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FOREWORD

Intellectual property law is a fascinating blend of private rights and public policy perspectives. Increasingly, courts have to balance the tension which often manifests itself between these two paradigms. The last few years have witnessed a wide spectrum of such issues being tested in courts the world over and pronounced upon. Whether they pertain to what is creativity in copyright, or patentability of products, or the vexed issue of "patent linkage", data privacy, or the divide in respect of geographical indications, between the US and the European Union (the Old World – New World divide, in relation to Champagne, particularly), the debates are often lively, sharp, and sometimes acrimonious. They however always involve new shades of thought. The current issue of Indian Journal of Intellectual Property Law contains thought provoking and insightful pieces which explore various subjects of interest.

Michele Boldrin and David Levine question the fundamental presumption in intellectual property law, of whether intellectual monopoly actually increases innovation. After giving theoretical basis and evidentiary data to elaborate on the question, the article gives choices between the good, the bad and the ugly policy to determine the road-ahead for intellectual property rights.

Mark Lemley's thesis in his article is that an intellectual property rights, with its defined bundle of varied rights, that is technology specific, balances the public interest in use of the product and protection to the creator or innovator.

Joseph Beck, Allison Scott, and Katharine Sullivan, in their article on fair use of comment on disputes spawned by internet search engine applications developed by Google, and highlight issues concerning the application of U.S. fair use laws "to the ever-expanding world of digitized information". The article also explains U.S. fair use law, aspects and international asymmetries in fair use laws. Similarly, U.S. moral rights law is examined.

Sumati Chandrasekharan, in her piece on Tirupati laddus, suggests that Geographical Indicators, are essentially community rights, providing communities the opportunity to exploit their collective rights over products peculiarly

representative of their region. She argues that the Tirumala Tirupathi Devasthanam (TTD)'s being granted registration as an independent entity, and not as representing a collectivity, tends to defeat the purpose of the Geographical Indications of Goods (Registration and Protection) Act, 1999.

There is a very insightful and analytical article, by Aditya Reddy and Gowtham Srinivas, on the intersect between the Designs Act and the Copyrights Act, with reference to copyrights in designs, and artists' rights in respect of commercial use or exploitation of their works, based on the *Microfibres* ruling of the Delhi High Court.

Raag Yadav's article on excluding patent trolls moots the idea of regulating patent holders who do not use it, but blocking the use of others' independently developed processes (known as "blocking patents"). He says that patents, being monopolies, have to be regulated to exclude such "trolls" who do not engage in production, and suggests a legislative model which mandates minimum production of goods, by such patentee, to enjoy the monopoly.

Stephen McJohn reviews a book, which fascinatingly deals with the challenges which frequently are thrown up due to the system of patent examination and grant in the US, with a staggering number of applications, an increasing tendency to allow them, inadequate challenge mechanisms which are characterized as a plaintiff friendly system, which leads sometimes to royalty stacking. The review also highlights the disparity between different industries' approaches to patent strategies, on account of the system.

The journal, as is evident, aims, and has achieved in this issue, a high threshold of scholarly reflection which does NALSAR proud. It is imperative that the standard is kept up. I am proud to be called upon to write a Foreword to the present issue, which, I hope will be a resounding success.

Hon'ble Justice S Ravindra Bhat
Judge, High Court of Delhi

PATRON'S ADDRESS

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

Whether in issues of research, innovation or creativity, the importance attached to intellectual property rights is indicative of the need for greater academic discussion and juristic writing about these topics. Thus, the prominence of the Journal only reflects the growing importance of intellectual property law in today's world. Recognising the same, NALSAR University of Law has always remained a front runner in helping disseminate information as well as conducting courses in the subject. Apart from the complusory course that is taught to the students of the B.A., LL.B. (Hons.) course; the LL.M. programme as well as NALSARPRO, the proximate education course, all offer an in-depth study of the subject. Supplementing the same, this Journal in its third volume has undertaken a conscious effort to include a variety of upcoming and highly publicized issues, of which there has been little academic discussion within the country.

I congratulate the Editorial Board and all those involved in the publication, on publishing the third volume of the Journal, and wish them success in all their endeavours.

Prof. Veer Singh
Vice-Chancellor,
NALSAR University of Law,
September 2011

EDITORIAL

INTRODUCTION

The IJIPL, unlike some of its scholastic counterparts, does not focus on a specific area of intellectual property law. Consequently, it faces a dilemma of sorts as it is patently impossible to do justice in a single volume to each of the individual bodies of law that comprise the larger corpus of intellectual property law. Therefore, the Journal's focus is on the current and raging debates on intellectual property, rather than on a sense of fairness to the specific bodies of law concerned. The same is clearly reflected in the vast volume of student contributions that we receive.

However, with our guest contributions, we attempt to bring to our audience a more thematic representation of ideas. This volume of the IJIPL has focused specifically on the raging western debate on the conflict between intellectual property law and competition law. For reasons of the latter's nascency in the Indian context, the debate has not made much noise in the Indian legal academia. The debate in India is however inevitable, and in anticipation of the same, we have deemed it necessary for our audience to be exposed to the basic nuances of this debate. We therefore present to you Prof. Mark Lemley's seminal piece.

DEVELOPMENTS IN INTELLECTUAL PROPERTY LAW – 2009-2010[1]

The year 2009-2010 witnessed a number of interesting intellectual property law debates. Although all these developments cannot be chronicled, we endeavour to present the landmark intellectual property issues that have arisen in the past year, with specific reference to the Indian scenario.

LEGISLATIVE CHANGES

In relation to legislative changes in the year 2009-2010, the "Indian Bayh Dole Bill" (The Protection and Utilisation of Public Funded Intellectual Property Bill, 2009), the Copyright Amendment Bill, 2010 and the Trademark Bill, 2009 are noteworthy.

The Protection and Utilisation of Public Funded Intellectual Property Bill has been the subject of significant debate; in its bid to increase commercial innovation, the Bill mandates patenting of innovations in public funded institutions and seeks to promote transfer of technology to industry. Under the Bill, inventors would receive a share of the royalties and licensing fees which are generated.

1 We have traced the developments till December 2010. The journal could not have been released earlier due to technical reasons.

The Bill has been modeled on the lines of the US Bayh Dole Act, 1980, which sought to grant research institutions ownership of patents that result from federally funded research. However, this was the subject of much controversy, and it was suggested that it was a "copycat" bill, transplanted directly into India, without sufficient regard to the unique features of the Indian scenario.

The Bill had also come under criticism from the scientific community and public interest groups, and thereafter a Parliamentary Standing Committee was appointed to suggest changes to the Bill. The Committee in its Report outlined that more transparency should be followed in registering the patents and the licensing deals should be made public, it strongly suggested against forced patenting of all innovations, and recommended that the penalties for non-compliance be toned down. A final call on the Bill and the Report is awaited.

The second important legislative change in the past year is the Copyright Amendment Bill, which was introduced to bring Indian copyright law at par with international standards, as enshrined in the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT). The cabinet has approved the Bill and the Bill was referred to the Department related Standing Committee on Human Resource Development.

The Committee submitted its Report towards the end of 2010. The Report is noteworthy for being comprehensive, for outlining the concerns of libraries, educational institutes and students, for accepting the objections raised by the disability organizations and recommending that disability organizations should be able to deal with compulsory licenses. Pertinently, the Report takes a stand in favour of lyricists and composers vis-à-vis producers and publishers, and comes down heavily against the current working of copyright societies. How many of these recommendations are incorporated in the Copyright Amendment Bill, is to be seen.

The Bill proposes to amend provisions relating to cover recordings, under Section 31C, which pertains to "Statutory Licence for Cover Versions." The import of this provision is similar to the exception provided under Section 52(1)(j) of the Copyright Act, which provision the Bill seeks to delete. However, the same controversy that arose with respect to the interpretation of Section 52(1)(j) plagues Section 31C – namely, whether consent is to be obtained from the copyright owner for the making of a cover version.

The Bill has also proposed several changes to copyright law to benefit the disabled; however, in drafting the same, there were aspects they seem to have overlooked. In referring to copies in their original form as "normal", it

seems to suggest that accessible copies for disabled persons are "abnormal". In addition, the changes may not address the concerns of the disabled entirely: under Section 52(1)(sb), an exception to copyright infringement is the "adaptation, reproduction, issue of copies or communication to the public" of the work in a format that is "specially designed only for the use" of disabled persons. This means that there are very few formats that fall within the ambit of this exception. For those that do not, a compulsory licence must be obtained, and such licence can only be obtained by certain organisations which satisfy the criteria mentioned.

The third legislative change was the Trademark (Amendment) Bill, 2009, which was passed by the Lok Sabha in December 2009. It seeks to bring the Indian intellectual property regime in conformity with the Madrid Protocol. More specifically, it seeks to simplify the registration process for trademarks.

PATENTS

In the field of pharmaceutical patents, *Roche v. Natco* is reminiscent of *Roche v. Cipla*. The facts and ruling of *Roche v. Cipla* merit discussion.

In 2009, Roche sued Cipla before the Delhi High Court, claiming that the generic product by Cipla corresponding to *Tarceva* produced by Roche constituted an infringement of Roche's patent. It must be mentioned that Cipla's product was being sold at 1/3rd the price of Roche's product. The trial judge did not grant an injunction, based on "public interest" reasons. Roche then appealed to the Division Bench, which agreed with the trial judge, and further imposed costs on Roche for suppression of material facts. The Supreme Court was approached by way of a Special Leave Petition, which was dismissed, as the matter had proceeded to trial on final merits.

In April 2010, Roche sued Natco for infringement of the same product: *Tarceva*. Natco produces *Erlonat*, which is less expensive than *Tarceva*. The matter is presently being heard in the Delhi High Court. Arguments have begun, and Roche put forth that Natco was estopped from challenging Roche's patent after attempting to do so at the pre-grant stage and failing to do so at the post-grant stage despite being given an express opportunity and then applying for a compulsory license. Roche pointed out that the interim order in the Cipla case was not binding in this case.

Natco argues that following the interim order in the Cipla case, no interim relief can be accorded to Roche; that under Indian law, a patent can be challenged at any stage, and challenged 'the working' of the Roche patent in India. Further developments in both the Roche cases are awaited.

Patent jurisprudence was definitely impacted with the latest decision of the Indian patent office (IPO) against Roche in a post grant opposition invalidating its patent claim covering Valcyte. Roche's patentability was opposed under Section 25(2) of the Indian Patent Act, 1970 and was struck down on the main ground of lack of 'inventive step'. The "obvious to try" test has been very logically endorsed by the IPO and has been given a stronger foothold as compared to the shakiness which Novartis created.

India had filed a complaint and asked for consultations with EU and Netherlands in the WTO DSB as Netherlands had seized "in-transit" goods for patent infringement under the EC Regulation 1383 of 2003. Subsequent to consultation, EU agreed to amend its law to ensure that there would be no further seizure of goods, however, there has not been any formal amendment yet. On that note, the Indo-EU Free Trade Agreement should be finalized soon. We are anxiously waiting to see the manner in which the issues of access to generic medicines and mandating clinical retrials for generic goods are dealt in the FTA.

