hustler* was being sued for libel and infliction of emotional distress by a well known minister and political commentator, Jerry Falwell, for publishing a parodic advertisement depicting the plaintiff, among other things, as having engaged in sexual intercourse with his mother in the outhouse. On November 9, 1993 the same Court was faced with an equally strange case<sup>2</sup>: The rap band, *2 Live Crew*, was being sued, for copyright infringement, on releasing a parodic version of Roy Orbison's hit song *Oh Pretty Woman* with changed lyrics such as "*Big hairy woman you need to shave that stuff...Bald headed woman girl your hair won't grow...Two timin' woman girl you know you ain't right.*" In both of the above cases, the Court ruled in favour of the defendant.

Parody, in a literal sense, refers to a work, which humorously and critically comments on an existing work in order to expose the flaws of the original work.<sup>3</sup> In order to create a successful parody, the parodist necessarily requires his audience to recognize the original work as well as the manner in which it has been ridiculed.<sup>4</sup> Thus, a parody, by its very nature, is dependant upon, and borrows from, the original work. It is this nature of parody that brings it into potential conflict with three areas of intellectual property law. Firstly, a parodist might violate copyright law which grants authors rights over duplication and distribution of their creations. Secondly, a parodist may violate a public figure's right of publicity by holding him up to ridicule. Thirdly, a parodist may violate the moral rights of the author by modifying his work in a manner that injures his honour and reputation.

This paper aims to show that parody, as an art form, does not violate the copyright in the original work, right of publicity of its subjects, or moral rights of the author of the original work. On this basis, it argues that parody is not and should not be actionable under intellectual property law.

Part II of this paper reviews the American and Indian cases dealing with parody and copyright infringement, and argues that parody constitutes fair use and thus does not violate copyright law. Part III discusses American case law on parody of public figures in order to show that parody does not violate the right to publicity of public figures whom it ridicules. Part IV carries out a critical analysis of the moral rights provision in the Indian Copyright Act, 1957, in order to show that the same is not violated when a work is parodied. Part V argues that changing the current position of law and making parody actionable under intellectual property law would be economically inefficient and not in consonance with the principles of copyright law. Part VI contains the observation of the authors and concluding remarks.

### II. Parody, Copyright Infringement And Fair Use

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<sup>1</sup> *Hustler Magazine v. Jerry Falwell*, 485 U.S. 46 : 108 S.Ct. 876.

<sup>2</sup> *Campbell v. Acuff-Rose*, 510 U.S. 569 (1994).

<sup>3</sup> Van Hecke, B. W., "But Seriously, Folks: Toward a Coherent Standard of Parody as Fair Use", (1999) 77 *Minnesota Law Review*, 465, 465.

<sup>4</sup> *Ibid*, 466.

This part argues that a parody does not infringe the copyright of the work it parodies because it qualifies as fair dealing under copyright law.

### A. The U.S. Position on Fair Use

*Fair use* has been referred to as the most troublesome issue in the whole of copyright law<sup>5</sup>, and described as being so flexible as to virtually defy definition.<sup>6</sup> The term *fair use* is not defined in the U.S. Copyright Act, and it is widely accepted that the definition for the same is open to interpretation by courts on a case-to-case basis.<sup>7</sup> As a result of the lack of a statutory definition, *fair use* is determined in the U.S. on the basis of Justice Story's four factor test laid down in *Folsom v. Marsh*<sup>8</sup>, where it was stated:

*"Look to the nature and objects of the selections made, the quantity and value of the materials used, and the degree in which the use may prejudice the sale, or diminish the profits, or supersede the objects, of the original work."*<sup>9</sup>

Judges used these criteria to decide *fair use* cases until Congress codified the basic elements of Justice Story's test into Paragraph 107<sup>10</sup> of the Copyright Act in 1976, which enumerates the above relevant factors.

### B. The U.S. Judiciary on Parody: Campbell and Its Legacy

The most comprehensive judicial analysis of the four fair use factors *vis-à-vis* parodies is found in *Campbell v. Acuff-Rose Music, Inc.* (referred to as *Campbell*).<sup>11</sup>

The facts of the case are as follows: In 1964, Roy Orbison and William Dees wrote and recorded "*Oh, Pretty Woman*". The rights to the song were assigned to Acuff-Rose Music Inc., which subsequently registered the song for copyright protection. In 1989, Luther Campbell, lead vocalist and song writer for an obscure band called *2 Live Crew*, wrote a version of the famous song, substituting its lyrics with ones which were obscene. Subsequently, Campbell's music production company, *Luke Records*, released an album which included the parody. The credits on the album recognized Orbison and Dees as the writers and Acuff-Rose as publisher of the original song. The general manager of Campbell's music production company, *Luke Records*, had offered to give due credit for ownership and authorship of the original song to *Acuff-Rose Music Inc.*, and also to pay a fee for its use, but Acuff-Rose declined to grant permission. Undeterred, *2 Live Crew* continued to sell the album. Acuff-Rose contended that the lyrics were either inconsistent with good taste or would disparage the future value of its copyright.<sup>12</sup>

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<sup>5</sup> *Dellar v. Samuel Goldwyn*, 104 F.2d 661, 662 (2d Cir. 1939).

<sup>6</sup> *Time, Inc. v. Bernard Geis Assocs.*, 293 F. Supp. 130, 144 (S.D.N.Y. 1968).

<sup>7</sup> Narayanan, P., *Copyright and Industrial Designs* (Calcutta: Eastern Law House, 2<sup>nd</sup> ed., 1995) § 15.37.

<sup>8</sup> 9 F. Cas. 342, No. 4,901 (C.C.D. Mass. 1841).

<sup>9</sup> *Folsom v. Marsh*, 9 F. Cas. 342, 348.

<sup>10</sup> The provision reads:

*"(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;*

*(2) the nature of the copyrighted work;*

*(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and*

*(4) the effect of the use upon the potential market for or value of the copyrighted work."*

<sup>11</sup> 510 U.S. 569 (1994).

<sup>12</sup> *Acuff-Rose Music, Inc. v. Campbell*, 754 F. Supp. 1150, 1152 (M.D. Tenn. 1991).

Before *Campbell* reached the Supreme Court, the Sixth Circuit, relying on *Sony Corporation of America v. Universal Studios*<sup>13</sup>, (referred to as *Sony*) and reversing the district Court's decision, held that the song was not a *fair use* and thus, constituted copyright infringement. In *Sony*, the Court had commented that commercial use creates a presumption against *fair use*.<sup>14</sup> Relying on this, the Sixth Circuit emphatically concluded, "*its blatantly commercial purpose prevented the derivative work from qualifying as fair use.*"<sup>15</sup>

However, when the case reached the Supreme Court, Justice Souter, the author of the majority decision, rejected the Sixth Circuit's decision that all commercial parodies are presumptively unfair. The Supreme Court also rejected 2 *Live Crew*'s argument that all parodies should be considered presumptively fair. The Court held that every parody must pass the test of *fair use*,<sup>16</sup> and applied the factors set out in Section 107 of the Copyright Act to the parody in question.

Of the four *fair use* factors, it was the first one that the *Campbell* Court singled out for the most comprehensive analysis. The Court defined parody as "*the use of some elements of a prior author's composition to create a new one that, at least in part, comments on that author's work.*"<sup>17</sup> According to the Court, the relevant question is, to what extent the new work is transformative, *i.e.*, to what extent the new work alters the original with new expression, meaning, or message.<sup>18</sup> The more transformative the new work, the less will be the significance of other factors that may weigh against a finding of fair use. Justice Souter found that 2 *Live Crew*'s version rose to the level of parody by virtue of its comments on the naïveté of the original; since it "*juxtaposes the romantic musings of a man...with degrading taunts, a bawdy demand for sex, and a sigh of relief from paternal responsibility.*"<sup>19</sup>

Downplaying the importance of the commercial use factor which the Sixth Circuit's decision had stressed upon, Justice Souter disapproved of the Sixth Circuit's "*elevation of one sentence from Sony to a per se rule*".<sup>20</sup> The Court was of the opinion that the correct interpretation of *Sony* is that a commercial use as opposed to a non-profit use is merely "*a separate factor that tends to weigh against a finding of fair use...[and] the force of that tendency will vary with the context.*"<sup>21</sup>

The Court did not devote much attention to the second *fair use* factor, which called for an inquiry into the nature of the copyrighted work, and held that this factor in the parody context was not much help "*since parodies almost invariably copy publicly known, expressive works.*"<sup>22</sup>

Regarding the third factor, which mandated an inquiry into the quantity of the work copied, the Supreme Court agreed with the Sixth Circuit's holding that 2 *Live Crew* had taken the heart of the original,<sup>23</sup> but held that this was permissible, since "*the heart is also what most readily conjures up the song for parody.*"<sup>24</sup>

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<sup>13</sup> 464 U.S. 417 (1984).

<sup>14</sup> *Sony Corporation of America v. Universal Studios*, 464 U.S. 417, 451 (1984).

<sup>15</sup> *Campbell v. Acuff-Rose Music, Inc.*, 972 F.2d 1429, 1439 (6th Cir. 1992).

<sup>16</sup> 510 U.S. 569, 581 (1994).

<sup>17</sup> *Ibid*, 580.

<sup>18</sup> *Ibid*, 580.

<sup>19</sup> *Ibid*, 583.

<sup>20</sup> *Ibid*, 585.

<sup>21</sup> *Ibid*, 585.

<sup>22</sup> *Ibid*, 586.

<sup>23</sup> *Ibid*, 587-588.

<sup>24</sup> *Ibid*, 588.

As far as the market substitution test was concerned, the Court held that a parody, “like a scathing theater review”,<sup>25</sup> does not fall foul of the fourth factor merely because it may have a detrimental effect on the market of the original. Instead, the relevant enquiry is whether the parody can act as a substitute for the original and therefore diminish demand for the original.<sup>26</sup> The Court noted that such substitution was unlikely, since the original and the parody usually serve different markets.<sup>27</sup> Analyzing the facts of the case, the Court found that 2 Live Crew’s version did not harm the market for the original.<sup>28</sup>

The Supreme Court majority thus found that the Sixth Circuit had erred on its analysis of three of the four factors, and dismissed the other as being of little assistance to the fair use analysis of parody. Based on this conclusion, the Supreme Court reversed the Sixth Circuit’s grant of summary judgment and remanded for further proceedings consistent with the opinion. The Supreme Court’s unanimous opinion in *Campbell* has been hailed as a “significant victory for would-be parodists”,<sup>29</sup> having the potential to significantly advance freedom of expression within the framework of constitutional and statutory copyright.<sup>30</sup>

Out of the subsequent American cases on parody, the Court found in favour of the plaintiff in *Dr. Seuss Enterprises v. Penguin Books USA, Inc.*,<sup>31</sup> and in favour of the defendant in *Leibovitz v. Paramount Pictures Corp.* (referred to as *Leibovitz*),<sup>32</sup> and *Suntrust Bank v. Houghton Mifflin Company*.<sup>33</sup> It is important to note that all these cases arrived at their respective conclusions by applying the test formulated in *Campbell*. The United States judiciary has remained scrupulously faithful to the *Campbell* ratio.

### C. The Indian Position on Fair Use and Parody

The *fair use* defence in India is provided for in Section 52 of the Indian Copyright Act, 1957, which stipulates, *inter alia*, that a fair dealing with a literary work for the purpose of criticism or review, whether of that work or of any other work shall not constitute infringement of copyright.

It has been observed in *M/s. Blackwood & Sons Ltd. v. A.N. Parasuraman*<sup>34</sup> that in order to constitute a fair dealing there must be no intention on the part of the alleged infringer, to compete with the copyright holder of the work and to derive profits from such competition and also, the motive of the alleged infringer in dealing with the work must not be *improper*.<sup>35</sup>

Thus, to successfully avail of the *fair use* defence in India, a parodist has to satisfy two conditions: (i) he must not intend to compete with the copyright holder and (ii) he must not make *improper* use of the original. The first condition, which is essentially the market substitution test, is easily proved, as most parodies do not seek to compete with the original but merely to ridicule or criticize the original in a manner that exposes its flaws. As far as the second condition is concerned, it is doubtful as to what is meant by *improper* use and whether

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<sup>25</sup> Ibid, 591.

<sup>26</sup> Ibid, 592.

<sup>27</sup> Ibid, 592.

<sup>28</sup> Ibid, 593-594.

<sup>29</sup> Fox, J. M., “The Fair Use Commercial Parody Defense and How to Improve It”, (2006) 46 *IDEA* 619, 628.

<sup>30</sup> Kaufman, H. and Cantwell, M., “The Parody Case: 2 Versions”, (May 16, 1994) *Nat’l L.J.*, C1, as cited in Francis, M., “The “Fair Use” Doctrine and *Campbell v. Acuff-Rose*: Copyright Waters Remain Muddy”, (1995) 2 *Vill. Sports and Ent. Law Forum* 311, 355.

<sup>31</sup> 109 F.3d 1394 (9th Cir.), cert. dismissed, 118 S. Ct. 27 (1997).