Interestingly, the Canadian Federal Court has recently ruled that the 'one-click' order system of Amazon.com can be patented, as it is a unique combination of cookies, computer, internet and the customer's own action. The Court drew allegiance to the American principles of patentable subject matter to conclude that a business method (distinguished from a business scheme) can be patented.

The last year also saw litigation between a Chennai-based engineer, Ramkumar, who claimed to have a patent over dual-sim Mobile Technology and various MNCs who sought to import or manufacture hand-sets with dual sim technology. Ramkumar, who essentially had a patent for dual headphones or earphones jack and dual bluetoooth technology in dual sim mobiles, claimed patent over all generic dual sim mobiles. Legal battles have been fought at the IPAB, with the Customs authorities, and various Courts and High Courts. As the situation stands today, the aforesaid authorities have not accepted Ramkumar's claim, however, the final verdict by the various judicial bodies is awaited. Recently, the issue took a nasty turn when one of Ramkumar's partner was murdered, allegedly, on a disagreement on the apportionment of proceeds from the patent.

TRADEMARK

In the field of trademarks, the *Google – Louis Vuitton* case has resulted in a significant decision on the liability of search engines. Louis Vuitton (LVMH) brought an action against Google for trademark infringement. The controversy

surrounded the Google *AdWords* service, which allowed third parties to bid on its trademarked terms as keywords for generation of search results, amounting to infringement. LVMH claimed that this service served as a medium for trademark infringement, by promoting counterfeit goods. When LVMH won in France's highest court, Google appealed to the pan-EU European Court of Justice. The Court held that Google had not infringed trademark law by allowing advertisers to bid for keywords corresponding to their competitors' trademarks. It also confirmed the application of European Law to Google, which protects Internet hosting services. However, the Court opined that individual advertisers would be held liable for infringement.

This makes it clear that parties using *AdWords* may still sue each other if there is an alleged trademark violation. According to the ECJ, a trademark violation occurs if a third party's product is the result of a search for a trademark. The Court also clarified that the responsibility of Google is only attracted where there is infringement: if there is a trademark infringement and Google fails to remove access to such an advertisement, Google could be sued for inaction. This is comparable to copyright claims for unauthorized use of video in the US on YouTube: Google removed the videos at the copyright owner's behest, and failure to comply would result in liability.

The Madras High Court passed an interim order in favour of Google in a similar case, where Bharat matrimony.com had filed a case against its competitors and Google because it had trademarked words like "Tamil matrimony" and "Urdu matrimony" which were a part of Google's keyword suggestion tool and gave results of the Adwords of the competitors' site, i.e. to the links sponsored by the competitors. The Court held that the trademark was descriptive and because there was no synonym of the same, absolute monopoly of the words could not be granted to matrimony.com, and hence there was no trademark infringement and, Google was not liable for contributory negligence.

Another notable trademark issue in the last year is the *MontBlanc – Gandhi* controversy. This legal dispute centred around *MontBlanc's* desire to use Gandhiji's image on a pen. A consumer rights organization filed a PIL in Kerala, alleging that the use of Gandhiji's image would be violative of Section 3 of the Emblems and Names (Prevention of Improper Use) Act. In response to this, the German pen-maker gave an assurance to the Kerala High Court that it would not manufacture pens with Gandhiji's image on the nib until the Central Government granted its application for permission. In May 2010, the Central Government refused to grant such permission, reasoning that national emblems could not be used for commercial purposes.

With respect to use of trademark for dissimilar goods and services, there were two interesting and strangely contradicting cases. In one case, the plaintiff who primarily dealt with steel and allied goods alleged infringement and dilution against a pickle brand using the identical trademark of Kamdhenu. Justice Ravinder Bhat dismissed the petition as the trademark Kamdhenu had not acquired the requisite distinctiveness such that it would garner recognition beyond the main business and transcend into pickles. However, in a similar case by Raymond Textiles against Raymond Pharmaceuticals, the Bombay High court held that S. 29(4) would not be applicable as a part of the trademark was being used in a corporate name and hence S. 29(5) shall apply. As S. 29(5) is only concerned with infringement of trademark in similar goods and services, the plaintiff of a dissimilar good or service only has a remedy in a passing off action, and the statutory remedy under S. 29(4) has been made redundant.

In July 2010, a notification amended the Trade Mark Rules, 2002, to expand the classification of trademarks to include four services to the existing list, effective from 20 May 2010. However, it is unclear whether it has retrospective operation.

COPYRIGHT

Board Game versus Online Game! In 2008 *Mattle Inc.* a petition against *Jayant Agarwalla* was filed in the High Court of Delhi for an issue of copyright and trademark infringement. The former were the makers of the board game '*Scrabble'* the latter were creators of the online game '*Scrabulous'*.Whether Scrabble is copyright protected? Whether the similarity in the names of the two games would lead to a trademark infringement of the former?

On the copyright issue – The plaintiffs argued that Scrabble was a piece of 'artistic work' due to the colour combinations and star patterns which were used. Justice Bhat rejected this plea on three grounds and relied Canadian and American jurisprudence to strengthen his point and to compensate for the lack of Indian jurisprudence on the issues. Firstly, that there was no *per se* 'originality' in the board game and its rules.

Justice Bhat reasoned that 'skill' and 'judgment' are the two essentials of idea expression to draw copyright protection. He further, clarified skill to mean the "*use of one's knowledge, developed aptitude or practised ability in producing the work…*". Court insisted on the need for intellectual effort which "*must not be so trivial that it could be characterized as a purely mechanical exercise*". Thus, the conclusion drawn was that for any form of copyright protection there must be some amount of creativity and intellectual

effort which Scrabble does not qualify as. Secondly, copyright protection does not protect the idea it only protects the expression of an idea. When expression has limited forms wherein its protection invariably protects the idea itself the doctrine of merger is applicable, this is more so in board games where idea and expression usually become inseparable. Lastly, on the Copyright Design Interface which has now become a subject of intense discussion the Court took an interesting stance. Section 15(2) of the Copyright Act, 1957 provides that a design ceases to have copyright protection if it has been applied on a manufactured product more than fifty times. Relying on *Microfibres v. Girdhar* [2006 (32) PTC 157 (Del)] the Court held that in cases of commercial use copyright protection can be provided for a shorter period and registration of a design is a must. Moreover, games are not excluded under Section 2(d) of the Designs Act, 2000 which defines 'artistic works'. Further, under the Design Rules, 2001, Scrabble could be registered as a design but could not be accorded copyright protection as games manufactured for entertainment purposes can be given the status of a design. As of today, the debate has been taken to a new level of as to whether a 2-D game if converted into 3-D would be rendered as a mere reproduction of the original game or would it gets its own protection and registration as a design? Barring the ongoing debate, the ruling of the Delhi High Court in 2008 made it amply clear that there was no copyright protection which could be accorded to Scrabble as of today.

On the trademark issue – Justice Bhat agreed to the proposition of the plaintiff of the word Scrabble being descriptive and distinctive; thereby, rejected the claim of the defendants of the word being generic in nature. To sum up, quoting the judgment delivered on this issue; "*Though Courts would be slow in conferring a monopoly over common words, yet if a mark is shown to conjure up strong associations with the product or services, there should be no hesitation in affording protection.*" Thus, 'Scrabulous' is a trademark infringement of 'Scrabble' but not a copyright one

Attribution or lack of it? Honesty or lack of it? Is there a blockbuster because of a best- selling novelist who didn't get his due credit? The second controversy which shared more than its limelight share is the "3 idiots" controversy. which brought the conception of moral rights in copyright law to the forefront. Chetan Bhagat had assigned all the rights of his book, "Five Point Someone" to the production house namely, Vinod Chopra Films Pvt. Ltd. with the contractual obligation on the latter to accord the author his due in the rolling credits. However, when the name should be mentioned was not mentioned in the contract and hence was at the discretion of the producers. Bhagat was given a fleeting mention during the end credits of the movie whereas the

scriptwriter, Abhijit Joshi was mentioned in the beginning of the movie. Thus, arises the contention of moral rights as Section 57 of the Indian Copyright Act, 1957 bestows a right to insist attribution to the author of the work despite the assignment of copyright. Though there was no comparison of the factual matrix of the movie and the book in adjudication, it is evident that the movie is based on the book, specifically the basic plot, characters and their lives; though the movie also has its share of new twists. A further cause of concern was that the directors and producers of the movie, despite admitting in the credits that the movie was based on the book, stated in interviews that the film script was original and was borrowed from the book only to the extent of 3-5%. It is arguable that these acts effectively deprive Chetan Bhagat of his moral right of authorship or attribution under Section 57, and that he had a good case for enforcement of his rights and damages.

On similar lines came the "Housefull" controversy. The song *"Apni toh jaise taise"* was remixed for the movie Housefull making it one of the star attractions of the movie. The song is originally a part of the blockbuster movie Lawaaris and was a chartbuster in 1981. It was noted by the Calcutta High Court that the licensing agreement between Sa Re Ga Ma and T-Series transferred the copyright of the song to be exploited without disregarding any of the Indian copyright laws and did not amount to infringement of any moral or economic right by Sajid Khan and team by using the song.

Further, Infomedia was alleged of copyright infringement by way of data theft from the database of local search engine giant, Justdial and displaying it on a website askme.in. An interim order was passed against Infomedia restraining it from displaying information and to confiscate the media which stored data which was stolen from Justdial. Justdial has also initiated proceedings in Mumbai and the final outcome of all the matters is awaited.

A growing concern seems to be with regard to the taxation of copyright transactions in India. The Finance Act of 2010 has introduced Section 65(105)(zzzt), which will impose a service tax on copyright transactions in cinematographic films and sound recordings, if they involve "transferring temporarily" or "permitting the use or enjoyment of copyright". The earlier position was that copyright was excluded form the scope of service tax. Presently, it is unclear whether there transactions are to be categorized as "sale" or "service".

Reliance has challenged the constitutionality of this provision in the Delhi High Court, claiming that on the same transaction, it would have to pay two

taxes to the State and Central Government: VAT/sales tax to the State Government, and additional service tax to the Central Government. It contends that the transactions covered by the provision is a sale and not a service, and is therefore outside the legislative competence of the Central Government. However, the manner in which the Court interprets the transaction depends on precedents.

GEOGRAPHICAL INDICATORS

Undoubtedly, the most discussed issue in relation to GIs was the Tirupati Laddu claim, and a rectification petition has been filed to the GI Registry for revocation of the GI status granted for the Tirupati Laddu. The legal and social implications for granting the status have been exhaustively discussed in Sumathi Chandrashekaran's article, From Laddu to GI: A Post-Grant Analysis of the *Tirupati Laddu* Registration.