<sup>32</sup> 137 F.3d 109 (2d Cir. 1998).

<sup>33</sup> 268 F.3d at 1257 (11th Cir. 2001).

<sup>34</sup> AIR 1959 Mad. 410.

<sup>35</sup> Ibid, 428.

a parody is an instance of such use. In order to answer this question, reference may be made to the Kerala High Court judgment in *Civic Chandran v. Ammini Amma* (referred to as *Civic Chandran*).<sup>36</sup>

The artistic work challenged in *Civic Chandran* was not a parody as such, but a *counter drama*, as expressively termed by the Court.<sup>37</sup> The original work in question was *Ningal Enne Communistakki* – a well-known drama written by Thoppil Bhasi, a famous Malayalam playwright. The play dealt with some of the burning social and political problems of those days, specially espoused by the Communist Party of India before its split, and had considerably aided the undivided Communist Party of India to come to power in Kerala in the 1957 assembly elections. On the other hand, the *counter drama* written by the appellant, Civic Chandran, was intended to convey the message that though the party had succeeded in coming to political power, it had forgotten the depressed classes who were instrumental in its success, and who had made substantial sacrifices for the party. The *counter drama* used substantial portions of the original, with some alterations required for its purpose. The characters and dialogues in the original were also reproduced in some instances.

The Court held that the reproduction was not a misappropriation for the purpose of producing a play similar to the original. Rather, the purpose was to criticise the idea propagated by the original drama, and to expose to the public that it had failed to achieve its real object.<sup>38</sup> Furthermore, it was noted that there was no likelihood of competition between the two works in question.<sup>39</sup> It was held that since the copying was for the purpose of criticism, it amounted to fair dealing and did not constitute infringement of the copyright.<sup>40</sup> It is important to note is that, in arriving at this holding, the factors considered by the Court were: “(1) the quantum and value of the matter taken in relation to the comments or criticism; (2) the purpose for which it is taken; and (3) the likelihood of competition between the two works.”<sup>41</sup> This three-fold test is markedly similar to the test used by American judiciary. The only factor omitted is the nature of the copyrighted work – a factor that has been stated to be of little importance as far as parodies are concerned.

Therefore, as far as the Kerala High Court is concerned, a parody, so long as it copies from the original in order to criticise it, does not constitute *improper* use of the original and thus qualifies as fair dealing.

The discussion carried on in this part has clearly shown that both in India and the United States, parody has been given considerable protection, both by the legislature and the judiciary, under the *fair use* defence. Such broad protection for parody has been the subject of considerable criticism. Lee argues that the Supreme Court’s interpretation of the four factors unduly favors the parodist, and concludes that after weighing the factors, the majority of parodies will prevail under the fair use defence against actions by copyright holders.<sup>42</sup> Thus, he argues that the U.S. Courts have by and large set too low a threshold for parodies to qualify for the fair use defence.<sup>43</sup>

The authors believe that although the judicial analysis of the four factor test is unquestionably and markedly pro-parodist, this is not without good reason; it is economically efficient, and in consonance with the principles of copyright law, to afford parodies broad

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<sup>36</sup> 1996 PTR 142.

<sup>37</sup> Ibid, 142.

<sup>38</sup> Ibid, para. 24.

<sup>39</sup> Ibid, para. 24.

<sup>40</sup> Ibid, para. 42.

<sup>41</sup> Ibid, para. 8.

<sup>42</sup> Lee, J., “*Campbell v. Acuff-Rose Music: The Sword of the Parodist Is Mightier than the Shield of the Copyright Holder*”, (1994) 29 *U.S.F. Law Rev.* 279, 302.

<sup>43</sup> Ibid, 310.



protection from infringement actions. This is a point that is further developed in part V of this paper.

### III. Parody and the Right of Publicity

This part is devoted to a brief discussion of the right of publicity of public figures. It is argued, through an analysis of American case law, that parody does not violate a public figure's right of publicity.

#### A. The Development of the Right of Publicity

The right of publicity originates from the common law right of privacy.<sup>44</sup> It is defined as an individual's right to control and profit from the commercial use of his or her name, likeness and persona.<sup>45</sup> That is, the right of publicity disallows the use of another's identity for commercial purposes without his or her permission.

After an initial reluctance to grant such a right<sup>46</sup>, the U.S. Supreme Court explicitly recognized its existence in *Haelan Laboratories Inc. v. Topps Chewing Gum, Inc.*<sup>47</sup> (referred to as *Haelan*) where the plaintiff successfully sued the defendant for making commercial use of the picture of a baseball star with whom they had signed a contract, giving them exclusive rights over the commercial use of his picture. Post-*Haelan* a number of cases have upheld and expanded the right of publicity of the individual in different contexts.<sup>48</sup>

Although the right to publicity is broad and well developed in the U.S., it has hardly found any judicial recognition in India. The only Indian case discussing this right is *ICC Development (International) Ltd. v. Arvee Enterprises*<sup>49</sup> where the Delhi High Court, without explicitly recognizing the right of publicity, stated that the right of publicity can inhere only in a natural person and not in non-living entities, which were only legal persons.<sup>50</sup>

In spite of its broad scope, it is uncertain whether the right of publicity is violated when a public figure is parodied for commercial purposes. The three important cases that have arisen in this context in the U.S. are discussed herein under.

#### B. The Hustler Case

As discussed in Part I, in *Hustler Magazine v. Jerry Falwell*<sup>51</sup>, the plaintiff was a well-known minister and political figure who had been parodied in the defendant's magazine as having engaged in sexual intercourse with his mother in the outhouse. The plaintiff sued for libel and infliction of emotional distress. The lower courts dismissed the libel claim but upheld the claim for infliction of emotional distress. The defendant appealed to the U.S. Supreme Court.

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<sup>44</sup> Pemberton, G. A., "The Parodist's Claim to Fame: A Parody Exception to the Right of Publicity", (1993) 27 *U.C. Davis Law Review* 97, 100.

<sup>45</sup> Byrd, L., "Privacy Rights of Entertainers and Other Celebrities: A Need for Change", (1988) 5 *Ent & Sports L.J.* 95, 100.

<sup>46</sup> Pemberton, G. A., "The Parodist's Claim to Fame: A Parody Exception to the Right of Publicity", (1993) 27 *U.C. Davis Law Review* 97, 100-01.

<sup>47</sup> 346 U.S. 816 (1953).

<sup>48</sup> See *Allen v. National Video, Inc.*, 610 F. Supp. 612, 630 (S.D.N.Y. 1985), *Carson v. Here's Johnny Portable Toilets, Inc.*, 698 F. 2d 831, 837 (6th Cir. 1983), *Waits v. Frito-Lay, Inc.*, 506 U.S. 1080 (1993), *Abdul-Jabbar v. General Motors Corp.*, 85 F. 3d 407 (9th Cir 1996).

<sup>49</sup> 2003 VIIAD (Delhi) 405: 2003 (26) PTC 245 (Del) : 2004 (1) RAJ 10.

<sup>50</sup> *Ibid*, para. 14.

<sup>51</sup> 99 L Ed 2d 41.

The Supreme Court held that in order to protect the free flow of ideas and encourage public debate, the First<sup>52</sup> and Fourteenth Amendments<sup>53</sup> restricted public figures from recovering damages when a caricature, such as a parody, of them was published without additionally showing that the publication contains a false statement of fact that might be believed by a reasonable individual.<sup>54</sup> This would be the case even if the publication were made with malice and hatred towards the targeted individual.<sup>55</sup> The Court went on to state that public figures had in essence made a social contract to be subjected to a greater level of scrutiny than the average man being parodied or satired was merely one of the consequences of that contract.<sup>56</sup> The Court noted that the political cartoon and satire were ancient arts<sup>57</sup> and went on to state:

*“[T]he fact that society may find speech offensive is not a sufficient reason for suppressing it. Indeed, if it is the speaker’s opinion that gives offense, that consequence is a reason for according it constitutional protection.”*<sup>58</sup>

Although, in this case, the defendant did not contend that his right of publicity was violated by the parody, the Court has clearly laid down that public figures cannot recover damages when they are the subject matter of a parody. The fact that this precedent is applicable even in when an action is brought on the basis of a right of publicity is clear from the subsequent parody cases dealing with the right of publicity.

### C. L.L. Bean’s Case

In *L.L. Bean v. Drake Publishers*<sup>59</sup> (referred to as *L.L. Bean*) the defendant, who published an erotic magazine, had parodied the plaintiff’s well known *L.L. Bean’s Back to School Catalog* by publishing a two-page article titled, *L.L. Bean’s Back-To-School-Sex-Catalog* which displayed a facsimile of Bean’s trademark and various nude models in sexually explicit positions. The plaintiff sued, *inter alia*, for trademark infringement and trademark dilution.<sup>60</sup> The First Circuit Court, dealing with the trademark dilution claim, characterized a trademark as a property right similar to the right of publicity and held that a trademark dilution claim could not be brought when the plaintiff’s trademark was used in a noncommercial context, even if such use was negative or offensive, because this would allow a corporation to shield itself from criticism by disallowing the use of its name and trademark in commentaries critical of its conduct.<sup>61</sup> The Court recognized the vital importance of parodic speech in society and commented that though offensive, it is nevertheless deserving of substantial freedom – both as entertainment and as a form of social and literary criticism.<sup>62</sup>

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<sup>52</sup> Amendment I of the U.S. Constitution states, “*Freedom of Religion, Press, Expression. Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.*”

<sup>53</sup> Amendment XIV of the U.S. Constitution states, “*Citizenship Rights. 1. All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.*”

<sup>54</sup> *Hustler Magazine v. Jerry Falwell*, 99 L Ed 2d 41, 52.

<sup>55</sup> *Ibid*, 52.

<sup>56</sup> *Ibid*, 51.

<sup>57</sup> *Ibid*, 51.

<sup>58</sup> *Ibid*, 52.

<sup>59</sup> 811 F.2d 26.

<sup>60</sup> *L.L. Bean v. Drake Publishers*, 811 F.2d 26, 27.

<sup>61</sup> *Ibid*, 33.

<sup>62</sup> *Ibid*, 33.

This case clearly states that parody will be protected by free speech doctrine even when it portrays an individual or a corporation in a negative light. Thus, no right of publicity claim may be brought against a parody.

#### **D. White v. Samsung Electronics**

The last case in this series of cases is the Ninth Circuit case of *White v. Samsung Electronics*<sup>63</sup>, (referred to as *Samsung*) which is viewed as a departure from the above cases.<sup>64</sup> In this case, the electronics company, Samsung, carried on an advertisement depicting events in the twenty-first century. One of the events was of a robot standing next to a *Wheel of Fortune* board dressed in a manner similar to Vanna White, the game show's host. The caption of the advertisement read, *Longest-running game show. 2012 A.D.*, the message of the advertisement being that Samsung would be still in use in 2012 A.D. when Vanna White would have been replaced by a robot.

The Ninth Circuit upheld Vanna White's right of publicity claim holding that the defendants had appropriated the *likeness* of the plaintiff and there was a genuine apprehension that consumers would believe that White was endorsing the Samsung products.<sup>65</sup> The Court went on to distinguish the case from *Hustler* and *L.L.Bean* by stating that in this case no humorous criticism was made of Vanna White, as was made of the plaintiff's in the above two cases, and her likeness was appropriated for merely commercial purposes.<sup>66</sup>

The authors find themselves in agreement with the decision of the Ninth Circuit but contend that this decision in no way takes away from the fact that parody does not violate the right of publicity. The decision, in fact, outlines the boundaries of parody. The Samsung advertisement was not a parody at all; it did not in anyway criticize or comment upon the personality of Vanna White but merely appropriated her likeness for commercial purposes. For this reason, the *Samsung* decision, contrary to the opinion of some commentators,<sup>67</sup> cannot be interpreted as holding that the right of publicity prevails over the right to produce parody.

The discussion carried on in this part clearly shows that even in the U.S., where the right of publicity is well developed, the courts have consistently held that the right of publicity of a public figure is not violated when a public figure is parodied. This is not surprising given the fact that the publicity right only protects the public figure against use of his identity for purely commercial purposes, whereas the predominant object of a parody is to criticize and satirize the personality of a public figure.

#### **IV. Parody And Moral Rights**

The concept of moral rights is based upon the understanding that an artist's work is an extension of his or her personality and that, in effect, one cannot *know the dancer from the dance*<sup>68</sup>. Moral rights, which are independent of copyright, protect two broad rights of the artist: his right to claim authorship of his work and his right to protect his artistic integrity. The second right, which is known as the right to integrity, protects the artist's work from

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<sup>63</sup> 971 F.2d 1395.

<sup>64</sup> See Skoch, G., "Commercial Trademark Parody: A Creative Device worth Protecting", (1999) 9 *Kan. J.L. & Pub. Policy* 357.

<sup>65</sup> *White v. Samsung Electronics*, 971 F.2d 1395, 1401.

<sup>66</sup> *Ibid*, 1401.