INTERNATIONAL IP SCENE

In relation to India's presence in the international IP scene, there has been some debate on the Anti-Counterfeiting Trade Agreement (the "ACTA"), a proposed agreement to establish intellectual property law standards independent of the existing international institutions – the World Intellectual Property Organisation and the World Trade Organisation. ACTA negotiations were led by the United States and were conducted in secret, and excluded developing countries from discussions. Although a public draft was released in April 2010, it seems clear that at some point, India will be expected to comply. India has hit back in June 2010, and the Indian delegation has brought to the fore several aspects of the ACTA it finds unfavourable. While the biggest reservation is the circumvention of existing international institutions, India has also raised other concerns. Raising the bar for promotion of innovation and access to knowledge would have serious implications for the developing world, whose cheaper and more competitive pharmaceutical and technological products come under fire for alleged counterfeit and violation.

ACKNOWLEDGEMENTS/DEDICATION

This space, as hackneyed as it may sound, can never be complete without remembering those without whom the endeavour of coming out with this volume would have been ever more difficult. We would thus like to express specific gratitude to Mr. Apar Gupta, Ms. Kruttika Vijay, Ms. Mrinalini Kochupillai, Mr. Pritam Baruah and Ms. Ruchira Goel for their invaluable time and assistance in shaping the future of this Journal.

Similarly, a special note of thanks is reserved for Mr. Dipankar Panth and Mr. Dhruv Pall for their inspired creativity and their wizardry with design software. In the same breath, it is necessary to thank Mr. Kamalesh Dessai for his everlasting patience in the typesetting of the Journal despite our oft repeated mistakes.

A more general sense of gratitude is also owed to the entire faculty and staff at NALSAR who through their advice and assistance made the task of coming out with this volume a whole lot easier. We dedicate this volume to the spirit of endeavour, which we have ruefully noted, seems to almost be maligned these days in the spaces that surround us. We hope that those in charge of nurturing the future of the Journal keep this in mind.

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

Editorial Board

DOES INTELLECTUAL MONOPOLY HELP INNOVATION?[1]

Michele Boldrin and David K. Levine

1. INTRODUCTION

We are witnesses to both, an intense debate over copyrights and patents and a general agreement that some special kind of legal protection is needed to secure for inventors and creators the fruits of their labor. For all the emotion, it seems that both, those in favor of strengthening and weakening existing protection agree that intellectual property laws need to strike a balance between providing sufficient incentive for creation and the freedom to make use of existing ideas. To put it differently, both sides agree that intellectual property rights are a "necessary evil" that fosters innovation, and the disagreement is over where the line should be drawn. For the supporters of intellectual property, current monopoly profits are barely enough; for its enemies currently monopoly profits are too high. In fact, one is tempted to say, for many "enemies" of intellectual property, profits are always too high as long as they are positive.

In our recent book *Against Intellectual Monopoly* we reach conclusions that are at variance with both sides. We are not of the view that innovators should work out of benevolence. Certainly, few people do something in exchange for nothing. Creators of new goods are not different from producers of old ones: they want to be compensated for their effort. However, it is a long and dangerous jump from the assertion that innovators deserve compensation for their efforts to the conclusion that patents and copyrights, that is monopoly, is a good way of providing that reward. Since innovators may be rewarded even without patents and copyright, we should ask whether it is true that intellectual property achieves the intended purpose of creating incentives for innovation and creation that offsets its considerable harm?

There are three broad types of intellectual property recognized in most legal systems; patents, copyrights and trademarks. Trademarks are different in nature than patents and copyrights as they serve to identify the providers of goods, services or ideas. Copying or imitating, which would be violation of either copyright or patents, are quite different from lying, which would be a violation of trademark. We do not know of a good reason to allow market participants to steal identities or masquerade as people they are not. Conversely, there are strong economic advantages in allowing market participants to voluntarily identify themselves. While we may wonder if it is necessary to

1. Based on our book *Against Intellectual Monopoly* and on the papers presented and the discussions that took place at the WUStL Law School Conference, in April 2009.

allow Intel Corporation a monopoly over the use of the word "inside," in general there is little economic dispute over the merits of trademarks. We therefore, focus on patents and copyrights and to these two sets of legally protected rights we refer to when we use the terms "Intellectual Property" and "Intellectual Monopoly".

Some critics, both at this conference and elsewhere, have argued that the use of the term "monopoly" in this case is too strong. Charles McManus, for example, argues in his contribution to this volume that the term is too strong when applied to copyright because the latter seeks to protect "expression" of ideas, not the idea being expressed. Maybe it is too strong, but, in the English vocabulary, we cannot find a better term describing a legal right that allows sellers of, say, books to determine what lawful buyers of their product are allowed to do with their product. In particular, how else would you define the following facts, if not as an exercise of a monopoly power? Publishers of academic journals can prevent the original authors of the articles published in the journal from circulating copies of the same, even for free. Citations from books, or music, or movies that were legally purchased cannot be longer than a few lines or seconds without additional payments to the original publisher, even if such citations are obtained through legal and widely available technologies. As a third dramatic example, consider the recent Google Books or Google Prints disaster, in which publishers of books that had been legally purchased, at library rates, by libraries around the world have successfully challenged the right of such libraries to enter into cooperation with Google in order to digitize those books and make them searchable and usable on line, for free, through Google's proprietary technology. Should we not call this an exercise of "monopoly power"? Very well, what should we call it, then? Maybe we can call it 'a crime against culture and the world diffusion of knowledge'?

As a matter of fact a "monopoly" is, in economic parlance, the exclusive right to sell/produce a certain object of service. The U.S. Constitution allows Congress, "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."[2] Our perspective on patents and copyright is a similar one. From a social point of view, and in the view of the founding fathers, the purpose of patents and copyrights is not to enrich the few at the expense of the many. Nobody doubts that J. K. Rowling and Bill Gates have been greatly enriched by their intellectual property, nor is it surprising that they would argue in favor of it. But common sense and the U.S. Constitution say that these

2. U.S. Constitution Article 1, Section 8. The U.S. Constitution, not being copyrighted, is available online at various places, such as at http://www.law.cornell.edu/constitution.

rights must be justified by bringing benefits to all of us.

The U.S. Constitution is explicit that what is to be given to authors and inventors is an exclusive right – a monopoly. The idea that giving this monopoly serves to promote the progress of science and useful arts is implicit in nature. The U.S. Constitution was written in 1787. At that time, the idea of copyright and patent was relatively new, the products to which they applied were few and their terms short. In light of the experience of the subsequent two hundred and nineteen years one might ask if it is true that legal grants of monopoly serve to promote the progress of science and the useful arts.

Common sense suggests that it could. How can a musician make a living if the moment she performs her music, everyone else can copy and give it away for free? Why would large corporations pay the small inventor when they can simply take his idea? Is not the explosion of creativity and invention unleashed since the writing of the U.S. Constitution is a testimony to the powerful benefit of intellectual property? Would not the world without patent and copyright be a sad cold world, empty of new music and of marvelous new inventions? These are the very practical questions our work tries to address.

We begin by asking why creators should have the right to control how purchasers make use of an idea or new good. This gives creators a monopoly over the idea. We refer to this right as "intellectual monopoly" to emphasize that it is this monopoly over all copies of an idea that is controversial, not the right to buy and sell copies. The government does not ordinarily enforce monopolies for producers of other goods. This is because it is widely recognized that monopoly creates many social costs. "Intellectual monopoly" is no different in this respect. The question we address is whether it also creates social benefits commensurate with these social costs.

This may also be the appropriate point to discuss Mark Lemley's criticism according to whom "monopolistic competition" is the rule of the game in almost every industry, hence what difference does a patent or a copyright make? It makes a big difference in the market for shoes or bread competing firms freely select where to position themselves. If one likes to position very close or very far from its competitors, there is no legal constraint to prevent such a choice from being implemented. When patents and copyrights enter the scene the situation changes; one cannot choose to compete with our publisher by lawfully purchasing a copy of our book, reproduce it through legal means and try to sell it on the market. The world of free "monopolistic competition" is always a changing one. The world of legal monopoly is not, for two decades in the case of patents and for pretty much ever in the case of copyrights. Thereby, the

qualitative difference. Is it also quantitatively different? We believe it is, and the whole book is practically dedicated to show by means of data and facts that Intellectual Monopoly does make a, negative, quantitative difference on our collective wellbeing. We may have made the wrong calculations and we may have looked at the wrong facts, but we need to be proved wrong with facts and data. Just arguing that "*cosi' fan tutte*" is not enough.

Recognize, first, that intellectual monopoly is a double-edged sword. The existence of monopolies increases the cost of creation. In one extreme case, a movie that cost $218 to make had to pay $400,000 for the music rights.[3] In *Against Intellectual Monopoly* we go through numerous examples of cases where far from increasing innovation and creation, intellectual monopoly has instead served to inhibit or prevent it. A brief list of examples is instructive:

- Boulton and Watt's steam engine patent most likely delayed the industrial revolution by a couple of decades.
- Selten's automobile patent set back automobile innovation in the United States by roughly the same amount of time.
- The Wright Brothers airplane patent forced innovative work on airplane technology out of the United States to France.
- The patent system of England and France forced the chemical industry to move to Germany and Switzerland, where chemical patents did not exist or were much weaker.
- When Verdi gained copyright over his works he stopped producing new works. More generally, there is no evidence that the adoption of copyrights stimulated the creation of classical music.

Given that we quoted the paradigmatic case of *Boulton and Watt*, this may be a good place to address the criticisms that George Selgin and John Turner have raised in a couple of occasions against our interpretation of this specific story. We should establish, first of all, that while some of the detailed facts they correct us about are certainly the way they say, an equal number of others are not. So, for example, Ed and William Bull were father and son, and the latter continued the enterprise where the first had left it. Similarly, Hornblower may or may not have paid back huge amounts of royalties to B&W and may or may not have been a poor businessman, but there is no doubt that B&W actively used the legal system to prevent him from marketing his own machine. The book also reports the correct statistics for horsepower and engines installed. We are grateful to Selgin and Turner for pointing us to the more recent and more reliable

3. The $218 movie was *Tarnation* and the information from BBC News, is at http://news.bbc.co.uk/2/hi/entertainment/3720455.stm.

data, which we used and that yields the very same result. All these details, at the end, do not change the two main facts upon which our argument is founded: B&W's patent allowed for a monopolization of the English market for steam engines until 1800; the adoption of steam engines exploded only after the patent expired, did so extremely rapidly and it was accompanied by enormous efficiency gains that had been altogether absent during the previous 25 years. We do not make any claim of originality here, dozens of economic historians have argued one of these points or all of them during the last few decades. Our contribution was, purely, to put them together and point the finger to the likely culprit - B&W's patent. Where Selgin and Turner differ from us, at the end, is on the interpretation of these facts. They see this as a natural development and claim that the trajectory is exponential as it should be, in their view. We see it differently and have argued the why in the book and elsewhere. This does not seem the place to dwell back on the same set of issues.

Those listed earlier are not the only examples of patent-blocked innovations and development but are some of the most egregious. In the opposite direction, our book reports numerous examples of how innovation thrives without patents and copyright and of the various inimical effects of the monopoly wrought by intellectual property. More importantly, we search the empirical literature long and hard without finding a single case in which strengthening of intellectual monopoly un-controversially increased innovations. We find that strengthening of intellectual monopoly increases patenting and copyright claims but patents and copyright do not increase actual innovation.

We are by no means the first economists to reach this conclusion. After reviewing an earlier set of facts in 1958, the distinguished economist Fritz Machlup wrote, "it would be irresponsible, on the basis of our present knowledge of its economic consequences, to recommend instituting [a patent system]."[4]

2. DOES INTELLECTUAL MONOPOLY INCREASE INNOVTION? - THE TRUTHFUL PERSPECTIVE

From a theoretical point of view, intellectual monopoly may both increase and decrease innovation. It provides more revenues to those that innovate but also makes innovation more costly. Innovations generally build on existing innovations. While each individual innovator may earn more if he has an intellectual monopoly, he also faces a higher cost as he must pay off all those other monopolists owning rights to existing innovations.

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4. *See* Machlup [1958], p. 80. He nevertheless concluded that we should keep the patent system. We discuss his position further in our conclusion.

A number of economic historians, Douglass North and his followers foremost among them, have argued that the great acceleration in innovation and productivity we associate with the Industrial Revolution was caused by the development of ways to protect the right of inventors and allowing them to profit from their innovations.[5] Central among such ways was the attribution of patents to inventors and their recognition either by Parliament or by the courts. Relative to the very poorly defined contractual rights of pre-seventeen century Europe, plagued by royal and aristocratic abuses of property and contracts, there is no doubt that allowing individuals a temporary but well defined monopoly over the fruits of their inventive effort was a major step forward. Even monopolistic property is much better than a system that allows arbitrary seizure by the rich and powerful. This does not, however, contradict our claim that widespread and ever growing monopolistic rights are not as socially beneficial as well defined competitive property rights.

To put it differently, about four centuries ago, as Western societies moved away from post-medieval absolutist regimes, the establishment of patents constituted a step forward for the creation of a system of property rights that favored entrepreneurship and free market interaction. By the force of the same reasoning, the abolition of patents and of the distortionary monopolistic rights they entail may well result, now, in an analogous boost to entrepreneurial effort and free competition. The contribution that the Neo-Institutional approach may still provide to this debate was well discussed in the paper by Vertinsky, also in this volume, which raises a number of relevant issues we unfortunately cannot address here. We would like, though, to point out one thing, patents are by no means the only legal instruments allowing for contractability of ideas and for the creation of a market for technology transfers. Beginning with the path breaking work of Jack Hirshleifer in the early 1970s, it has become clear that economically valuable information can be traded in the absence of patents and under condition of competition or nearly so. There is no prima facie evidence, either theoretical or empirical, for the claim that the disappearance of patents would increase transaction costs associated with technology transfer. Most likely, it will reduce them insofar as it will reduce incentives for rent-seeking, defensive patenting, submarine patenting and all the gigantic legal costs these

5. A starting point for Douglass North's views of the role that well defined property rights, and patents in particular, played in the Industrial Revolution are his works of 1981, and 1991. It should be noted that North does not subscribe to a naïve view of the evolution of property rights according to which they become progressively more "efficient" or just simply "better" as time goes on and the economy develops. Being aware of the fact they are, more often than not, determined by rent-seeking agents within a political game, North is careful at pointing out that the system of property rights one often faces is substantially inefficient or inefficiency-inducing along more than one dimension.

practices have brought upon us. In summary, well defined and protected private property of own ideas does not require monopoly over them pretty much in the same way that private property of our own cars does not require the two of us becoming the only motorized citizens of the USA.

Theory also suggests that small countries with low IP protection should witness a surge in the inflow of IP-related investment after their IP protection is increased, as they capture investments from other countries where intellectual monopoly is protected less. The latter is a particular kind of "zero-sum game"[6] that, unfortunately, appears to have gone beyond a mere theoretical possibility. What is less obvious is what the outcome will be once every country adopts the same high degree of IP protection. Leave aside the more or less terrifying scenarios of escalation in which countries out-do each other trying to allure IP-related investments by progressively increasing their local protection of intellectual monopoly. It is still worth asking if a world where everyone has the same degree of IP protection as, say, the US currently does is a world with a higher or lower rate of innovation and a higher or lower social welfare than a world with much less IP protection.[7]

3. DOES INTELLECTUAL MONOPOLY INCREASE INNOVATION? - THE FACTUAL MATRIX

Theory gives an ambiguous answer, so let us look at evidence supported by a bit of statistical common sense. Given the continued extension of patent protection to new areas – business practices and computer software, for example, one might hope that there is recent strong evidence that the introduction of patent protection has lead to a substantial increase in innovation. These hopes, alas, are not to be fulfilled: It is already apparent that the recent explosion of patents in the U.S., the E.U. and Japan, has not brought about anything comparable in terms of useful innovations and aggregate productivity. This we

6. In fact, negative-sum insofar as it increases lobbying efforts and related wasteful transaction costs.
7. Writing about the use of patents to lure investments away from other countries tempted us to engage in a digression on the role that patents played in Europe, roughly, between 1400 and 1800. Here are some hints for further reading. The original purpose of patents was to attract specific groups of artisans and highly skilled professionals that were, for a reason or another, lacking in the country or city promising the patent. Monopoly was the carrot offered by most Italian and Northern European cities to in ventors that agreed to emigrate and set up shop there. In England, during the seventeenth, eighteenth and most of the nineteenth centuries a royal patent privilege was awarded to those citizens who would travel abroad and be the first to bring back new goods and technologies. United States patent laws were less inclined to provide incentives to pirate foreign innovators, but it still discriminated heavily against foreign citizens and innovations until the 1861 reform; pirating of foreign inventions, especially British, was thriving. Notice the interesting fact: all these practices just amounted to imitation, or piracy in modern jargon, rewarded with local monopoly! This is something worth keeping

asserted a few years ago, while writing the book and it is readily apparent today, in the midst of the Great Recession: the patents' explosion, certainly, did not bring about any increase in aggregate productivity.

While there is no hope of finding evidence supporting the claim "more patents = higher productivity" in recent data, also the historical evidence provides little or no support.[8]

(i) Copyright and Music in the 18th Century

The effect of copyright is difficult to analyze because it is hard to get reliable data prior to the 19th century. Copyright was already fairly ubiquitous across Europe early in the 19th century and its importance there has changed little since then.

The one exception turns out to be in the case of classical music. Copyright was unknown in the world of music until around the end of the 18th century. As a result, a large proportion of classical music, still today accounting for about 3% of all music sales and obviously, a much larger portion of music production until late in the 19th century was produced without the benefit of copyright protection.

Here is what Frederic Scherer, a strong supporter of intellectual property, has to say about in his extensive study of classical music:

> *The evolution of copyright from an occasional grant of royal privilege to a formal and eventually widespread system of law should in principle have enhanced composers' income from publication. The evidence from our quantitative comparison of honoraria received by Beethoven, with no copyright law in his territory, and Robert Schumann, benefiting from nearly universal European copyright, provides at best questionable support for the hypothesis that copyright fundamentally changed composers' fortunes. From*

in mind in the light of current sermons against Indian, Chinese, Mexican and Brazilian people "pirating our inventions." Our reading of historical records is that all this "reciprocal stealing" had no effect on the total amount of inventions.

8. *See* Epstein and Maarten [2005, eds.], Khan [2005, Chapter 2], Landes [1969] and Landes [1998]. A recent and fairly unbiased synthesis of the historical literature concerned with the impact of patents on the Industrial Revolution and inventive activity during the 18th and 19th century, McLeod and Nuvolari [2006], concludes by saying *"However, it would be wrong to assume that the emergence of patent systems played a critical or determinant role in such a transition. The evidence discussed in this paper has shown that the institutional arrangements supporting inventive activities in this historical phase were extremely variegated and sophisticated. […] In other words, the roots of western industrialization seem to have been wider and deeper than the emergence of modern patent systems."*

> *the qualitative evidence on Giuseppe Verdi, who was the first important composer to experience the new Italian copyright regime and devise strategies to derive maximum advantage, it is clear that copyright could make a substantial difference. In the case of Verdi, greater remuneration through full exploitation of the copyright system led perceptibly to a lessening of composing effort.*[9]

Professor Scherer also exploited the variations between European countries copyright law regarding music to conduct a third natural experiment. He compared the average number of composers born per million population per decade in various European countries. Turning first to England, he considers the precopyright period 1700-1752, and the post copyright period 1767-1849. He looks also at what happened in Germany, Austria and Italy in which there was no change in copyright during this period.

	Pre	***Post***	***Ratio***
UK	0.348	0.140	0.40
Germany	0.493	0.361	0.73
Italy	0.527	0.186	0.35
Austria	0.713	0.678	0.95

We see that the number of composers per million declined everywhere, but it declined considerably faster in the UK after the introduction of copyright than in Germany or Austria, and at about the same rate as Italy. So there is no evidence here that copyright increased musical output.

However, the evidence is mixed because the same experiment in France is more favorable to copyright. In France the precopyright period is 1700-1768 and the post-copyright period is 1783-1849.

	Pre	***Post***	***Ratio***
France	0.126	0.194	1.54
Germany	0.527	0.340	0.65
Italy	0.587	0.153	0.31
Austria	0.847	0.740	0.86

9. *See* Scherer [2004] p.191. It should be apparent that everything we know about the impact of copyright on classical music we have learned from Scherer [2004], and his sources. An additional valuable reference for the details relative to the extension of the Statute of Anne to musical compositions is Carroll [2005].

Here we find that, in France, when copyright is introduced the number of composers per million increased substantially more than in other countries. This should be noted, as it is pretty much the only piece of evidence supporting the idea that copyright increases classical music production which we have been able to find.

Looking more broadly at the entire European scene and at the careers of comparable composers living with or without copyright protection Scherer finds it difficult to conclude that copyright law was a significant factor, either way, in determining the amount of musical composition taking place. It may not have reduced the incentive to compose music, but it certainly did not increase it either; whatever the mechanism affecting composers' incentives, copyright protection was not an important part of it.

(ii) Patents and Innovation in the 19th Century

Kenneth Sokoloff, together with Naomi Lamoreaux and Zorina Khan examined the role of patents in the U.S. in the 19th and early 20th century.

> *In 1836 the U.S. instituted an examination system under which, before granting patents, technical experts scrutinized applications for novelty and for the appropriateness of claims about invention. This procedure made patent rights more secure by increasing the likelihood that a grant for a specified technology would survive a court challenge, and may also have provided some signal about the significance of the new technology. Thereafter, both patenting and sales of patent rights boomed.*[10]

The aim of this research is to show that the patent system introduced in the U.S. after the 1830s created a well defined market for patents and technologies that did not exist previously and that the creation of such a market led to an increase in the number of patents registered and traded. It should be observed that the institutional change that led to the booming of patenting and the sales of patent rights was to make it more difficult to get patents which is quite the opposite of modern institutional changes. In addition, while this research makes it clear that the number of patent agents, and of inventors making use of their services boomed. They also document that an important portion of the services was to assist inventors in getting patents, and in navigating the thicket

10. Lamoreaux and Sokoloff [2002], pp. 7-8. The research work of Khan, Lamoreux and Sokoloff we mention is covered in a variety of articles and books, including the book by Khan [2005], which contains a large bibliography. On the growth of intermediaries and their role, *See* Lamoreaux and Sokoloff [2002].

of existing patents – socially wasteful activities that would be unnecessary in the absence of a patent system.