<sup>67</sup> Skoch, G., "Commercial Trademark Parody: A Creative Device worth Protecting", (1999) 9 *Kan. J.L. & Pub. Policy* 357.

<sup>68</sup> Yeats, W. B., *The Tower, Among School Children* (1928) stanza 8, as cited in Yonover, J., "The 'Dissing' of Da Vinci: The Imaginary Case of Leonardo v. Duchamp: Moral Rights, Parody, and Fair Use", (1995) 29 *Val. U.L. Rev.* 935, 947.

mutilation or distortion in a manner that injures his reputation and honour, and is of relevance to this paper.

The concept of moral rights, being continental in origin, was not prevalent in the U.S. until 1990, when Congress enacted the Visual Artists' Rights Act, 1990, (referred to as VARA) which granted a limited form of moral right protection to the author of a work. However, in India, the Copyright Act, 1957 has recognized moral rights since its inception. Section 57 of the Copyright Act grants an author the right to claim authorship of the work and, until the expiration of the term of copyright, the right to restrain or claim damages in respect of any distortion, mutilation, modification or other act in relation to the work, if such distortion, mutilation, modification or other act would be prejudicial to his honour or reputation.

It is argued that a proper interpretation of Section 57 would show that parody does not violate the right to integrity of the author. A parody does not constitute a mutilation, distortion or modification of an existing work but is, in fact, a new and independent work in its own right, which merely borrows certain elements from an existing work. A scrutiny of parody cases confirms parody as a work that has *borrowed* from the allegedly infringed work.<sup>69</sup> For this reason a parody cannot be said to be a violation of the right to integrity of the author.

## **V. A Law and Economics Justification for Intellectual Property Protection for Parodies**

This part is based on the hypothesis that the negligible benefits of granting works protection against parodies must be seen in light of the loss that accrues to the public as a result of such protection. When a work is granted protection against parody, one mode of expressing an idea is deemed off-limits and the range of materials, which authors may use to create their work, is diminished. This results in fewer works and works of lesser quality being produced and thus has a negative effect on social utility. In view of these negative ramifications, such protection can be justified only if clear benefits can be shown to accrue from it. On the contrary, it is argued in this part that protection to parodies would entail no economic benefits whatsoever.

The primary rationale for intellectual property law is utilitarian. It seeks to ensure a fair return to authors, inventors and public figures for their labour.<sup>70</sup> In doing so it aims at a general social benefit by providing persons with greater incentives to engage in productive labour.<sup>71</sup> It is argued that allowing parody to remain non-actionable in no way detracts from the incentive to engage in such productive labour. Do authors, today, produce fewer works, or works of lesser quality, because of the absence of a copyright system that makes parody actionable? Do fewer individuals, today, strive to become public figures because of the fear they may be parodied if they do? Do authors feel that their honour and reputation shall be injured if they produce works, due to the absence of a moral rights system that protects such work from parody, and thus consequently produce less than the optimal amount of work?

It is submitted that the answers to the above questions are clearly in the negative. One finds it difficult to conceive of a situation where any reasonable author would be discouraged from producing it merely because it might be parodied. An author produces for one, or both,

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<sup>69</sup> See *Campbell v. Acuff-Rose* 510 U.S. 569 (1994).

<sup>70</sup> Van Hecke, B. W., "But Seriously, Folks: Toward a Coherent Standard of Parody as Fair Use", (1999) 77 *Minnesota Law Review* 465, 467.

<sup>71</sup> See generally, Landes, W. M. and Posner, R. A., *The Economic Structure of Intellectual Property Law*, (Cambridge: Harvard University Press, 2003); Posner, R. A., "Intellectual Property: The Law and Economics Approach", (2005) 19(2) *Journal of Economic Perspectives* 57.

of two reasons; to put forward a point of view and/or to earn a profit from his work. If he produces the work in order to put forward a point of view he would reasonably expect a counter. The fact that this view is expressed in a humorous manner using parts of the author's own work to attack it does not make it different from any other form of criticism the author might receive. As far as the second case is concerned, where the author produces for gain, it has already been shown that a parody does not take away from the author's profit because it operates in a market different from the market of the author's work. Thus, granting copyright protection against parody would not help increase the quality or quantity of work produced.

Similarly, the notion that individuals are discouraged from striving towards celebrity status, merely because they may be parodied, borders on the absurd. Every public figure is aware that he or she shall be subjected to a greater degree of public scrutiny and criticism than the average John Doe, and the fact that such criticism comes in the form of parody would do little to discourage an individual from striving toward achievement if he is not otherwise deterred by potential criticism of non-parodic nature.

Furthermore, as has already been argued, a moral rights system is not aimed at protecting the general honour and reputation of the author but only his honour and reputation in relation to his work. However, even assuming that a moral rights system can protect the general reputation of an author, it is argued that the absence of such a system does not deter an author from producing quality work. An author gains a reputation in the first place by producing work. A parody can, at the most, diminish such a reputation, but not obliterate it completely. Thus, if an author's work is parodied he may have a diminished reputation but if he does not produce work in the first place, due to fear of it being parodied, he would not gain a reputation at all. Hence, it would be rational for an author to produce a work even if there exists a risk of it being parodied. The strength of this argument is clearly illustrated by the experience of the United States, whose authors produced a substantial amount of creative work even prior to enactment of the VARA in 1990.

Additionally, the negligible benefits of granting works protection against parodies must be seen in light of the loss that accrues to the public as a result of such protection. When a work is granted protection against parody, one mode of expressing an idea is deemed off-limits and the range of materials, which authors may use to create their work, is diminished. This results in fewer works and works of lesser quality being produced and therefore, has a negative effect on social utility.

Thus, intellectual property protection against parody provides no meaningful benefits and has a significant negative impact on the quantity and quality of work produced in society.

## **VI. Conclusion**

In view of the arguments in Parts II through IV of this paper, the authors hope to have clearly established that parodies have received substantial protection at the hands of both the judiciary and the legislature and are not, as such, actionable. It has also been shown that there exists an economic justification for maintaining, if not enhancing, the level of protection that parodies currently enjoy. This justification postulates that intellectual property protection against parody provides no meaningful benefits and has a significant negative impact on the quantity and quality of work produced in society. Such protection deprives the public of entertainment and critical points of view without creating any additional incentives for individuals to engage in productive labours. In short, it would be economically inefficient and against the principles of intellectual property law to grant intellectual property law protection against parodies. Therefore, in light of the discussion carried on in this paper, and the conclusions reached, it is recommended that parodists continue to be given considerable protection against actions under intellectual property law.

# THE EFFECT OF PATENT TROLLS ON INNOVATION: A MULTI-JURISDICTIONAL ANALYSIS

*Rajkumar.V\**

## 1. Introduction

### 1.1. Defining A Troll

Defining a patent troll is a very difficult task. Hence, identifying the activities of the troll would be a better approach. A troll does not:

1. Intend to actually practice a patent. Here intention is of primary importance as small inventors may have the intent to practice a patent, but do not do so due to lack of resources.
2. A patent troll does not produce any thing of value but merely acquires patents with a view to obtain licensing revenue.
3. They do not make use or sell new products and technologies but *solely* aim to force third parties to purchase licenses.

### 1.2. Trolls Vs. Legitimate Actors

It is also essential to separate two classes of people who might act similarly to trolls but are not trolls. They are:

#### 1) Innovators

The goal of a patent troll is simply to obtain a patent that it can use to extract licensing revenues, but innovators develop a new technology that can be used by a producer. An innovator seeks not just to obtain a patent, but also to create an underlying technology that has some value. This point can be demonstrated by analogizing the patent to a piece of land. Both the innovator and the patent troll can potentially own the land, thus having the right to exclude others from it. The innovator, however, uses the land to raise a crop but a patent troll merely aims at excluding people from the land<sup>1</sup>.

#### 2) Producers

Patent trolls do not include those who acquire patents as part of a defensive or offensive strategy related to their own product line. A producer need not actually practice the patent to avoid being called a patent troll. The critical question is whether it is enforcing its patent in a market in which it participates. For instance, a patentee might manufacture a product that can either use a widget or a gadget. The patentee has patents on both widgets and gadgets. However, the patentee decides to use only widgets in its product. While the patentee does not practice the gadget patent, it is not a patent troll. Indeed, even if the patentee chooses to license its gadget patent to competitors, the fact that the patent relates to a market that it participates in characterizes it as a producer, rather than a patent troll.

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<sup>1</sup> Rantanen, J, "Slaying the Troll: Litigation as an Effective Strategy against Patent Threats," (2006) 23 *Santa Clara Computer Hardware & Technology Law Journal* 43, 59.

After identifying the line of activity of a typical troll, a patent troll could be defined as:

*"A patent troll is company or business function whose primary business activity is to acquire patents for the purpose of offensively asserting them against other companies."*

### 1.3. The *Modus Operandi* of Trolls

Ray Niro is the first patent troll (by his own admission); in 18 years of patent litigation, he had sued 235 companies and made a fortune of 315 million dollars<sup>2</sup>. A study of one of his typical operations would show how patent trolls work:

In early 2001, Schneider Automation Inc was selling a patent covering the use of spreadsheet programs in manufacturing equipment. He called former clients to tell them about the patent and offering his legal representation on contingency. His pitch piqued the interest of Daniel Henderson. In March 2001, Henderson won Schneider's patent auction - he was the only bidder - under the name Solaia Technology LLC, a company formed to hold the patents. A few months later, Niro sent hundreds of nearly identical letters to allegedly infringing companies offering to "*amicably and promptly resolve all issues*" for a payment of \$600,000 to \$1 million. When the letters didn't get an immediate response, Niro sued 50 companies for patent infringement. Most of the defendants, major companies like Boeing, Clorox and BMW, settled immediately. Solaia took in about \$30 million in fees, and Niro's firm got about 30 percent, roughly \$10 million<sup>3</sup>.

It is not merely the big companies that are hit by the patent trolls. Patent trolls are not always small companies, neither are the victims necessarily big companies. Another example would illustrate this point: one California company, Pangea Intellectual Properties (PanIP), claimed its patent is infringed by websites that process financial information that customers enter online. PanIP had sent letters to hundreds of small businesses seeking licensing fees of \$25,000 on average. Some letters reportedly demanded as much as \$30,000 but later requests were as low as \$10,000 and rumours are that the company accepted as little as \$5,000. Many companies who failed to pay the fees faced costly litigation. Most recent figures show that PanIP sued 40 small websites in 2002. Although a majority of the defendants settled, some banded together in a joint defense group and successfully convinced PanIP to drop the lawsuits<sup>4</sup>.

### 1.4. Business Models of Trolls

There are four broad business models followed by the trolls:

- (i) Trolls could be companies which purchase controversial patents from others merely for the purpose of asserting them.
- (ii) A patent troll could be a company that originally sold products, but has either completely or partially closed its operations.

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<sup>2</sup> Xenia, P, "Extreme Makeover: From Patent Troll to the Belle of the Ball," at <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).

<sup>3</sup> Xenia, P., "Extreme Makeover: From Patent Troll to the Belle of the Ball," at <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).

<sup>4</sup> Brennan, J., et al, "Patent trolls in the U.S., Japan, Taiwan and Europe", <http://www.law.washington.edu/Casrip/Newsletter/Vol13/news13i2BrennanEtAl.htm>, (Last visited on April 2, 2007).

- (iii) Patent trolls could be the agents that assert patents on behalf of patent owners.
- (iv) Patent trolls could be law firms that help clients to exploit their IP, for which they take contingency fees.<sup>5</sup>

## 2. How Are Patent Trolls Undermining Innovation?

The strategy taken by patent trolls slows the progress of science in several ways. First, patent trolls increase the transactional costs associated with developing technology and with claiming IP rights. In a legal system where patent trolls thrive, the development of a new technology must be accompanied by extensive searches for related patents. Not only must well known patents of competitors be taken into account, but obscure patents with only vague connections to the technology being developed must be identified. These searches can add considerable cost and reduce the likelihood that new technologies will be developed<sup>6</sup>. The legal costs associated with litigation initiated by patent trolls also reduce the funding available for innovation, and these legal costs can rise to quite significant amounts. Personnel who would otherwise be engaged in promoting innovation throughout the organization will have their attention diverted elsewhere by the litigation, which will consume the human resources of the technology developers in addition to the financial resources<sup>7</sup>.

## 3. Trolling- Incentives In The Legal System

The difficult process of patent troll avoidance is made harder due to the fact that under many legal systems, especially that of the United States (U.S.), potential trolls have an incentive to remain hidden and have their patents infringed, rather than to enter into negotiations with developers of technology. Damages awarded through litigation have the potential to vastly overcompensate a patent holder whose patent has been infringed rather than a patent holder who grants a license.<sup>8</sup>

### 3.1. Punitive Damages

The U.S. grants punitive damages to patent holders in cases of willful infringement. These punitive damages can be treble the initial damages claim<sup>9</sup>. Second, the various forms of damage awards available to infringed patent holders fail to take into account some important factors that would tend to reduce the amount of damages available. Whether a patent holder is seeking to disgorge profits or to extract a “reasonable license fee”, there is an assumption that developers of the infringing product had no alternative but to have incorporated the patented technology into their final product. This suggests a model in which the final product could not have been produced without the patented technology, and that the patented technology contributed to the value of the final product. However, this is not always the case<sup>10</sup>.

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<sup>5</sup> Beyers, J., “Perspective – Rise of the Patent Trolls,” <http://news.com./rise+of+the+patent+trolls/2010-1071>, (Last visited on March 12, 2007)

<sup>6</sup> Harkins, C., “Fending Off Paper Patents and Patent Trolls: A Novel “Cold Fusion” Defense Because Changing Times Demand It,” (2007) 17 *Albany Law Journal of Science and Technology* 407,434.

<sup>7</sup> Xenia, P., “Extreme Makeover: From Patent Troll to the Belle of the Ball,” at <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).

<sup>8</sup> Reitzig, M, et al, “On Sharks, Trolls, and Other Patent Animals: Being Infringed as a Normatively Induced Innovation Exploitation Strategy,” [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=885914](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=885914), (Last visited on March 12, 2007).

<sup>9</sup> 35 U.S.C. § 284.

<sup>10</sup> Xenia, P., “Extreme Makeover: From Patent Troll to the Belle of the Ball,” <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).



In cases where the patented technology is of little value, the product developer will be able to easily invent around the patent, or avoid using the technology altogether. Thus, the amount it would be willing to pay to license the technology would be very small<sup>11</sup>. However, damage awards do not tend to take into account the ability of the product developer to avoid using the patented technology had they been approached earlier<sup>12</sup>.

### 3.2. Permanent Injunctions

Patent holders seeking to assert a troll-like strategy can also seek overcompensation by relying on the availability of permanent injunctions which prevent another party from using the patented technology once a finding of infringement has been made. This allows the patent holder to be overcompensated by pursuing a strategy of waiting for its patent to be infringed and for the product incorporating the infringing technology to be on the market.<sup>13</sup> Once the product is on the market and the developer has made a substantial investment, the product developer will be willing to pay a large amount of money to settle an action for infringement in order to stay in business and recover its investment.<sup>14</sup>

The availability of permanent injunctions can also impose costs on a society as a whole, rather than merely on the patent infringer. For example, the patent infringement dispute between RIM and NTP threatened to lead to a shut down of all Blackberry services. The interruption in service which would have ensued would have caused serious difficulties for consumers of the service, such that the economy as a whole could have been negatively affected<sup>15</sup>. Interestingly, the availability of permanent injunctions in patent infringement suits has recently been addressed by the U.S. Supreme Court in *eBay v. MercExchange*<sup>16</sup>.

Prior to this case, a general rule had developed such that virtually automatic permanent injunctions would be issued against any party that was found to have infringed a patent<sup>17</sup>. The power to award a permanent injunction is within the discretion of the judge, who must examine four equitable factors before deciding whether or not to award a permanent injunction. The patent holder must demonstrate the following: 1) that it has suffered irreparable harm, 2) that monetary damages are insufficient compensation, 3) that the balance of hardship imposed by an injunction favours the patent holder, and 4) that an injunction would not harm the public interest.

## 4. Arguments In Favour Of Patent Trolls

An argument that might be made in favour of patent trolls is that they are entitled to exercise their rights against product developers because in order to obtain their patents, they were required to disclose an innovative technology that they have developed to the public. The disclosure of the new technology thus promotes innovation, and the patent holder is merely rewarded for this advancement of science. However, an examination of the strategy pursued by patent trolls illustrates that the inventions disclosed in patents filed by patent trolls are unlikely to be very innovative, and thus of questionable validity and questionable value to the progress of science and the arts. If the strategy of a patent troll is to gain income solely through litigation against patent infringers rather than through exploitation of the patented

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<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Lemley, M., "Should Patent Infringement Require Proof of Copying?," <http://ssrn.com/abstract=954988>, (Last visited on March 12, 2007).

<sup>14</sup> Landers, A., "Liquid Patents", (2006) 84 *Den. Univ. L. Rev.* 199, 205.

<sup>15</sup> <http://www.msnbc.msn.com/id/10265694/>, (Last visited on July 12, 2007)

<sup>16</sup> *Ebay One Click Patent Challenge by MerckExchange (eBay v. MercExchange)* 126 S. Ct. 1837 (2006).

<sup>17</sup> Brunstad, S., "Courts Must Apply 4-Part Equitable Test for Permanent Injunctions: *eBay Inc. v. MercExchange LLC*," <http://www.law.washington.edu/Casrip/Newsletter/Vol13/news13i2US4.html>, (Last visited on July 12, 2007).

technology, then this strategy will only be successful if others independently invent the same technology<sup>18</sup>.

In order to be an effective part of the patent troll strategy, the patents held by patent trolls will be inherently weak. The weakness of these patents indicates that patent trolls are not simply exercising the rights that they are entitled to under the patent system. Instead, the weakness of such patents suggests that patent trolls are exploiting vulnerabilities in the patent system.

## 6. Comparative Analysis of Trolls Across Jurisdictions

### 6.1. Patent Trolls In The U.S.

An examination of patent troll activity suggests that it is concentrated in the information technology industry in the U.S.<sup>19</sup>. There have been some suggestions that the U.S. Patent Office is overwhelmed by the large volume of patent applications they receive. The patent examiners have only a limited amount of time to judge whether or not a particular patent is valid, and when there is doubt there may be a tendency for the examiners to grant the patents and let courts resolve the question if litigation arises<sup>20</sup>. If patents are granted too easily, this will encourage patent trolls since they can threaten other parties with an infringement suit without having legitimately earned the right to do so.

This has played into the hands of patent trolls, allowing them to maintain broad, vague, but legally valid patents where unsuspecting infringement based on independent invention is almost assured. The current test for obviousness in the U.S. requires that, for a finding of obviousness, there be some “suggestion, teaching, or motivation” in the prior art that would lead a person of ordinary skill in the art to the claimed invention<sup>21</sup>. However, the test for obviousness is currently under review by the U.S. Supreme Court in *KSR v. Teleflex*. Interestingly, several members of the Supreme Court commented negatively on the “*suggestion, teaching, or motivation*” test during oral argument. The above case also highlights another feature of the U.S. patent system that might make it more attractive to patent trolls<sup>22</sup>. There are many aspects of patent law that appear to be uncertain in the U.S., with frequent reversals at the Federal Circuit. Legal uncertainty can act to the advantage of patent trolls because defendants to an infringement action cannot accurately predict whether or not the action has legal merit.

Another unique feature of the U.S. legal system that may embolden patent trolls is the fact that in litigation, each party generally bears its own costs. This aspect of the U.S. legal system is quite different from the rule in other jurisdictions where the losing party must contribute to the legal costs of the winning party. There is less of a disincentive for patent trolls to engage in extensive litigation against potential infringers, even when the claims of the patent trolls are dubious.

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<sup>18</sup> Xenia, P., “Extreme Makeover: From Patent Troll to the Belle of the Ball,” at <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).

<sup>19</sup> Brennan, J., et al, “Patent trolls in the U.S., Japan, Taiwan and Europe” <http://www.law.washington.edu/Casrip/Newsletter/Vol13/newsv13i2BrennanEtAl.html>, (Last visited on September 29, 2007).

<sup>20</sup> Magliocca, G., “Blackberries and Barnyards: Patent Trolls and the Perils of Innovation”, <http://ssrn.com/abstract=921252>, (Last visited on September 27, 2007).

<sup>21</sup> Keim, B., “Gobbledygook or the Future of Obvious in U.S. Patent Law? *Teleflex v. KSR*,” <http://www.law.washington.edu/Casrip/Newsletter/Vol14/newsv14i1US2.html>, (Last visited on September 27, 2007).

<sup>22</sup> Ibid.

Patent trolls may also be taking advantage of a judicial reluctance to employ the equitable doctrines of *laches* and *estoppel* when considering infringement claims<sup>23</sup>. A *laches* defense might be claimed where a patent holder has been aware of patent infringing activity for a long period of time, but did not take action against the infringer until the long period of time has passed. The patent troll strategy is most profitable when the patent troll waits to assert its claim of infringement until a product developer has incorporated the patented technology into a final product which is being marketed. If patent holders are forced to assert their claims as soon as they become aware of a potential infringement, it might reduce the viability of the patent troll strategy<sup>24</sup>.

An *estoppel* could be raised against a claim of infringement where the patent holder has made a representation, perhaps implicitly, that it will not enforce the patent, and the infringer has relied on that representation<sup>25</sup>. The use of the doctrine of *estoppel* might have the greatest effect where patents held by bankrupt businesses are then obtained by other parties. The original patent holder may have had a policy of not enforcing certain patents, and users of the patented technology may have relied on the fact that the patents would not be enforced. An increased application of the *estoppel* doctrine could thus eliminate this opportunity for patent troll-like activity<sup>26</sup>.

A final feature of the U.S. patent system that may work to the benefit of patent trolls is the relative unavailability of compulsory licensing. Patent law in many other jurisdictions provides for the establishment of a compulsory license where a patent holder does not exploit the technology disclosed in a patent and unreasonably refuses to grant licenses to practice the patent to other parties. For example, in Canada, Section 65 of the Patent Act provides for compulsory licensing of patented technology where the patent holder has abused his exclusive rights and three years have expired since the patent has been granted.

Therefore, Section 65 and other compulsory licensing provisions can have the effect of reducing the leverage asserted by patent holders threatening to obtain a permanent injunction against a technology developer who is marketing a widely used product. However, compulsory licensing has been met with strong resistance in the U.S., as it has the potential to affect not only patent trolls, but also patent holders who have developed and marketed the subject matter of their patents. Patent holders argue that compulsory licensing will result in them receiving less than the market value of their patented technology<sup>27</sup>.

This argument against compulsory licensing has faced same resistance similar to the notion that a permanent injunction should not be automatically granted in cases of patent infringement. If a permanent injunction is not granted in cases of infringement, then damages awarded to the patent holder may simply be equivalent to granting a compulsory license to the patent infringer<sup>28</sup>.

The U.S. patent system does appear to be suffering from unique weaknesses that leave it susceptible to patent trolls. However, many of these weaknesses are in the process of being amended, particularly as a result of recent interventions of the Supreme Court. Advancements in technology have highlighted important issues in patent law that are now being revisited. However, there is no doubt that some patent holders will strongly object to

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<sup>23</sup> Barker, D., "Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review", (2005) *Duke Law & Technology Review* 9, 11.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

<sup>27</sup> Grab, L., "Equitable Concerns of *eBay v. Mercexchange*: Did the Supreme Court Successfully Balance Patent Protection Against Patent Trolls?" (2006) 8 *North Carolina Journal of Law & Technology* 231.

<sup>28</sup> *Ibid.*

any attempts to reduce the rights available to them. While a reduction in the frequency of permanent injunctions in the U.S. might be expected after the Supreme Court's decision in *eBay v. MercExchange*<sup>29</sup>, this will not necessarily lead to a frequent occurrence of judicially imposed compulsory licenses as seen in *Finisar v. DirectTV*<sup>30</sup> Group.

The Supreme Court's ruling in *eBay v. MercExchange*<sup>31</sup> merely stresses the discretion available to judges in patent infringement cases and the requirement to consider all of the circumstances of the case. While patent troll activity must be reduced, it is difficult to draw up a *bright line* legal definition of patent troll activity. The use of judicial discretion and an examination of the facts of each case may be an appropriate method of dealing with the problem of permanent injunctions and compulsory licensing where patent troll activity may be occurring.

It is in light of the aforementioned discussion that the Patent Reform Act of 2005 was introduced in the U.S. Congress on June 8, 2005. It attempts to solve some problems related to the working of patents and also problems like patent trolls. The major proposal was to amend the present patent system by incorporating some provisions such as introducing compulsory licensing, working of patents, and first to file provision. Further, careful consideration has been given to the procedural aspect of infringement cases, by eliminating treble damage awards and strengthening the statutory requirements for granting injunctive relief. This author feels the impact of these provisions might be for the better.

## 6.2. The European Patent System

Trolls have had a deep impact in the U.S. Europe represents a slightly different case as the patent law of the European Union (EU) as well as patent litigation systems in European nations are not only distinct from that of the U.S., but vary to some extent from one EU member nation to another. So the issue to be analyzed is whether the incentives and disincentives for trolls remain the same or are they transformed and as a result what is the impact on troll activity.

The biggest drive for trolls is the potential to obtain huge amounts as damages from infringers or even secure lop-sided out of court settlements which are mostly the result of the non-viability of entering into costly and time consuming litigation. Thus to a great extent what a troll can extract from an infringer depends greatly on the efficiency of the patent litigation system.

Factually, trolling involving European entities may be evinced by the way of mentioning the dispute between Infineon, a German chip manufacturer and Rambus, a US memory manufacturer. The dispute arose over Rambus claiming royalty payments from Infineon for millions of U.S. dollars. The end result was a settlement for \$23.5 million to be paid by Infineon to Rambus for two years<sup>32</sup>.