One important difficulty is in determining the level of innovative activity. One measure is the number of patents, of course, but this is meaningless in a country that has no patents, or when patent laws change. Petra Moser gets around this problem by examining the catalogs of innovations from 19th century World Fairs. Of the catalogued innovations, some are patented, some are not, some are from countries with patent systems, and some are from countries without. Moser catalogues over 30,000 innovations from a variety of industries.

> *Mid-nineteenth century Switzerland [a country without patents], for example, had the second highest number of exhibits per capita among all countries that visited the Crystal Palace Exhibition. Moreover, exhibits from countries without patent laws received disproportionate shares of medals for outstanding innovations.*[11]

Moser does, however, find a significant impact of patent law on the direction of innovation

> *The analysis of exhibition data suggests that patent laws may be an important factor in determining the direction of innovative activity. Exhibition data show that countries without patents share an exceptionally strong focus on innovations in two industries: scientific instruments and food processing. At the Crystal Palace, every fourth exhibit from a country without patent laws is a scientific instrument, while no more than one seventh of other countries innovations belong to this category. At the same time, the patentless countries have significantly smaller shares of innovation in machinery, especially in machinery for manufacturing and agricultural machinery. After the Netherlands abolished her patent system in 1869 for political reasons, the share of Dutch innovations that were devoted to food processing increased from 11 to 37 percent.*[12]

Moser then goes on to say that:

> *Nineteenth-century sources report that secrecy was particularly effective at protecting innovations in scientific instruments and in food processing. On the other hand, patenting was*

11. *See* Moser [2003], p. 3.
12. *See* Ivi, p. 6.

> *essential to protect and motivate innovations in machinery, especially for large-scale manufacturing.*[13]

It is interesting also that patent laws may reflect the state of industry and innovation in a country

> *Anecdotal evidence for the late nineteenth and for the twentieth century suggests that a country's choice of patent laws was often influenced by the nature of her technologies. In the 1880s, for example, two of Switzerland's most important industries chemicals and textiles were strongly opposed to the introduction of a patent system, as it would restrict their use of processes developed abroad.*[14]

More recent work by Moser,[15] exploiting the same data set from two different angles strengthens this finding, that is, the patents did not increase the level of innovation. In her words:

> *"Comparisons between Britain and the United States suggest that even the most fundamental differences in patent laws failed to raise the proportion of patented innovations."*[16]

Her work appears to confirm two of the stylized facts we often insist upon. First that, as we just mentioned in discussing the work of Sokoloff, Lamoreaux and Khan, innovations that are patented tend to be traded more than those that are not, and therefore to disperse geographically farther away from the original area of invention. Based on data for the period 1841-1901, innovation for industries in which patents are widely used is not higher but more geographically dispersed than innovation in industries in which patents are not or scarcely used. Second, when the "defensive patenting" motive is absent, as it was in 1851, an extremely small percentage of inventors (less than one in five) chose patents as a method for maximizing revenues and protecting intellectual property.

Summing up, careful statistical analyses of the 19th century's available data, carried out by distinguished economic historians, uniformly shows two things. Patents neither increase the rate of innovation, nor are the best instruments to maximizes inventors' revenue. Patents create a market in the legal and technical services required to trade and enforce them.

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13. *See* Ivi, p. 6.
14. *See* Moser [2003], pp. 34-35. Petra Moser's dissertation, which won the 2003 Gerschenkron Prize awarded by the Economic History Association to the best dissertation in the field, is a mine of valuable information on the role of patents in determining innovative activity during the 19th and early 20th century. The main findings are summarized in Moser [2003].
15. *See* Moser [2005, 2006].
16. *See* Moser [2006], Abstract.

(iii) Patents and Innovation in the 20th Century

A number of studies have attempted to examine whether introducing or strengthening patent protection leads to greater innovation using data from post WWII advanced economies. We have identified twenty three economic studies that have examined this issue empirically.[17] The executive summary is thus: They find weak or no evidence that strengthening patent regimes increases innovation; they find strong evidence that strengthening the patent regime increases … patenting! They also find evidence that in countries with initially weak IP regimes, strengthening IP increases the flow of foreign investment in sectors where patents are frequently used.

Authors	*Years*	*Country*	*Industry*
Arora et al [2003]	1990-2002	U.S.	Many
Arundel	Many	Many	Many
Baldwin and Hanel	1993	Canada	Many
Bessen and Hunt	1980-1996	U.S.	Software
Branstetter and Sakakibara	1988-1998	Japan	Many
Gallini	1980s	U.S.	Many
Hall and Ham	1980-1994	U.S.	Semiconductor
Hall an Zeidonis	1979-1995	U.S.	Semiconductor
Jaffe	Many	Many	Many
Kanwar and Evenson	1981-1990	Many	Aggregate
Kortum and Lerner	1980-2000	U.S.	Many
Lanjouw	1990s	India	Pharmaceutical
Lanjouw and Cockburn	1975-1996	India	Pharmaceutical
Leger	1978-2000	Mexico	Agriculture
Lerner-1	1850-2000	Many	Many
Lerner-2	1971-2000	U.S.	Financial
Levine and Saunders	1981-2001	U.S.	Software
Licht and Zoz	1992	Germany	Many
Lo	c. 1986	Taiwan	Many
Mann	1900-2002	U.S.	Software
Park	1987-1995	OECD	Many
Qian	1979-1999	Many	Pharmaceutical
Sakakibara and Branstetter	1988-1995	Japan	Many
Scherer and Weisbrod	1970s	Italy	Pharmaceutical

The authors who find the strongest effect on innovation of increased patent protection are Kanwar and Evenson, and Lo. The latter examines the 1986 reform in Taiwan, while the former uses time series data from a cross section of countries to regress R&D as a fraction of GDP on various variables including a qualitative measure of IP protection. Both sets of results are worth

17. All the empirical studies listed in the long table can be found in the references at the end. The data about patents come from the 2003 Annual Report of the USPTO, which can be found on line at http://www.uspto.gov/web/offices/com/annual. Additional basic data is from www.cms.hhs.gov.

examining a bit more closely than the rest.

Lo finds increased innovation by Taiwanese inventors as measured by R&D expenditure and by the number of U.S. patents they were awarded. However, given the worldwide surge in U.S. patents about this time and the fact that the number of Taiwanese patents awarded to these same inventors did not much increase, we can reliably conclude that the effect of the 1986 law was neither an increase in innovation nor a jump in aggregate or sectorial productivity. What the reform certainly did, and Lo documents this convincingly was to increase the number of patents awarded to Taiwanese firms, especially in the U.S., which is altogether not surprising. Lo himself points out that the main channel through which the Taiwanese reform had a positive effect was by fostering foreign direct investment in Taiwan especially in those sectors in which patents are widely used.

This is an important point which deserves a separate comment. In a world in which strong patent protection in some countries co-exists with weak protection in others, a country that increases patent protection should observe an increase in the inflow of foreign investment, especially in those sectors where patented technologies are used. Profit maximizing entrepreneurs always choose to operate in those legal environments where their rights are the strongest. In the U.S., for example, economists and people with common sense alike, have long argued that the policy of offering tax incentives and subsidies to companies that relocate in one state or another is not a good policy for the United States as a whole. Nobody denies that, if you provide a company with high enough subsidies and tax incentives, it will probably take them and relocate to your state, at least temporarily. The problem is that, after you do so, other states will respond by doing the same or more. In the ensuing equilibrium, the total amount of investment is roughly the same as when no one was offering a subsidy, but everyone is now paying a distorting tax to finance the subsidy. When capital moves freely across countries the very same logic applies to the international determination of IP rights. In what economists call the Nash Equilibrium of this game, it is obvious that patent holders prefer to locate in countries with strong IP laws. This increases the stock of capital in the receiving country and reduces it everywhere else, especially in countries with low IP protection. Hence, absent international cooperation, the strong incentive of most countries is to keep increasing patent protection, even in the absence of lobbying and bribing by intellectual monopolists.

As for the study by Kanwar and Evenson, they have data on 31 countries for the period 1981-1990. Using two 5 year averages they find support for the idea that higher protection leads to higher R&D as a fraction of GDP. Their

measures of IP protection do not always seem to make sense, but this is not the proper place to engage in a statistical debate. There are five levels of IP protection and R&D as a fraction of GDP ranges from a ten year average of .231% in Jordan to 2.822% in Sweden. They find that increasing IP by one level raises R&D as a fraction of GDP between 0.6% to 1.0%. As before, the most favorable interpretation of this result is that countries offering higher levels of IP protection also attract investments in those sectors in which R&D and patents are most relevant. A less favorable interpretation of this result, instead, points out that Kanwar and Evenson have forgotten to include a main determinant of the ratio of R&D to GDP, that is, market size as measured by GDP. The most elementary theory of innovation, either under competition or under monopoly, shows that the innovative effort is increasing the size of the market and that large and rich countries will invest a larger share of their GDP in R&D compared with small and poor countries. Putting Kanwar and Evenson's data together with GDP data from the 1990 CIA World Fact Book, we find that a 1% increase in the size of a country as measured by GDP increases the ratio of R&D to GDP by 0.34%.

It is interesting to looks at the residual error that is left over after we predict the ratio of (the logarithm of) R&D to GDP from (the logarithm of) GDP. Sorted by IP level we find:

IP Level	***Average Residual***
0	-0.95
1	-0.46
2	0.20
3	0.20
4	0.10

What does this show? The question is whether increasing the IP level leads to an increase in the residual. Moving from level 0 to 1 and from level 1 to 2 this is true, but not from level 2 to 3 or 3 to 4. In other words, once you control market size, higher IP protection increases the R&D/GDP ratio at very low levels, but becomes uncorrelated with the R&D/GDP ratio at any level of IP protection equal to 2 or more in the Kanwar and Evenson scale. This reinforces the idea that what we are seeing is primarily the effect of foreign investment. Among poor countries with low IP protection, increases in IP protection bring in more foreign investment and raise R&D. In richer countries with high levels of IP, foreign investment is not an issue, and increases in IP have little or no effect on innovation.

(iv) Database

The case of databases is still an experiment in the making, or at least it was until about five years ago. Unusually enough, the U.S. is, at least for now, on the right side of the divide. Databases, it seems obvious, have become increasingly important for private individuals, businesses, academic researchers, industrial R&D and, unfortunately, also for national security.

The experiment-in-the-making and the intense debate accompanying it, both began in 1996. On March 11, the European Union issued a directive requiring member states to provide statutory protection of database on the basis of copyright even if the data base in question contained material that was not itself under copyright. The E.U. also tried to force non-member states to accept its directive. It did this by deciding that EU protection would be extended to their citizens only if the non-member states provided similar protection. By 2001 all EU countries had fully implemented the EU directive.

Which one do you think is higher: the rate of creation of databases in the E.U. where they are protected by IP, or in the U.S. where they are not? Well, you guessed right: in the U.S. In fact, it is not even a race, the U.S. wins hands down as Block points out. After documenting details of the excellent state of the database industry in the U.S., its amazing growth rate and productivity as well as the fact that the adoption of the directive does not seem to have produced any sustained increase in the E.U.'s production of databases, Block adds:

> *For the entire period measured, U.S. online database production outpaced all of Europe by a factor of nearly 2.5:1 ... American dominance of database production cannot be explained by incentives given to creators because American protection of database rights is much weaker than the Directive.*[18]

To which we only add that, most probably, American dominance of the industry *can* be explained by economic incentives to creators as measured by the actual profits accruing to them and by the competitive environment in which they operate, and that, almost certainly, neither of them is increased much by the EU Directive.

4. ABOLITION

Defenders of intellectual monopoly like to portray intellectual property as a powerful and beneficial medicine. If a medicine has serious side effects and scientific studies have found at best weak evidence of temporary benefits,

18. *See* Block [2000], p. 7.

would you employ such a drug on an otherwise healthy patient? Probably not, unless the illness was life threatening. Yet we have documented that innovation thrives in the absence of intellectual monopoly (the patient is healthy), that the latter has serious side effects (the evils of intellectual monopoly) and that a series of scientific studies have found weak or no evidence that it increases innovation (the proposed beneficial effect is probably absent).

On the basis of present knowledge, progressively but effectively abolishing intellectual property protection is the only socially responsible thing to do. Evidence has accumulated during the last fifty years leaving little doubt about the damaging effects of current intellectual property laws. At the same time, legal, economic, and business know-how has also accumulated about how markets for innovation operate without intellectual monopoly. To rule out abolition *a priori* would be no more sensible now than it would have been to rule out the abolition of tariffs and trade barriers fifty years ago when the trade liberalization process that has given us prosperity and globalization began. For a long time, the individuals and firms that profited from trade barriers argued that these increased the wealth of the nation, defended homeland companies and jobs and that abolishing them would lead to a disaster for many sectors of our economy. It took a while to realize this was not true, and that trade barriers were nothing more than rent-seeking devices, favoring a minority and dramatically hurting the overall economy and everyone else, beginning with low income consumers. The same is now true of patents and copyright.

This leads us to address, albeit very briefly, another concern raised by Mark Lemley in his contribution that we grossly overstate the positive impact that competition may have had or would have, on innovative activity. Again, this may well be true, but there is no empirical evidence whatsoever in the literature that this is the case. In our book we provide dozens of examples of competitive industries that are highly innovative and are so because they are open to free entry and competition. The list goes from the very important in terms of GNP (software at its origin or the financial industry until now or the whole of agriculture until the 1970s) to the somewhat secondary or even marginal (the pornography industry and fashion design) or, why not, our own industry: academic research is based and thrives on open competition. Our critics, we insist, may well be right but the burden of the proof is now on their shoulders. It is up to them to prove, with data and facts, that our examples are distorted or irrelevant or special. Until that is done we can only remind the reader that, for various centuries, the very same negative and dismissive evaluation of the power of competition had been opposed to free trade. The last century and a half are there to prove who was right and who was wrong.

Therefore, while waiting for empirical proof that competition harms innovation or fosters it very little, let us move on to the main issue: is it worth advocating the abolition of patents and copyright? Scientific studies of the current system agree that it is badly broken. Getting rid of it may therefore be a good idea. Still, one should pause. Realizing that intellectual monopoly may be akin to cancer, we recognize that simply cutting it all out at once poses problems. Since intellectual property laws have been around for a long while, we have learned to live with them. A myriad of other legal and informal institutions, business practices and professional skills have grown up around them and in symbiosis with them. Consequently, a sudden elimination of intellectual property laws may bring about collateral damages of an intolerable magnitude.

What this example suggests is that abolition must be approached by smaller steps and that the sequencing of steps matters. Gradual reform is necessary both because of the need for other institutions to reform in parallel, and also because it is a political necessity. The number of people prospering thanks to intellectual monopoly is large and growing. While some of them, such as movie stars have accrued much wealth, for many others this is not the case. For many ordinary people intellectual monopoly has become another way of earning a living and while most of them would be able to earn an equally good or even better living without it, many others need time to adjust. Further and again in analogy with trade barriers, while the number of people who would benefit from the elimination of intellectual monopoly is large and growing, the gain each one of them perceives as likely is small. In spite of the brouhaha surrounding the "pirating" of popular music and movies, the direct personal saving from copyright reduction or even abolition would not be substantial as music, movies and books are a tiny share of household consumption. In the case of medicines and software, consumers' potential saving may be more substantial but harder to perceive. Finally, and most importantly, if in the 1950s or 1960s the average citizen of the world could hardly forecast the tremendous improvement in her standard of living that free trade would have brought about within thirty years, even harder it is now to perceive the incremental technological advances that a progressive elimination of intellectual monopoly could bring about in a couple of decades.

In summary, dismantling our intellectual property system poses a set of circumstances that the literature on collective action has identified as major barriers to reform. A few, well-organized and coordinated monopolists on one hand are bound to lose a lot if the protective barriers are lifted. A very large number of uncoordinated consumers on the other hand, would receive very small personal gains from the adoption of freer competition. For a long time

then, the battleground is going to be one of competing ideas and theories aimed at convincing public opinion that substantial gains are possible from the elimination of intellectual monopoly. In the mean time, there is a vast array of ideas both for greatly expanding intellectual property and in the opposite direction for useful reform. In this, our concluding chapter, we try to sort these proposals into the bad, the good, and the just plain ugly.

5. BAD POLICY

Despite the fact that our system of intellectual property is badly broken, there are those who seek to break it even further. The first priority must be to stem the tide of rent-seekers demanding ever greater privilege. Within the United States and Europe, there is a continued effort to expand the scope of innovations subject to patent, to extend the length of copyright, and to impose ever more draconian penalties for intellectual property violation. Internationally, the United States as a net exporter of ideas has been negotiating dramatic increases in protection of U.S. intellectual monopolists as part of free trade agreements.

There seems to be no end to the list of bad proposals for strengthening intellectual monopoly. To give a partial (and dated, as it was last compiled in 2007 and we do not have here the opportunity to update it) list starting with the least significant:

- Extend the scope of patent to include sports moves and plays.[19]
- Extend the scope of copyright to include news clips, press releases and so forth.[20]
- Allow for patenting of story lines, something the U.S. Patent Office just did by awarding a patent to Andrew Knight for his "The Zombie Stare" invention.[21]
- Extend the level of protection copyright offers to databases, along the lines of the 1996 E.U. Database Directive and of the subsequent WIPO's

19. To the best of our knowledge, the first published statement of this proposal is in Kukkonen [1998], but a quick search on Google shows the idea is receiving lots of attention from interested lawyers and law firms, *See* Das [2000], available at http://www.mofo.com/news/updates/files/update1022.html.

20. As in the Spanish case of *Gedeprensa*.

21. The recent extension of patents to story lines is discussed at www.emediawire.com/releases/2005/11/emw303435.htm. . For a, more than sympathetic but highly revealing in its biasedness, legal "analysis" of the whole idea of patenting plots, visit http://www.plotpatents.com/legal_analysis.htm, which comes directly from the law firm that worked hard to patent fictional plots.

Treaty proposal.[22]

- Extend the scope of copyright and patents to the results of scientific research, including that financed by public funds - something already partially achieved with the Bayh-Dole Act.[23]
- Extend the length of copyright in Europe to match that in the U.S. – which is most ironic as the sponsors of the CTEA and the DMCA in the USA claimed they were necessary to match ... new and longer European copyright terms. Again, material abounds on the web and the regular press about the ongoing debate to extend the EU copyright term to match the current extended US term.[24]
- Extend the set of circumstances in which "refusal to license" is allowed and enforced by anti-trust authorities. More generally, turn around the 1970's Antitrust Division wisdom that lead to the so called "Nine No-No's" to licensing practices. Previous wisdom correctly saw such practices as anticompetitive restraints of trade in the licensing business. Persistent and successful, lobbying from the beneficiaries of intellectual monopoly has managed to turn the table around portraying such monopolistic practices as "necessary" or even "vital" ingredients for a well functioning patents' licensing market.[25]
- Establish, as a relatively recent U.S. Supreme Court ruling in the case of *Verizon vs Trinko* did, that legally acquired monopoly power and its use to charge higher prices is not only admissible, it is an important element of the free-market system" because it induces innovation and economic growth.
- Impose legal restrictions on the design of computers forcing them to "protect" intellectual property.[26]

22. As we discussed in Chapter 8 of our book and references therein.
23. There is no need for references here, still here is one to an old and rather interesting case of University research patenting, *see* Apple, R. [1989].
24. Again, material abounds on the web and the regular press about the ongoing debate to extend the EU copyright term to match the current extended US term. Available at http://news.bbc.co.uk/1/hi/entertainment/music/3547788.stm. For a piece by Dennis Karjala on EU-US harmonization; http://homepages.law.asu.edu/~dkarjala/OpposingCopyrightExtension/legmats/HarmonizationChartDSK.html. For a piece by Dennis Karjala on EU-US harmonization, see http://news.bbc.co.uk/1/hi/entertainment/music/3547788.stm.
25. *See* http://www.usdoj.gov/atr/public/hearings/ip/chapter_1.pdf for a relatively technical discussion of the issues involved in the "unilateral refusal to licensing" practice. For a list of the "Nine No-No's", and a not unbiased discussion of the opportunity to dispose of them, clearly favoring the disposal option, see Gilbert and Shapiro [1997]. For a very different view, cogently applied to the two recent Microsoft antitrust cases, see First [2006].
26. Information and news about the Digital Rights Management (DRM) initiative (in its multiple versions) and its very controversial nature are widespread on the web and on other media. The

- Make producers of software used in P2P exchanges directly liable for any copyright violation carried out with the use of their software, something that may well be in the making after the Supreme Court ruling in the Grokster case.[27]
- Allow the patenting of computer software in Europe – this we escaped, momentarily, due to a sudden spark of rationality by the European Parliament.[28]
- Allow the patenting of any kind of plant variety outside of the United States, where it is already allowed.[29]
- Allow for generalized patenting of genomic products outside of the United States, where it is already allowed.[30]
- Force other countries, especially developing countries, to impose the same draconian intellectual property laws as the U.S., the E.U. and Japan.[31]

Why these are bad ideas should be self-evident by now and all should be rejected.

Developing countries in particular should be wary of negotiating away their intellectual freedom in exchange for greater access to U.S. and E.U.

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curious reader may want to begin with the relative Wikipedia entry and then continue from there.