The European Patent System is unique in that there is a central patent office for grant of patents which are then valid across all European Patent Convention (EPC) member states, however, specific disposal of infringement suits is national rather than centralized. Thus if a European patent is infringed anywhere in Germany and the German courts uphold the infringement, it does not imply that the same patent will be deemed infringed automatically in

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<sup>29</sup> *Ebay One Click Patent Challenge by MerckExchange (eBay v. MercExchange)* 126 S. Ct. 1837 (2006).

<sup>30</sup> *Finisar Case (Finisar v. DirectTV Group)* 217 Fed. Appx. 981.

<sup>31</sup> Barker, D., "Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review", (2005) *Duke Law & Technology Review* 9, 11.

<sup>32</sup> [http://www.patenthawk.com/blog/2005/03/bad\\_memories.html#more](http://www.patenthawk.com/blog/2005/03/bad_memories.html#more), (Last visited on February 13, 2007).

other member nations too. This is a big disincentive for a troll looking to target infringement of a European Patent that is being worked community wide<sup>33</sup>.

It would be seemingly cumbersome to knock on the doors of courts across the spectrum of EPC member nations. On the other hand the potential costs of litigating in Europe are somewhat lower in quantum *vis-à-vis* the same in the U.S. This *prima facie* seems like a potential incentive for trolling, however it may also translate into the fact that infringers would be more willingly take up litigation and fight it out rather than settle out of court for unreasonably high royalties and one time payments. However a real disincentive to litigate in Europe may be that the loser must bear all costs of litigation for itself and the winning opponent<sup>34</sup>.

Thus, as it stands now the European patent system holds both incentives and disincentives for patent trolls. Another key factor that may be determinative of the success or failure of patent troll strategies would be the criteria employed by national courts in tabulating the quantum of damages to be awarded in cases where infringement is successfully established. As evident from the U.S. experience, the practice of granting treble damages and infringers' profits can really make trolling worthwhile.

## **7. Possible solutions to the Patent Troll Problem**

The reasons that the patent troll strategy has developed in the present patent system appears to result from judicial procedure and its adjudication in infringement cases. Some observers have mentioned that due to heavy pending applications and lack of technical hands to examine patent applications, patent trolls are being allowed to thrive based on the filing of worthless patents. In the U.S. alone, nearly 350,000 patent applications have been filed and there are only 3000 examiners examining the applications. As a result, each patent application gets only an average of 17-25 hours of inspection against the prior art<sup>35</sup>. Thus, Patents have been granted without adequate examination. In the author's opinion, we need to solve the problem from the root level by developing the staff and expertise of the patent office.

### **7.1. Open Post-Grant Review**

Post grant review shall operate in two situations:

1. At the time of patent renewal; and
2. Any time a patent is sold.

In the first instance the patentee has to demonstrate the working of the patent to the Patent Office at the time of renewal. If the patent holder fails to do so, the patent may be compulsory licensed. The period till renewal offers sufficient time for the patent holder to formulate strategies to work the patent. His non-use of the patent prevents the society from gaining anything from the patent. Therefore this provision strikes an ideal balance between the rights of the society and that of the inventor.

A similar burden of exhibiting use of the patent has to be shown when the patent is being sold. This ensures that entities do not acquire patents just for the purpose of enforcing them, without actually working them.

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<sup>33</sup> Macdonald, M., "Beware of the troll", <http://www.thelawyer.com/cgi-bin/item.cgi?id=116783&d=pndpr&h=pnhpr&f=pnfpr>, (Last visited on February 20, 2007).

<sup>34</sup> Singleton, S., "Patents and Loser Pays: Why Not", [http://www.wpff.org/issues-pubs/pops/pop13.3patents\\_losers.pdf](http://www.wpff.org/issues-pubs/pops/pop13.3patents_losers.pdf), (Last visited on February 2, 2007)

<sup>35</sup> Mc Mahon, P., et al "Who is a troll? Not a simple answer", (2006) *Sendon Conference Journal* (Fall 2006), 2, 2.

Open post-grant review would definitely reduce instances of patent trolls without putting too much of a burden on holders of legitimate patents. Troll-like behavior would decrease because patents would lose some of their strength as a strategic weapon. At the same time, valid patents would become more valuable, either to the patentee or to a legitimate purchaser. Innovation would increase, and technology that should belong to the public would not be available for exploitation by patent trolls<sup>36</sup>.

## **7.2. Compulsory Licensing**

Compulsory licensing is another method which can be used to reduce patent troll activity. Countries can reduce the incentive of patent trolls by this provision in the initial stages of the patent application. Compulsory licensing is a kind of provision which allows any interested citizen to apply for the working of particular patents, where the invention is not used or exploited by the patentee for the period of 3 or 5 years. Time is the prerequisite for applying for compulsory licensing. Any patented invention that is not used for the period of 3-5 years will fall under this provision. But, in that case the applicant (one who applied for compulsory licensing) has to prove that the patent has not been reduced to work.

This will be the effective mechanism to subdue patent trolls before they have a chance to bring their claims. It is evident from the above discussion on the definition of patent troll that trolls are those which do not do anything other than waiting for somebody to trespass its patents for the benefit of getting payment from the trespasser. Thus a system of compulsory licenses punishes those trolls that failed to exploit their rights. Moreover, it also curtails other investor companies from buying vague insignificant patents which are not workable.<sup>37</sup>

## **7.3. Granting of Injunctive Relief in Infringement Suits**

As has been discussed above, infringement suits are the main threat used by trolls to obtain revenue. Injunctive relief in the US is very generous. After *eBay v. MercExchange*, there may be a shift towards a more restrained use of injunctions. However, this is not necessarily the case. If patent trolls are to be eliminated, courts must ensure that they bear in mind the nature of the case before awarding any kind of declaratory injunctions. In addition to stringent application of the four-part test articulated in *eBay v. MercExchange*, patent troll activity may be further reduced if no damages or injunctions are granted to the patentee where the patentee has made no attempt, directly or indirectly, to work the patents. It is worth mentioning here that the Japanese courts take into consideration the extent of the contribution of a patented technology to an infringing product before adjudicating the infringement matter, which may be another effective method to curtail patent trolls<sup>38</sup>.

## **7.4. Reformulation of Criteria for Indemnifying Patent Holder**

There is another possible solution to the patent troll problem. Courts have adopted very liberal ways of formulating the damages in patent infringement cases. However, while dealing with these cases, courts must consider in general, whether the plaintiff's invention is being worked or not. The plaintiff may adduce evidence or the court may direct the

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<sup>36</sup> Lemley, M., "Patent Reform Legislation – Public Comments on Substitute HR 2795 and the Role of the Antitrust Modernization Commission," [http://www.amc.gov/commission\\_hearings/pdf/Statement\\_Lemley.pdf](http://www.amc.gov/commission_hearings/pdf/Statement_Lemley.pdf), (Last visited on October 10, 2007).

<sup>37</sup> Paul, J., et al, "Patent Trolls: A Stereotype Causes a Backlash Against Patents and Licensing," <http://www.finnegan.com/publications/news-popup.cfm?id=1855&type=article>, (Last visited on October 10, 2007).

<sup>38</sup> Brennan, J., "Patent Trolls in US, Japan, Taiwan and Europe," <http://www.law.washington.edu/casrip/newsletter/vol13/newsv13i2brennatetal.html>, (Last visited on October 10, 2007).

defendants to produce some documentary evidence to prove non-working of the invention. Normally courts just leave out these factors by following traditional methods of awarding damages to the plaintiffs.

Once the non-working of patents is proved, indemnification should carefully be considered. It is just not fair to adjudicate all the infringement cases based on the application of general conditions rather than determining a proper damage award on a case by case basis. However, there is ambiguity in awarding damages. *Reitzig et al*<sup>39</sup>, describe how courts might better quantify damages in infringement cases. It is suggested defendant's that the court should first look at the plaintiff's balance sheet of loss in addition to giving careful consideration as to whether the patented invention has been developed or marketed by the patent holder. Consideration should be given to the production of any product developed by the patent holder incorporating the patented technology, and also the period of time it has been on the market alongside the defendant's product. Hence, if the plaintiff does not at all have a product in the market then it would be unfair to award treble damages. Further, the judiciary should consider the amount of loss incurred from any acts of infringement.

## 8. Conclusion - The Indian Response To The Problem of Trolling

The Patent (Amendment) Act, 2005, has effectively reduced if not eliminated the problem of patent trolls. Most trolling activity occurs in the field of technology patents.<sup>40</sup> This Act disallows patents on software (including embedded software) and excludes an area with huge scope for trolling.

Another way in which trolling activity has been discouraged is through a strong pre-grant opposition regime with a time of six months being provided. There is also a provision for post grant opposition. The Intellectual Property Appellate Board, which is an administrative body designed to dispose disputes quickly, reduces costs of litigation, such that small entities which are targeted by trolls need not worry about the high cost of litigation to defend their patents<sup>41</sup>.

The concept of reasonable period in relation to compulsory licensing in Section 84(6)(iv) has also been defined as less than six months. In an application for compulsory licence, the Controller of Patents is required to consider, "*whether the applicant has made efforts to obtain a licence from the patentee on reasonable terms and conditions and such efforts have not been successful within a reasonable period as the Controller may deem fit.*" This balances interests and minimises the scope of trolling activity in India.

The domestic working requirement is a pervasive theme of India's patent laws. India's disfavor of patented imports and its view that domestic working ought to be part of the basic *quid pro quo* for the grant of an Indian patent are further evidenced in the current Act by Section 83, on general principles, which provides that Indian patents "*are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article.*"

Section 84(1)(c) "*not worked in the territory of India*" ground for compulsory licensing also overlaps to a considerable extent with the Section 84(1)(a) ground, *i.e.*, that "*the reasonable requirements of the public with respect to the patented invention have not been satisfied.*" Section 84(7)(d) provides that the reasonable requirements of the public are deemed unsatisfied "*if the patented invention is not being worked in the territory of India on*

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<sup>39</sup> Xenia, P., "Extreme Makeover: From Patent Troll to the Belle of the Ball," at <http://www.law.com/jsp/article.jsp?id=1171360978084>, (Last visited on March 3, 2007).

<sup>40</sup> Rantanen, J., "Slaying the troll: litigation as an effective strategy against patent threats," (2006) 23 *Santa Clara Computer Hardware & Technology Law Journal* 43, 59.

<sup>41</sup> Narula, R., "Intellectual Property Environment in India," <http://www.ipfrontline.com/depts/article.asp?id=15279&deptid=6>, (Last visited on March 12, 2007).

*a commercial scale to an adequate extent or is not being so worked to the fullest extent that is reasonably practicable.”* Similarly, Section 84(7)(e) provides that the reasonable requirements of the public will be deemed unsatisfied “*if the working of the patented invention in the territory of India on a commercial scale is being prevented or hindered by the importation from abroad of the patented article*” by the patentee, his agents, or third parties against whom the patentee has not enforced the patent.

Hence, the domestic working and reasonable period requirements, the compulsory licensing and pre-grant opposition regime and finally the patentable subject matter, have made the Indian system fairly immune to the problem of patent trolls that have been plaguing many other countries<sup>42</sup>.

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<sup>42</sup> Mueller, J., “The Tiger Awakens: The Tumultuous Transformation of India's Patent System and The Rise of Indian Pharmaceutical Innovation,” (2007) 68 *University of Pittsburgh Law Review*, 491, 533.



# NO END OF TROUBLE?

## INTERMEDIARY LIABILITY AFTER *PERFECT 10 v. VISA INTERNATIONAL*

Alekhya Prakash  
P. Pallavi\*

### § Introduction: An Intermediary Primer

An internet intermediary is the virtual equivalent of a middleman. Acting as a go-between for product/service providers and consumers, intermediaries are usually targeted towards overcoming information asymmetry, information impactedness, distrust and high transaction costs associated with information<sup>1</sup>, thereby enhancing utility. Commonly, such intermediary services comprise internet service providers (ISPs), payment intermediaries (such as Visa and PayPal), and auction intermediaries (like eBay).

Internet intermediaries owe their existence to the fact that most internet entities are not sufficiently involved in internet transmissions to be directly connected with individual customers in all ways required to conclude a *virtual* transaction. More importantly, internet transactions inherently preclude direct cash transactions and hence, there is an imminent necessity for payment and auction intermediaries. Specifically, payment intermediaries, such as credit card providers, peer-to-peer systems and other entities that might aid or provide electronic payments<sup>2</sup>, are enlisted to facilitate the transferring of funds from the buyer to the seller in a reliable manner.

### § Intermediary Liability: To Be or Not To Be?

The common sense understanding of liability is succinctly contained in tags put on wares in most curio shops: *you break it, you pay for it*. Intermediary liability is mostly an exception to this rule: the intermediary is made liable for a third-party action under certain circumstances<sup>3</sup>. This is because, such intermediaries with predetermined commercial roots are easier to trace than individual infringing transactions and domestic jurisdiction is easier to establish over such services. Further, given the identification requirements of such intermediary servers (such as sites that require registration using credit card numbers), internet transactions lose most of their anonymity and infringements become easier to locate by enlisting intermediary cooperation. Thus, intermediaries may be subjected to third-party liability based on a “gatekeeper strategy”<sup>4</sup> simply because they are the “weakest link”<sup>5</sup> in the virtual transaction chain.

On the flip side are considerations of cost-effectiveness given that such monitoring on the part of intermediaries would affect infringing and non-infringing activities equally: the smaller intermediaries would have to close offices and the bigger fishes would at the very

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<sup>1</sup> Cotter, Thomas, “Some Observations on the Law and Economics of Intermediaries”, (2006) *Mich.ST.L. Rev.* 67, 69.

<sup>2</sup> Because of the fluidity of payment mechanisms on the internet, there are a wide variety of service providers of various kinds (companies like Checkfree, Cybernet, and Authorize.net, for example) that might or might not be regarded as intermediaries, depending on the circumstances.

<sup>3</sup> Such as degree of control over the infringing action by the third-party, whether such infringement was materially contributed to or induced by the intermediary, etcetera. See *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (9<sup>th</sup> Cir. 2001).

<sup>4</sup> Gatekeeper strategy implies that essentially the intermediary would monitor all activities and transactions online in order to ensure that the third parties act suitably. See “Regulating Internet Payment Intermediaries”, (2004) 82 *Tex. L. Rev.* 681, 708.

<sup>5</sup> Kreimer, Seth, “Censorship By Proxy: The First Amendment, Internet Intermediaries and the Problem Of The Weakest Link”, (2006) 155 *U.Pa.L.Rev.* 11, 11.

least have to charge risk premiums from their customers. This in turn would automatically raise the bar for certain people to enter into internet transaction via such intermediaries. Additionally, there are juro-logistic problems: how does the intermediary regulate infringement, based on what parameters, to what extent and under which safeguards against wrongful regulation of apprehended infringement<sup>6</sup>. It is these parameters that the judicial pronouncements on intermediary liability have attempted to negotiate in order to hold pragmatic persuasiveness.

## § The “ImPerfect” Matrix: Pre-Perfect 10 Discourse

Secondary liability for third-party infringement can be either contributory or vicarious. In the former, one who, with knowledge of the infringing activity, induces, causes or materially contributes to the infringing conduct of another, may be held liable as a contributory infringer.<sup>7</sup> The logic is evidently similar to that for abetment in criminal law, however, the only problem is identifying where an activity crosses over into constituting *material* contribution, though mostly insistence is placed on relatively specific knowledge of the infringement and direct assistance<sup>8</sup>. Thus, in *Sony Corporation of America v. Universal City Studios, Inc.*<sup>9</sup> (referred to as *Sony Corporation*), mere knowledge of potential infringing uses did not entail contributory liability if the technology/service in question had substantial non-infringing use, unless the defendant had specific knowledge of the identity of the infringer and the works being infringed<sup>10</sup>.

While contributory infringement is based on tort-law principles of enterprise liability and imputed intent, vicarious infringement's roots lie in the agency principles of *respondeat superior*, wherein the defendant must have the right and ability to supervise the infringing conduct, and a direct financial interest in the infringing activity.<sup>11</sup> This was, however, vastly altered with the coming of *Fonovisa v. Cherry Auction*<sup>12</sup> (referred to as *Fonovisa*), where mere ability to terminate *vendorship* was held to be sufficient control<sup>13</sup>. Further, an indirect financial benefit was ample to uphold the vicarious liability charge in the teeth of the *direct interest* test in the *Shapiro, Bernstein & Co. v. H.L. Green Co.*,<sup>14</sup> (referred to as *Shapiro*). Consequently, the *Fonovisa* case led to the adoption of an expansive definition of secondary liability and more specifically vicarious infringement. Thus, in *Perfect 10, Inc. v. Cybernet Ventures, Inc.*<sup>15</sup>, processing membership payments and password systems was held to directly contribute to infringement, even though no direct financial interest accrued to Cybernet by virtue of a share in the profits generated by the infringement.

Meanwhile, the *A&M Records, Inc. v. Napster, Inc.*,<sup>16</sup> (referred to as *Napster*) Court while holding the server liable held that, in the absence of any specific information which

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<sup>6</sup> In fact, the situation for the intermediary would gain increasing resemblance to a choice between the devil and the deep blue sea.

<sup>7</sup> *Gershwin Publishing Corp. v. Columbia Artists Management, Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971)-

<sup>8</sup> Yen, Alfred, “Third-Party Copyright Liability After Grokster”, (2006) 91 *Minn. L. Rev.* 184, 195.

<sup>9</sup> 464 U.S. 417 (1984)

<sup>10</sup> For instance, see *A&M Records, Inc. v. Abdallah*, 948 F. Supp. 1449, (C.D. Cal. 1996), where Abdallah sold time-loaded cassettes to specific individuals, knowing they used the tapes to produce counterfeit recordings of popular music and financed his customers after a police raid.

<sup>11</sup> *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963), para 7.

<sup>12</sup> 76 F.3d 259 (9th Cir. 1996).

<sup>13</sup> Unlike in *Shapiro, Bernstein & Co. v. H.L. Green Co.*, 316 F.2d 304 (2d Cir. 1963), where control comprised ability to fire the employees of the infringer, right to collect his cash receipts, paying his taxes, and issuing paychecks on behalf of the infringer.

<sup>14</sup> 316 F.2d 304 (2d Cir. 1963), para 7.

<sup>15</sup> *Perfect 10, Inc. v. Cybernet Ventures, Inc.*, 213 F. Supp. 2d 1146, 1156-57 (C.D. Cal. 2002).

<sup>16</sup> 239 F.3d 1004 (9<sup>th</sup> Cir. 2001).

identifies infringing activity, a computer system operator cannot be held liable for contributory infringement merely because the structure of the system allows for the exchange of copyrighted material<sup>17</sup>; a sort of restatement of the *substantial non-infringing use* test in the *Sony Corporation* case<sup>18</sup>. Napster was held to satisfy this since it provided *the site and facilities* for direct infringement.<sup>19</sup> For vicarious infringement, reliance was placed on the *Fonovisa* case again and increase in user base coupled with Napster's ability to locate infringing material listed on its search indices and its right to refuse service and terminate accounts was held to comprise vicarious infringement.<sup>20</sup>

In the *Harlan Ellison v. Stephen Robertson*<sup>21</sup> (referred to as *Ellison*), AOL was held to have materially contributed to the copyright infringement by storing infringing copies of Ellison's works on its USENET groups and providing the groups' users with access to those copies. Further, the *direct financial benefit* test was held to be not cabin'd, cribb'd and confin'd by the substantiality of the benefit in proportion to the defendant's overall profits.<sup>22</sup> This was ironic, since the Court's definition of such *direct* benefit was solely predicated on the user base enhancement suggested in the *Napster* case, though here such enhancement could not be proven and hence the claim for vicarious infringement failed.

It was with the *MGM Studios, Inc. v. Grokster, Ltd.*<sup>23</sup> (referred to as *Grokster*) that the Court realized the vastly divergent stances it seemed to be taking and hence, reverted to the criterion of the product being capable of substantial non-infringing uses even if such product is mostly used for infringement. Importantly, emphasis was placed on not only the ability but also the right to control the infringement<sup>24</sup>, which had been steadily losing judicial countenance since the *Fonovisa* case.

Thus, the *site and facility* test was approved if it was coupled with a failure to stop specific instances of infringement once knowledge of those infringements was acquired. However, in the *Grokster* case it was the users of the software who, by connecting to each other over the internet, created the network and provided the access.

Post-*Grokster* case, there are three causes of action for secondary liability: vicarious liability, contributory liability, and inducement (which resulted from the Court's attempt to reconcile the divergent views on contributory infringement).<sup>25</sup> This was studiously followed in the *Perfect 10, Inc. v. Amazon.com, Inc* (referred to as *Amazon* case)<sup>26</sup> where Google would have been held contributorily liable if it had knowledge that infringing Perfect 10 images were available using its search engine, could take simple measures to prevent further damage to Perfect 10's copyrighted works, and failed to take such steps.<sup>27</sup> However, since there was no evidence to show the right to control direct infringement by third parties, vicarious liability

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<sup>17</sup> 239 F.3d 1004 (9<sup>th</sup> Cir. 2001), para 56.

<sup>18</sup> *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) para 98, 99.

<sup>19</sup> 239 F.3d 1004 (9<sup>th</sup> Cir. 2001), para 58.

<sup>20</sup> 239 F.3d 1004 (9<sup>th</sup> Cir. 2001), para 51, 52.

<sup>21</sup> 357 F.3d 1072 (9<sup>th</sup> Cir. 2004), para 18.

<sup>22</sup> 239 F. 3d. 1004. (9<sup>th</sup> Cir. 2001), para 60.

<sup>23</sup> 545 U.S. 913 (2005).

<sup>24</sup> Here, given the lack of a registration and log-in process, Grokster had no ability to actually terminate access to file sharing functions, absent a mandatory software upgrade to all users that the particular user refused, or IP address-blocking attempts.

<sup>25</sup> *Sony Corporation of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984), para 98, 99.

<sup>26</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d. 701, 2007 WL 1428632 (9<sup>th</sup> Cir. May 16, 2007).

<sup>27</sup> The case was remanded for determination on this limited ground.

could not be proved, especially since in the absence of image-recognition technology, Google lacked the practical ability to police the infringing activities of third-party websites.<sup>28</sup>

Thus, before this case, the law was that contributory liability is entailed in case of knowledge of the direct infringement; it could be either materially contributing to such infringement or inducing it. Vicarious liability, on the other hand is occasioned if there is a real right and actual ability to control the infringement and a failure to do so involves direct financial benefit to the defendant. Such *direct* benefit is expansively constructed and is not necessarily limited to a share in the profits of the actual infringement. Theoretically, this implies that vicarious copyright liability is strict and exists as long as a defendant has the necessary relationship with an infringer. If vicarious copyright liability were based on fault, then defendants would be able to escape liability by taking reasonable precautions that excuse them from liability for any infringement that happens to occur. However, contributory liability is a form of fault-based liability because it depends on the defendant's knowledge of and material contribution to the infringement of another.

### **§ *Perfect-ing* Intermediary Liability: Placing *Perfect 10***

Perfect 10, Inc. sued Visa International Service Association *et al.*<sup>29</sup> on 28 January 2004 alleging secondary liability under federal copyright and trademark law since the defendants continued to process credit card payments to websites that infringed Perfect 10's intellectual property rights after being notified by Perfect 10 of infringement by such websites, as well as for violations of California laws proscribing unfair competition and false advertising, violation of the statutory and common law right of publicity, libel, and intentional interference with prospective economic advantage.<sup>30</sup>

The majority rejected the claim of contributory infringement since infringement via reproduction, alteration, display and distribution of the protected photographs can occur without payment: Visa was a step away from Google, which itself assists in the distribution of infringing content to internet users. Thus, Visa did not provide the *site* of the infringement but merely the method of payment, and hence there was no material contribution. There was also no action for inducement since no affirmative steps were shown to have been taken by Visa to foster the infringement. Finally, since the defendants lacked the ability to directly control the infringing activity<sup>31</sup>, and the mere ability to withdraw a financial *carrot* does not create the

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<sup>28</sup> *Perfect 10, Inc. v. Amazon.com, Inc.*, 487 F.3d 701, 2007 WL 1428632 (9<sup>th</sup> Cir. May 16, 2007), para 86.

<sup>29</sup> 494 F.3d 788, 2007 WL 1892885 (9<sup>th</sup> Cir. July 3, 2007). Visa and MasterCard entities are associations of member banks that issue credit cards to consumers, automatically process payments to merchants authorized to accept their cards, and provide information to the interested parties necessary to settle the resulting debits and credits. Defendants collect fees for their services in these transactions. For more details on the role of Visa and MasterCard in commercial transactions, see *Paul Emery v. Visa International Service Association*, 95 Cal. App. 4<sup>th</sup> 952, Jan 08 2002.

<sup>30</sup> This paper will however, focus solely on the findings pertaining to contributory and vicarious copyright infringement.

<sup>31</sup> Defendants could block access to their payment system, but not to the Internet, to any particular websites, or to search engines enabling the location of such websites. They were involved with the payment resulting from violations of the distribution right, but had no direct role in the actual reproduction, alteration, or distribution of the infringing images. Though they could refuse to process credit card payments for those images, but while this refusal would reduce the number of those sales, that reduction would be the result of indirect economic pressure rather than an affirmative exercise of contractual rights. See *Perfect 10, Inc. v. Visa International Association, Inc.*, 494 F.3d 788, 2007 WL 1892885 (9<sup>th</sup> Cir. July 3, 2007) (Milan D. Smith, Jr.), para. 13.

*stick of right and ability to control*<sup>32</sup>, hence there was no proof of vicarious infringement either.