27. For detailed information about the Grokster case, Wikipedia is again a good starting point, while additional info can be found at the Electronic Frontier Foundation page on MGM v. Grokser. A middle-of-the-road legal assessment is in Samuelson [2004]. For the sad effect of the Supreme Court ruling on economic innovation, go to www.grokster.com and read the scary message welcoming you.
28. On July 2, 2005 the European Parliament voted 648 to 14 (18 abstensions) to scrap the so-called "Directive on the Patentability of Computer Implemented Inventions." While this was good news, the battle on software patents in Europe is far from over. The vote is attributable more to a general fight with the EU Commission, tending to ignore whatever the European Parliament suggests, than to a widespread opposition to software patents within the latter body. In the meanwhile, though, grassroots opposition has grown and, especially within the business community, a variety of action groups have sprung up that oppose software patents along pro-business lines and on the basis of pro-free market arguments such as those exposed in this book.
29. News and information on this topic are widespread through all kinds of media. The FAO on-line Forum on Biotechnlogy in Food and Agriculture, at http://www.fao.org/biotech/forum.asp, is a particularly informative starting point for the interested reader. A number of reasonable reforms that would improve the developing countries' situation in the agricultural sector can be found at http://issues.org/17.4/barton.htm.
30. Having abundantly clarified why genomic patents are a bad idea, references to people liking them for misguided reasons are provided by Putnam [2004] and Hale et al. [2006].
31. This is considered the main, if not the only, reason behind the existence of TRIPS-WTO, as can easily be verified from the documents contained on the TRIPS, e at http://www.wto.org/english/tratop_e/trips_e/trips_e.htm.

markets. Developing countries are, slowly but surely, giving in to the U.S. and E.U. pressure and modifying their national legislation in accordance with the requirements imposed by TRIPS and the WIPO. This is partly the effect of sheer lobbying and political pressure by Western governments and large multinationals. Partly, this is also due to the lack of a workable and coherent alternative to the over-reaching redesign of world intellectual property rights underlying TRIPS and its ideology. This trend makes an open and critical debate on such themes in developing countries even more urgent and valuable than it would be in any case.

6. GOOD POLICY

There are a great many things that can be done to make modest improvements in the current system of both patents and copyrights. In the case of patents there are a variety of proposals for making the patent system less vulnerable to "submarine" patenting and generally tightening up the system so that a patent has some real connection to innovation, and is not merely a claim to someone else's invention. In the case of copyright, a major priority is to make sure that all the abandoned and orphaned works do not forever remain unusable because they are under copyright, and the copyright holder is dead, has disappeared or is in any case untraceable.

For both patents and copyright, a fundamental priority is to prevent the public domain from shrinking further, and, when possible, push back the fences that are progressively enclosing it. This means, on the one hand, opposing new proposals for the extension of copyright term and coverage beyond those established by the 1998 Digital Millenium Copyright Act (DMCA) and Copyright Term Extension Act (CTEA). On the other hand, it also means to take proactive actions to defend from rapacious hands what is growing in the public domain and needs to be nurtured. Private economic initiative can be extremely useful along this dimension and the recent Open Innovation Network initiative led by IBM, is a wonderful case in point.[32]

Jaffe and Lerner document in great detail how the patent system, as it is currently implemented in the U.S. is broken.[33] They make numerous proposals to make frivolous patents more difficult to get and enforce. We support these proposals in principle and while we might disagree over some of the details, we

32. Information about the IBM and other companies' protective patent pool on Linux is widespread through the web and other media. Visit Wikipedia under OSDL and Free Standards group to learn more, or go directly to the sites of the OIN, at http://www.openinventionnetwork.com and of the Linux Foundation at http://www.linux-foundation.org/en/Main_Page.

33. A detailed discussion of possible, and all very reasonable, reforms can be found in Jaffe and Lerner [2004].

expect that were we to debate the matter, they would convince us on some points, and we would convince them on others.

One proposal in particular is to allow patents to be challenged before they are granted. This would allow real evidence to be brought to bear on the issue of prior art something the U.S. Patent Office seems to know little about, as the thousands of "how to swing a swing" and "peanut-butter and jelly sandwiches" patents suggest.[34] Realistically, however, few individuals or firms would be likely to monitor the patent system carefully enough to identify bad patents or to incur the expense of providing the public good of challenging bad patents. Quillen et al[35] examine the rigor with which the U.S. Patent Office carries out its examining activities and compare it to those of the European and Japanese Patent Offices. They take the opposite approach from Lerner and Jaffe, suggesting that the patent office is not the appropriate place to reach decisions concerning patentability. They conclude by asking:

> *...why should we not go to a registration system and avoid the expenses of operating an examination system … shouldn't we abolish continuing applications so that the USPTO will be able to obtain final decisions as to the patentability of subject matter presented in patent applications and avoid having rework imposed upon it. Finally, so long as the USPTO grants a patent for virtually every application filed, are the courts justified in adhering to the clear and convincing evidence standard for overcoming the statutory presumption of validity?*[36]

It is striking but true that either of these proposals, although they go in opposite directions would be an improvement over the current system. That speaks volumes about how bad the current system is: mathematicians call it a "global minimum", a position such that any movement away from it, in any direction, improves things. This is another such case.

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34. Obviously, the "how to swing a swing" patent (United States Patent 6368227) is here just a label for a gigantic, and ever growing, class of patents that are so logically unfounded that one may think we fabricated the whole thing. Well, we must admit that we do not have the level of imagination needed to reach the heights achieved by the USPTO in cooperation with some of the most shameless rent-seekers in the world. For entertaining surveys of this modern set of legal monstrosities, out of an almost endless list of sites, the following few; available at : www.freepatentsonline.com/crazy.html, www.crazypatents.com, www.totallyabsurd.com, www.patentlysilly.com, should keep you amused if not frightened.

35. Quillen et al [2002].

36. *See* Quillem et al [2002], pp. 50-51.

Also of great significance is the proposal of Gallini and Scotchmer to allow the "independent invention" defense to patent infringement claims[37]. That is, they would allow proof that an invention was independently derived, and not obtained directly or indirectly as a consequence of the similar invention that was patented first. For example, if you patented the "one-click" with the mouse to past text into a word processor and sued me because my word processor also pasted text with just one click, I could defend myself by showing that I had written my word processor in my spare time and had never read your patent or seen a copy of your word processor. This would not only relieve the innovator from concern that in his ignorance he would run afoul of some existing patent, it would also make it substantially more difficult to engage in submarine warfare as the inventor who is torpedoed by the submarine could argue and prove that his invention was independent. This reform, alone, would be of great social value and would enormously reduce the burden of intellectual monopoly. As we have illustrated repeatedly, simultaneous or independent inventions are almost the rule in the creative process, rather than the exception. For many great inventions of the last century – the radio, the TV, the airplane, the telephone – allowing the two or more independent and simultaneous inventors to both exploit their invention commercially would have greatly benefited consumers and economic progress in general. This is even more true and more relevant today, as the number of judicial disputes over practically identical and simultaneous innovations has skyrocketed, especially in the fields of software, biomedical products, telecomunications and for business practices in general.

An alternative reform would be to require mandatory licensing at fees based on estimates of R&D costs. The principle is the following: if it costs $100 to invent a gadget, 10% is a reasonable rate of return on this type of investment and expected demand for licensing is in the order of 100 units, then a net present value fee of $1.10 would be right. If the cost of uncertainty is an additional five cents we should set mandatory licensing fee at $1.15 for this particular patent. William Kingston takes a more serious look at how this might work in practice, particularly figuring a multiplier to account for the many failed innovations needed to produce a successful one. Kingston points out that cost estimates are already widely used in patent litigation and are not so difficult to produce and document. He estimates that, for most of the cases he studied, the total revenue from licensing products that are successfully patented and licensed should be about eight times their R&D cost if the license is taken immediately; for licenses issued as the products actually go to market, a multiplier of four would be more appropriate. In the case of pharmaceuticals, he suggests a

37. *See* Gallini and Scotchmer [2001].

multiple of two would be sufficient noting that,

> *If three such licenses were taken, the payments would [already] put the product into the most profitable decile (the home of the blockbuster drugs).*[38]

A backdoor to reducing the term of patent, and making it less easy to accidentally run afoul of long-standing but meaningless patents would be to reintroduce patent renewal – for example, keeping the term of patent fixed while splitting the twenty year term into smaller increments with a renewal required at each stage. This is discussed by Cornelli and Schankerman and by Scotchmer.[39]

In copyright, the most immediate problem is that of an Administration, a Congress and a Supreme Court that are "bought and paid for." The triple whammy of giving automatic copyright to every work, whether or not it is registered, eliminating the need for renewal, and extending the term of copyright to be essentially infinite means that, over time, virtually everything written will become inaccessible. The Obama Admnistration is now taking care of spreading this gospel around the world by placing such issues as "getting tough on pirates" at the top of its diplomatic agenda. Lessig[40], among others, documents in great detail the problems caused by these "ugly reforms." He proposes that some of the ill-effects could be undone by a modest renewal fee. Landes and Posner[41] suggest that the legal principle of abandonment could be applied to copyright holders who do not actively make it clear that they are maintaining their copyright. Either or both of these proposals - however politically naïve they might be would be - a great improvement over the current situation.

The debacle we currently face in copyright is that as more and more draconian laws concerning copyright are introduced, less and less real copyright protection is possible, as it has proven impossible to police the P2P networks in any realistic sense. Many have suggested that the way out of this dilemma is through mandatory licensing. Radio broadcasters currently pay a fixed fee, but do not require special permission to broadcast a song. In the same way, downloads could be made legal and payments to copyright holders based on the number of times a song is downloaded. This is not a perfect proposal – the possibility of manipulating the "download ratings" comes to mind, and the mandatory licensing fee for internet radio was set untenably high – but on

38. *See* Kingston [2001] p. 32.
39. Patent renewal schemes are discussed in Cornelli and Schankerman [1999] and Scotchmer [1999].
40. *See* Lessig [2004]. See especially the chapter "Registration and Renewal" in the public domain version at http://www.authorama.com.
41. *See* Landes and Posner [2003].

balance, would probably serve to improve the current situation.

The recent, and widely advertised, if limited, decisions by Apple and EMI to renounce policing P2P file sharing via technological means (that is, by giving up on DRM) is also a positive step. It signals that at least a few among the big players are realizing that the "technological police" approach is a losing business proposition and that plenty of money can be made by selling downloadable music that consumers can then share and redistribute more or less freely.[42]

7. SUBSIDES FOR INNOVATION AND CREATION

It is theoretically possible that the competitive market alone provides insufficient incentive to innovate – although, as we already said, there is no evidence that this is the case. Suppose we succeed in abolishing intellectual monopoly and discover, after a few years, that there is less innovation than would be socially desirable. Unlikely as this event may be, we as economists must nevertheless consider it. Hence, should we reintroduce intellectual monopoly in this case?