Both the majority and minority opinions are in concert as far as the legal principles governing contributory and vicarious infringement are concerned. The considerable divergence stemmed, to put it rather facetiously, from a difference of opinion as regards the potency of money.

Kozinski, J. in his dissent held processing the payment for the infringing transaction to be an essential step in the infringement process and not merely an economic incentive for infringement. Therefore, he effectively equated location services (like Google) with payment services and held both equally central to infringement since both substantially assist the infringement. Further, the defendants were also liable for vicarious infringement since they profited from the infringing activity of the *Stolen Content Websites* by processing the transactions. Hence, they had the ability to control the infringing activity and were therefore vicariously liable.<sup>33</sup>

It is evident that the minority was patently misguided as regards the finding on vicarious infringement since mere financial benefit does not solely constitute infringement. An agency needs to be established based on the right and ability to control infringement. Visa does not approve of merchants, endorse their activities, authorize any particular transactions, and has no say whatsoever in how the businesses operate. It merely makes available a payment system to member financial institutions, which merchants can use, and adjusts credit transactions among those members.<sup>34</sup> This is in fact no different from the absence of liability of an issuing bank to an undisclosed principal for a letter of credit<sup>35</sup> or of a telephone company over whose facilities a customer transmitted information to bookkeeping establishments<sup>36</sup>. Similarly, Visa was merely the conduit<sup>37</sup> and therefore, did not possess the right to control the infringing activity.<sup>38</sup> Moreover, Visa's knowledge of identity of the infringers was not specific and its support was not directly related to infringement. Hence, there is no case for materially contributing to the infringement. Merely processing payments does not qualify as sufficient assistance or inducement to infringe in absence of any further link between Visa and the infringement.

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<sup>32</sup> *Perfect 10, Inc. v. Visa International Association, Inc.*, 494 F.3d 788, 2007 WL 1892885 (9th Cir. July 3, 2007) (Milan D. Smith, Jr.), para. 11.

<sup>33</sup> Leaning on the dissent, Perfect 10 has petitioned for rehearing and rehearing *en banc* and the petition is pending: the last judicial word is still awaited in *Perfect 10, Inc. v. Visa International Association, Inc.* 494 F.3d 788, 2007 WL 1892885 (9th Cir. July 3, 2007).

<sup>34</sup> *Paul Emery v. Visa International Service Association*, 95 Cal. App. 4th 952.

<sup>35</sup> A letter of credit is a document issued mostly by a financial institution which usually provides an irrevocable payment undertaking (it can also be revocable, confirmed, unconfirmed, transferable or others but is most commonly irrevocable/confirmed) to a beneficiary against complying documents as stated in the letter of credit. Once the beneficiary or a presenting bank acting on its behalf, makes a presentation to the issuing bank or confirming bank, if any, within the expiry date of the letter of credit, comprising documents complying with the terms and conditions stated therein, the issuing bank or confirming bank, if any, is obliged to honour irrespective of any instructions from the applicant to the contrary. See *Kools v. Citibank, N.A.*, (S.D.N.Y.1995) 872 F.Supp. 67.

<sup>36</sup> *People v. Brophy*, (1942) 49 Cal.App.2d 15, 120 P.2d 946.

<sup>37</sup> Contrast this with *Schulz v. Neovi Data Corp.*, 60 Cal. Rptr. 3d 810 (Ct. App. June 15, 2007) where Ginix and Pay Systems were held liable not for failure to police but because they contracted directly with EZ and received payment based on their activity and hence, went far beyond mere processing.

<sup>38</sup> In fact, no actual ability accrues either. Credit card companies process 14 million transactions a day and evidently, such huge traffic would be very difficult to monitor in real time on a daily basis. See Sandburg, B., "Strange Bedfellows", *The Recorder*, 7 June 2004, [www.law.com/jsp/article.jsp?id=1085626379923](http://www.law.com/jsp/article.jsp?id=1085626379923), (last visited on October 14, 2007).

In both instances thus, the *Perfect 10, Inc. v. Visa International Association, Inc.*,<sup>39</sup> (referred to as *Perfect 10*) is true to type in as much as it squarely follows the *Grokster* case and, *in absentia* a relationship with the infringer akin to agency and material contribution to the infringement, since the fault requirements entailed in secondary infringement were not satisfied, the claim for vicarious and contributory infringement failed.

## § Conclusion: Intermediary Liability Today

It is interesting to note that the *Perfect 10* case relies primarily on judicial precedents that tend to impart a more liberal scope to secondary infringement and then limits these decisions as per the *Grokster* case. In doing so, it renders the law relating to secondary liability of intermediaries more uniform than before by upholding the primary requirement of a certain degree of fault, instead of the previous move towards a strict liability regime, which imposed third-party liability even in case of remote business relationship with an infringer.

Another remarkable point is that despite the existence of quite a few federal Court decisions on credit-card server's liability, the *Perfect 10* Court chose to rely only on judgments pertaining to 'location services', that is, services that provide the *site* or *facility* of infringement and hence, the fact whether payment providers' liability is equivalent or not obviously becomes a problematic analogy. This could have been avoided by simply relying on previous financial service providers' liability litigation, though admittedly in that case, the law as regards secondary liability could not have been detailed and clarified in accordance with the *Grokster* case.

However, copyright holders have legitimate interests in preventing infringement and being compensated. On the other hand, third-party defendants understandably wonder why they should pay for another person's infringement, which may put them out of business and suppress non-infringing as well as infringing activities. If the Court were to simply impose liability in the context of *Fonovisa et al.* and make companies subject to contributory liability on the basis of strict liability principles, the repercussions would extend across commerce<sup>40</sup>, and unlike the naïve belief expressed by the minority in the *Perfect 10* case, differentiating between direct and incidental infringement would not be very easy, especially given the lack of legislative or judicial guidance to determine the same.

The *Grokster* case sent a strong signal that the Supreme Court considers fault as the primary theory of third-party copyright liability. The *Perfect 10* case is the perfect follow-up that emphasizes the need to limit vicarious liability to a relatively narrow range of facts, to ensure that contributory liability does not turn into a form of strict liability, and to tailor the doctrine of inducement within the rationale of fault-based third-party copyright liability.

Therefore, Visa was rightly held not liable for not taking more aggressive corrective steps, which it had no right or obligation to take. An intermediary is not a global policeman, and hence the logic of the majority opinion is hardly troublesome, as the minority seems to worry. In fact, post-*Perfect 10* case the law as regards secondary infringement finally seems to be gaining some coherence.

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<sup>39</sup> 494 F.3d 788, 2007 WL 1892885 (9th Cir. July 3, 2007)

<sup>40</sup> And to absurd extents. For instance, an electricity company would be liable for secondary infringement since it can control whether infringement occurs by turning off the power. Additionally, the electric company has at least an indirect interest in the underlying infringement because infringing behavior increases the demand for electricity. Moreover, infringers could never commit the infringement without electricity. Yen, *Supra* note 20, 184, 210.

# SAVE OUR BRAND: PROTECTING THE BRANDS UNDER IP REGIME

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Subhash Bhutoria\*\*

## § Introduction

The modern industrialized nations are turning into branded societies.<sup>1</sup> The change is clearly visible in the commercial arena, where the companies and their respective products or services are recognized by *Brands*. Brand provides identity to a commodity or service and ensures uniqueness of a good or a service. It creates a promise on part of the company to provide same quality of goods and services every time. Today, trademark is not merely a symbol of goodwill but often the most effective agent for the creation of goodwill.<sup>2</sup> The trademark jurisprudence is based on various rationales including consumer protection, economic aspect and propertization of brands. This diversification has led to faded protection.

The paper aims to study the problem of trademark protection in balancing the two aspects of trademark *i.e.* consumer interest and goodwill. Furthermore, it intends to propose a solution to the same in light of trademark jurisprudence.

## § Brand – An Interdisciplinary Subject

Brand is a mark, which is capable of graphical representation and possesses distinctiveness.<sup>3</sup> Traditionally trademark was considered merely a symbol of identification, but in the early twentieth century, the US Supreme Court expanded this view in the landmark judgment of *Coca-Cola Bottling Co. v. Coca-Cola Co.*<sup>4</sup>, where the court held that “*trademark is merely one of the visible mediums by which the good will is identified, bought, and sold, and known to the public.*”<sup>5</sup>

This gave rise to the economic rationale for brands along with consumer protection. Law aims to protect a producer’s rights in the trademark, specifically the word or symbol, and such protection has been characterized as *propertization*<sup>6</sup>. Trademark jurisprudence developed in light of consumer protection rights, property rights, economic efficiency and universal concepts of justice that underlie the law relating to brands.<sup>7</sup>

The protection of brand under trademark laws assimilates the concepts of consumer protection laws. It aims at protecting the interest of the consumer by removing the confusion caused or which can be caused by the presence of deceptively similar mark and customarily, it protects the goodwill in a mark. A strong brand reduces informational cost, increases consumer confidence, facilitates price and variety competition, fosters the maintenance of

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<sup>1</sup> Theodore H. Davis, Jr., “Management And Protection Of Brand Equity In Product Configurations”, (1998) *U. Ill. L. Rev.* 59, 59.

<sup>2</sup> Frank I. Schechter, “The Rational Basis of Trademark Protection”, (1927) 40 *Harv. L. Rev.* 813, 819.

<sup>3</sup> Trade Marks Act, 1999, Section 2(zb).

<sup>4</sup> 296 F. 796, (D. Del. 1920)

<sup>5</sup> *Ibid.*, 805.

<sup>6</sup> Lemley Mark A, “Romantic Authorship and the Rhetoric of Property”, 75 *Tex. L. Rev.* 873, 895.

<sup>7</sup> McCarthy J. Thomas, *McCarthy on Trademarks and Unfair Competition*, (London: Sweet & Maxwell, 2005) § 2.2,

quality and has the ability to satisfy the emotional and self-expressive needs of the consumers.<sup>8</sup>

Brand protection also involves trade law aspects such as unfair trade practices.<sup>9</sup> Trademark doctrines encompass exclusive right of ownership in the mark. Unfair use of brand occurs when a manufacturer other than the owner falsely or deceptively uses the mark to promote its own product. Common law doctrine such as *passing off* developed as the result of unfair trade practices. These doctrines lay down the basis of present trademark laws.

Moreover, economics also plays a vital role in the regime of the trademark laws. Studies based on economic principles provide incentives for firms to make investments that are aimed at gaining consumer confidence in their marks.<sup>10</sup> Also, one of the principal benefits of trademark protection is that it lowers consumer search costs.<sup>11</sup> Successful brand owners have earned a unique, credible, sustainable, fitting, and valued place in customers' minds.<sup>12</sup>

In addition, in the current competitive economies, brand is considered as the most important commercial and institutional asset.<sup>13</sup> A trademark's value depends on a brand's reputation, which is a product of a firm's expenditures on product quality, service, advertising, and so on.<sup>14</sup> Hence, the protection also includes brand management, advertising and brand valuation studies.

## § Statutory and Common Law protection to the Brand

Almost a century ago, U.S. Supreme Court recognized the underlying objective of the trademark laws and stated that in truth, a trademark confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's goodwill in trade by placing a distinguishing mark or symbol - a commercial signature - upon the merchandise or the package in which it is sold.<sup>15</sup> Hence, the identity of the trademark is to be protected by the law.

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<sup>8</sup> Swann Jerre B, "An Interdisciplinary Approach To Brand Strength", (2006) 96 *Trademark Rep.* 943, 952.

<sup>9</sup> Consumer Protection Act, 1986, Section 2 (1)(r) - "*unfair trade practices as a trade practice which, for the purpose of promoting the sale, use or supply of any goods or for the provision of any service, 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, -*

(i) *Falsely represents that the goods are of a particular standard, quality, quantity; grade-composition, style or model;*"

<sup>10</sup> J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, (London, Sweet & Maxwell, 2005) § 2.3, Microeconomic theory teaches that trademarks perform at least two important market functions: (1) they encourage the production of quality products; and (2) they reduce the customer's costs of shopping and making purchasing decisions.

<sup>11</sup> Landes William M & Posner Richard A, "Trademark Law: An Economic Perspective", (1987) 30 *J.L. & Econ.* 265, 268-70.

<sup>12</sup> Swann Jerre B, "An Interdisciplinary Approach To Brand Strength", (2006) 96 *Trademark Rep.* 943, 954.

<sup>13</sup> Available at [http://www.interbrand.com/best\\_brands\\_2007.asp](http://www.interbrand.com/best_brands_2007.asp); For example Coca-Cola brand values at \$65,324 Millions, Microsoft brand values at \$58,709 Millions and IBM brand values at \$57,091 Millions

<sup>14</sup> Pulos Michael, "A Semiotic Solution To The Propertization Problem Of Trademark", (2006) 53 *UCLA L. Rev.* 833, 837.

<sup>15</sup> *United Drug Co. v. Theodore Rectanus Co*, 248 U.S. 90 (1918) as cited in Carter Stephen L., "The Trouble with Trademark", (1990) 99 *Yale L.J.* 759, 762.



Successful marks are like packets of information. Legal protection to brands becomes necessary because in its absence consumers shall not be able to properly appropriate the value of goods and services provided by the firm, which shall, subsequently, lead to reduction of incentives for the firm and an increase in consumer search cost.<sup>16</sup>

Basically, the protection of the brands is based upon the following functions of a brand.<sup>17</sup> They are as follows:

1. To identify goods of the seller and distinguish them from those sold by others.
2. To signify that all goods bearing the trademark come from or are controlled by a single, *albeit* anonymous, source.
3. To signify that all goods bearing the trademark are of an equal level of quality.
4. As a prime instrument in advertising and selling the goods.
5. Objective symbol of the good will of the firm.

In India, the Trademarks Act, 1999 provides for protection in case of trademark infringement. It requires the goods to belong to the same or related class. However, the common law remedy of *passing off* does not require the same. Whereas likelihood of confusion is sufficient to cause *passing off*, the mark should necessarily be identical or similar for infringement action. Therefore, there is a marked difference in the remedies provided under the two systems of law. This is because information transmission model<sup>18</sup> is considered as the core basis of trademark protection whereas goodwill is not given due recognition.

## § Lacuna in Brand Protection

Due to unsettled trademark jurisprudence and limitations, trademark laws are still insufficient to protect brands adequately. Statutory protection against infringement action is limited to a class or related classes. However, the brand suffers damage even due to imitation in other classes or by its dilution. Moreover, goodwill in the brand is still not given due consideration by the statutory remedy and remains secondary to the *distinguishing factor*.

A few decades back, both civil and common law lawyers understood that the rationale for trademark protection resides in the trademark's function of designating the origin of the good and that the public should be protected against the risk of confusion as to the origin of the goods deriving from the unauthorized use of an identical or similar sign in connection with identical or similar goods.<sup>19</sup> The same approach is taken in protecting mark against infringement. Goodwill is still considered to be an additional factor and not one of the major characteristic of the brand. Therefore, brand requires dual protection of (a) exclusivity and (b) goodwill

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<sup>16</sup> A. Alchian & W.R. Allen, "Exchange and Production: Competition, Coordination, and Control," 193 (2d ed. 1977) as cited in McCarthy J. Thomas, *McCarthy on Trademarks and Unfair Competition*, (London: Sweet and Maxwell, 2005), § 2.5.

<sup>17</sup> McCarthy J. Thomas, *McCarthy on Trademarks and Unfair Competition*, (London: Sweet & Maxwell, 2005) § 3:2.

<sup>18</sup> This model views trademarks as devices for communicating information to the market and sees the goal of trademark law as preventing others from using similar marks to deceive or confuse consumers; see. Bone Robert G, "Hunting Goodwill: A History Of The Concept Of Goodwill In Trademark Law", (2006) 86 *Bost. Univ. L. Rev.* 547, 549.

<sup>19</sup> Litman Jessica, "Breakfast with Batman: The Public Interest in the Advertising Age", (1999) 108 *Yale L.J.* 1717, 1720.

The above discussion on protection of brands under trademark regime dealt with protection of exclusivity of the brand and not the goodwill attached to it. It is important for us to understand the concept of goodwill under the trademark regime to appreciate its importance for brand protection.

## **§ Understanding Concept of Goodwill in Trademark Law**

Goodwill is defined as business' reputation, patronage, and other intangible assets that are considered when appraising the business, especially for purchase. It is the ability to earn income in excess of the income that would be expected from the business viewed as a mere collection of assets.<sup>20</sup> Goodwill is an inherent part of the trademark and hence, any harm to trademark directly affects the goodwill of the firm.

Goodwill and trademark are inseparable. Trademark has no existence apart from the goodwill of the product or service it symbolizes.<sup>21</sup> Modern trademark jurisprudence reckons brand as the property that creates and retains the goodwill, traditionally, it was considered as a property that merely symbolizes it. The goodwill of the firm increases with the consistent performance of the functions of the brand. Hence, the property right in the trademark is only due to goodwill attached to it.

Damage caused to the brand is not only by misrepresentation of the trademark, but also by misappropriation of goodwill. Based on its appropriation, goodwill can broadly be classified into following three types – (a) brand goodwill, (b) firm goodwill, and (c) inherent goodwill.<sup>22</sup>

Brand goodwill is considered to be integral part of trademark laws. This goodwill is developed when the consumer relates factors such as quality, reliability, etc., to a particular brand, *i.e.*, the goodwill attached to the characteristics of the brand. This form of goodwill suffers, if any confusion is caused to the consumer by the other competitors selling the same product under similar or deceptively similar brands. Propertization of the trademark has to an extent, lead to the protection of brand goodwill under the trademark laws.

There is another type of goodwill known as firm goodwill, which is attached to a firm through its branded product in the market. This goodwill is an outcome of consumer satisfaction in one or more than one brands of the same firm. There are possibilities that the firm goodwill could be injured if consumers mistakenly believe that the other product, which actually belongs to some other firm, is that of the presumed firm or there is some connection between the two. Firm goodwill is broader than brand goodwill and is not usually covered by the trademark laws as the confusion mainly relates to association or connection of the infringing brand of the same or different class, of that firm to which the actual brand belongs.

Brand, also, possesses inherent goodwill. As the name suggests, it inheres in the mark itself. It is significantly different from brand and firm goodwill and protecting it involves different considerations,<sup>23</sup> as this form of goodwill is attached to the brand and is independent from the class or the source it belongs to. Usually famous brands suffer misappropriation of inherent goodwill as the brand not only signifies the goodwill in the product and the firm, but it also carries reputation of its own. Inherent goodwill is the most vulnerable of all the other

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<sup>20</sup> Black, Henry Campbell, *Black's Law Dictionary*, (St. Paul, Minn: West Publishing Company, 1990).

<sup>21</sup> McCarthy J. Thomas, *McCarthy on Trademarks and Unfair Competition*, (London: Sweet and Maxwell, 2005), § 2.15.

<sup>22</sup> Bone Robert G, "Hunting Goodwill: A History Of The Concept Of Goodwill In Trademark Law", (2006) 86 *Bost. Univ. L. Rev.* 547, 551.

<sup>23</sup> *Ibid.*, 552 (The protection is solely based upon the appropriation of goodwill and has nothing to do with safeguarding the quality consumer information).

types as it does not require either consumer confusion to attract the infringement laws or free ride other forms of goodwill for attracting the anti-dilution laws.<sup>24</sup>

Illustration - Say, XXX is a well known brand of A, a car manufacturing company, which is highly reputed and satisfies various needs including emotional and self-expressive needs of the consumers. Trademark regime protects the brand in following cases:

- a. If B, another car manufacturing company uses mark, deceptively similar to XXX, such as XAX, which causes consumer confusion, it shall be liable for trademark infringement.
- b. If C, a lubricant oil manufacturing company uses XXX for its product and causes confusion as to the source, it shall be liable for blurring (kind of dilution) by free-riding on the firm's goodwill of XXX.
- c. If C's product is very low quality lubricant oil and causes confusion as to the quality of the lubricant, it shall be liable for tarnishment (kind of dilution) by free-riding on the brand goodwill of XXX brand to sell cheaper grade of lubricant oil.

However, if D, a well known shoe manufacturing company uses XXX brand for its high quality product, it may not be held liable under any trademark laws. The principle of honest and concurrent use as provided by the information transmission model may provide a defence to D. But from the perspective of inherent goodwill, one finds that it is a classic example of goodwill appropriation, which the present legal system fails to protect.

Hence, one finds that the actual protection of brands equally requires misappropriation-based liability with the present underlying objective, *i.e.*, consumer confusion based liability. Misappropriation based liability assumes that it is morally wrong to free ride on goodwill, which invokes the familiar Lockean labor-desert theory of natural property rights that recognizes a natural right to control the fruits of one's own labor.<sup>25</sup>

The common law doctrine of *passing off* recognizes and protects the goodwill of a brand.<sup>26</sup> The underlying principle of the doctrine is to protect the goodwill against its erosion through usage of identical or similar trading mark and preventing the exclusive reputation in trading name from getting debased.<sup>27</sup> However, the *passing off* action associates the invasion of the proprietary rights (goodwill) of the trademark owner with the likelihood of consumer confusion, due to which it fails to protect the goodwill.<sup>28</sup> Various tests in a *passing off* action,

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<sup>24</sup> The dilution concept, in theory at least, is different from goodwill appropriation. Dilution is a kind of injury to the mark and its goodwill. It occurs when the defendant's use impairs the mark's selling power, either by tarnishing it with unsavory associations or by blurring its distinctiveness with multiple uses on different products; *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418.

<sup>25</sup> Gordon Wendy J, "A Property Right in Self-Expression: Equality and Individualism in the Natural Law of Intellectual Property", (1993) 102 *Yale L.J.* 1533, 1540 (John Locke's theory of Natural law states that labour provides a foundation for property); *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-03 (1984), (US Supreme Court cited Locke where it held that intangible products of an individual's labour and invention can be property); Locke John, *Two Treatises of Government*, 287-88 (Peter Laslett ed., 2d ed. 1967) (3d ed. 1698, corrected by Locke) (bk. II, § 37) (Lockean theory establishes two classes of rights a) liberty rights (areas free of duty) and b) claim rights (areas where the right-holder is owed a duty by others). According to the theory, all persons have a duty not to interfere with the resources others have appropriated or produced by laboring on the common).

<sup>26</sup> The Law of Passing off has three elements *i.e.* (1) misappropriation of goodwill, (2) by a competitor, (3) resulting in consumer confusion as to source; see *American Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281 (6th Cir.1900).

<sup>27</sup> *Kirloskar Diesel Recon Pvt. Ltd. and anr v. Kirloskar Proprietary Ltd. and ors*, AIR 1996 Bom 149.

<sup>28</sup> The court held that there is no likelihood of the defendant's trade mark invading the proprietary right of the plaintiffs mark because the test of likelihood of confusion or deception arising from similarity of

which are laid down and followed in a catena of cases, favours the consumer confusion based liability over the misappropriation based liability.<sup>29</sup>

The major focus of trademark law is protecting the source identification and information transmission function of marks.<sup>30</sup> It helps to reduce the consumer search costs by enforcing exclusivity<sup>31</sup>, supports seller incentives to maintain and improve product quality<sup>32</sup> and reduces the risk that consumers will be misled into buying products they do not want.<sup>33</sup> Hence, it is clear that goodwill is not considered as a primary element in the Trademark doctrines and reflects the influence of information transmission model. Similarly, the remedy under common law is based on information transmission function of mark. Hence, the different kinds of goodwill of the brand are not recognized by the law and thereby not protected appropriately.

## § Conclusion

Apart from being a symbol of identification, brand envelops property right in the form of various kinds of goodwill attached to it. In light of the above discussion, to strengthen the trademark protection, it is suggested that additional protection should be conferred upon goodwill itself, which is inherent in the brand. If goodwill is considered as the property in the brand, the gap between the various forms of trademark protection *i.e.* protection against infringement, *passing off* and dilution, can be unified.

But, goodwill has an inherent defect. It is very vague as compared to trademark, which has a certain and ascertainable character. Hence, the answer to protect both exclusivity and goodwill does not lie even by considering goodwill as the property. It is indeed required to link the information transmission model with goodwill appropriation for broadening the scope of the trademark regime and protecting the brands in a better fashion.

The answer to proper protection of brands relate back to the history of trademark, when it was considered as a signature, which conveniently carried the goodwill. The protection requires amalgamation of goodwill appropriation model with the existing information transmission model. Hence, the existing trademark laws require modification based on the two models to strengthen the protection for the brands. It is suggested that the Courts carefully identify the elements of brand which are to be protected on case to case basis.

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marks is not satisfied in the present case; *Kala Devi v. Parle (Exports) Pvt. Ltd. and Ors.*, 1992 (23) DRJ 436.

<sup>29</sup> The test follows – Is the defendant selling goods so marked as to be designed or calculated to lead purchasers to believe that they are the plaintiff's goods; see *Ruston and Homby Ltd. v. Zamindara Engineering Co*, AIR 1970 SC 1649, Para 4; Court should decide if on first impression the two marks are so similar as likely to cause confusion or deceit, (2) which question should be decided from the point of view of a man of average intelligence having imperfect recollection, (3) if their overall visual and phonetic similarity is likely to deceive or confuse such a man that he may mistake the goods of the defendant for those of the plaintiff and (4) as to who are the persons likely to be deceived and as to what rules should govern the comparison in deciding the existence of resemblance; *M/s Anglo-Dutch Paint, Colour and Varnish Works Pvt. Ltd. v. M/s India Trading House*, AIR 1977 Delhi 41, Para 8.

<sup>30</sup> *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64.

<sup>31</sup> Landes William M & Posner Richard A, "The Economics of Trademark Law", (1988) 78 *Trademark Rep.* 267.

<sup>32</sup> *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 164.

<sup>33</sup> Robert G. Bone, "Enforcement Costs and Trademark Puzzles", (2004), 90 *Va. L. Rev.* 2099, 2121-22.