Intellectual property law is about the government enforcing private monopolies. In countries without effective tax collection mechanisms, both historically and currently, government grants of monopolies were and are commonplace; we all have seen some old label for a tea or chocolate brand reporting "By Appointment of Her Majesty." As nations develop, more effective tax collection infrastructures have been replacing such revenue devices as the salt monopoly or the grant of exclusive import rights to the brother-in-law of the president. Hence, the sale by government officials of exclusive rights to carry out this or the other commercial activity or to produce and commercialize certain goods and services have progressively disappeared in almost all advanced market economies. Intellectual property is one of the few remaining anachronisms from the pre-history of modern tax collection, worse, indeed; it is a distorted anachronism that is now being exploited for rent-seeking purposes that are opposite to those for which it was originally established. The answer is that if there is indeed a need for extra incentives it should be done through subsidization and not through government grants of monopoly.

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42. Mildly good legal news seem also to be coming from the European courts, which have started to rule against some of the most preposterous requests to treat any form of music downloading as theft, even when intended only for personal use and with no commercial purposes. Various Spanish and Italian court rulings are respectively available at http://www.theregister.co.uk/2006/11/03/spanish_judge_says_downloading_legal/ and at http://www.repubblica.it/2006/10/sezioni/cronaca/cassazione-3/lecito-scaricare-file/lecito-scaricare-file.html

A first question might be what level of subsidy would replace the profits of the current monopolists?[43] Schankerman[44] makes the calculation that a subsidy to R&D of 15%-35% would be enough to provide an incentive equivalent to that currently provided by patents – ironically subsidies of nearly this level are already available in addition to patents, especially in the pharmaceutical industry, as we documented in the previous chapter. Indeed, the offensive sight of the government using taxpayers' money to subsidize research and then awarding it a private monopoly reaches absurd heights in academia, where in recent years the mantra of "private-public partnership" has taken hold. A more egregious form of public subsidy for private monopolies is hard to imagine.

Like monopolies, subsidies can lead to rent-seeking and have distortionary effects, so they should scarcely be a first resort. Some economists, such as Paul Romer, painfully aware of these negative side-effects, have proposed to avoid some of these distortions by narrowly targeted subsidies – for example to graduate students who, the evidence suggests, are key instruments in the process of innovation. Others, such as Andreas Irmen and Martin Hellwig, suggest that broad subsides to investment in general – interest rate subsidies, for example – are likely to be the least distortionary. Yet others, such as Michael Kremer, suggest that prizes awarded after the fact create greater incentives to innovate. Nancy Gallini and Suzanne Scotchmer go further and compare various subsidization methods in their recent work. Their technical analysis is beyond the scope of this book, but the basic point remains: various intelligent forms of subsidizing basic research and even applied invention exist, and an appropriate mix can be found that would greatly improve upon patents and copyright.[45]

8. UGLY POLICY

Whether the Disney Corporation will get to continue their monopoly of Mickey Mouse does not seem like an issue that should lead either to revolt or

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43. *See* Schankerman and Pakes [1986] have studied patent returns in various European countries. Using their data, Kingston [2001] estimates the subsidies that would be required to replace the current patent system (p. 18) Schankerman and Pakes reported that for patents in Britain, France and Germany, the returns appear to be only a small fraction of the domestic R&D expenditure of the business enterprises. The means of the discounted sum of rewards from patent age 5 were about $7,000 in Britain and France and $19,000 in Germany. The value of patents as a proportion of total national R&D expenditure was 0.057 in France, 0.068 in Britain and 0.056 in Germany (1986, pp. 1068, 1074). Schankerman subsequently estimated that a subsidy to R&D of 15%-35% would be enough to provide an equivalent incentive to patents (1988, p. 95).

44. *See* Schankerman [1998]. Notice that this is the same paper referred to by Kingston in the quotation reported in the previous note; 1988 is clearly a typo in Kingston's working paper.

45. *See*, respectively, Romer [1996], Hellwig and Irmen [2001], Kremer [2001a,b] and Glennerster, Kremer and Williams [2006], Gallini and Scotchmer [2001].

non-violent insurrection. But have no doubt – intellectual monopoly threatens both our prosperity and our freedom and to strangle innovation all together.

This might seem an exaggerated statement, made only to stir controversy – and sell a few more copies of our copyrighted book. Yet, despite the fact that by 1433 the great Chinese explorer Cheng Ho's fleets had explored Africa and the Middle East[46], in the subsequent centuries the world was colonized by Europeans and not by the Chinese. The monopolists of the Ming Dynasty saw a threat to their monopoly – which was then a monopoly of intellectual and administrative power – in the innovative explorations of Cheng Ho and forced him to stop. This lead to a static, inward looking and regressive regime, where Emperors ruled under mottos such as "stay the course" and "do nothing", and where innovation and progress not only faltered, but were progressively replaced by obsolescence, regression, and, eventually, poverty. And so it is that in the United States we celebrate Christopher Columbus day, rather than Cheng Ho day.

At a smaller scale, but with a no less real impact on world history, we find that intellectual property has delayed the development of the steam engine, the automobile, the airplane, and innumerable other useful things. This took place at a time before the United States became the sole dominant world power, and before a system nearly as noxious as the current system in the United States and the European Union was in place. It took place during a time when very many countries were still competing for world primacy, and the collusive pact among intellectual monopolists that our modern trade agreements have been built to enforce was not in the cards. If the Wright brothers preferred litigation to invention, at least the French were free to develop the airplane. If Gottlieb Daimler and Karl Benz were the first to build a practical automobile powered by an internal-combustion engine, their German patent did not prevent John Lambert, only six years later, from developing America's first gasoline-powered automobile. Nor did it prevent the Duryea Brothers, shortly after, from founding America's first company to manufacture and sell gasoline-powered vehicles.[47]

Where, today, is a software innovator to find safe haven from Microsoft's lawyers? Where, tomorrow, will be the pharmaceutical companies that will

46. To start learning about him, information about him is available at, http://famousmuslims.muslimonline.org/zheng-he-cheng-ho.html.

47. Apart for two small entries on Wikipedia and a few other small sites, there is little on the web about either John Lambert or the Duryea Brothers. Still, by searching and reading carefully, their stories and their achievements do emerge slowly but surely. Neither of them took out a patent, but their innovative actions started the American automobile industry nevertheless. *See* Scharchburg [1993].

challenge the patents of "big pharma" and produce drugs and vaccines for the millions dying in Africa and elsewhere? Where, today, are courageous publishers, committed to the idea that accumulated knowledge should be widely available, defending the Google Book Search initiative? Nowhere, as far as we can tell, and this is a bad omen for the times to come. The legal and political war between the innovators and the monopolists is a real one, and the innovators may not win as the forces of "Stay the Course" and "Do Nothing" are powerful, and on the rise.

Certainly the basic threat to prosperity and liberty can be resolved through sensible reform. But intellectual property is a cancer. The goal must be not merely to make the cancer more benign, but ultimately to get rid of it entirely. So, while we are skeptical of the idea of immediately and permanently eliminating intellectual monopoly – the long-term goal should be no less than a complete elimination. A phased reduction in the length of terms of both patents and copyrights would be the right place to start. By gradually reducing terms, it becomes possible to make the necessary adjustments – for example, to FDA regulations, publishing techniques and practices, software development and distribution methods – while at the same time making a commitment to eventual elimination.

Given that it may well be the case that some modest degree of intellectual monopoly is superior to complete abolition – why do we set as a goal complete elimination of intellectual property? Our position on intellectual monopoly is not different from the position most economists take on trade restrictions: While some modest amount of intellectual monopoly might be desirable in very special cases, it is more practical and useful to focus on the elimination of intellectual monopoly as a general rule. In innovation as in trade, a modest degree of monopoly is not sustainable. Once the lobbyist's nose is inside the tent, the entire lobby is sure to follow, and we will once again be faced with a broken patent system and absurdly long copyright terms. To secure our prosperity and freedom we must abolish intellectual monopoly from the tent entirely. To do so we must develop the very same patient determination with which we have been after trade restrictions for more than half a century, and we are not done yet.

This analogy between intellectual property and trade restrictions is not a purely rhetorical tool, nor a random comparison. For centuries, human innovative activity took the form of creating new consumption goods, new machines and new staples of food. But the transmission of ideas from one producer to another and across countries was not nearly as fast, standardized, and routinized as it is today. Creative human activity was focused on the creation and reproduction

of physical goods and not on the creation and reproduction of ideas. Free trade of commodities was therefore key in fostering progress: the more competitors entered the market with shoes like yours, the more you had to improve on your shoes to keep selling them.

After a few centuries of intellectual debate and numerous wars, Western societies came to understand that restricting international trade was damaging because protectionism prevents economic progress and fosters international tensions leading to conflict. Since at least the late Middle Ages, the battle has been between the forces of progress, individual freedom, competition and free trade, and those of stagnation, regulation of individual actions, monopoly, and trade protection. Now that the intellectual and political battle over free trade of physical goods seems won, and an increasing number of less advanced countries are joining the progressive ranks of free-trading nations, pressure for making intellectual property protection stronger is mounting in those very same countries that advocate free trade. This is not coincidence.

Most physical goods already are and in the decades to come, will increasingly be, produced in less developed countries. Most innovations and creations are taking place in the advanced world and the IT and bio-engineering revolutions suggest this will continue for a while at least. It is not surprising then, that a new version of the eternal parasite of economic progress – mercantilism – is emerging in the rich countries of North America, Europe and Asia.

Economic progress springs from having things produced as efficiently as possible, so that they can sell at the lowest price. This wisdom applies to both the things we *buy* and to those we *sell*, and therein lies the trap of mercantilism. Most of us have learned that the surest way to make a profit is to "buy cheap and sell dear." When there is adequate competition and everyone tries to buy cheap and sell dear, then the *only* way I can buy cheap and sell dear is for me to be more efficient than you. This generates incentives for innovation and progress. The trap and tragedy of mercantilism is when this individually correct philosophy is transformed into a national policy: that we are all better off when our country as a whole buys cheap and sells dear. It was this myopic and distorted view of the way in which markets function that Smith, Ricardo, and the classic economists were fighting against 250 years ago. At that time wheat producers in England wanted to restrict free trade in wheat so English producers could sell it dear. That meant English consumers could not buy it cheap. Now, before moving to the next paragraph, consider the current debate about preventing "parallel imports" of medicines, CDs, DVDs and other products covered by intellectual monopoly. Do you see a parallelism? That is

our point.

The contemporary variation of this economic pest is one in which our collective interest is, allegedly, best served if we buy goods cheap and sell ideas dear. In the mind of those preaching this new version of the mercantilist credo, the World Trade Organization should enforce as much free trade as possible, so we can buy "their" products at a low price. It should also protect our "intellectual property" as much as possible, so we can sell "our" movies, software and medicines at a high price. What this folly misses is that, now, like three centuries ago, while it is good to buy "their" food cheap, if "they" buy movies and medicines at high prices, so do "we." In fact, as the case of medicines and DVDs prove, the monopolist sells to "us" at even higher prices than to "them." This has dramatic consequences on the incentives to progress: when someone can sell at high prices because of legal protection from imitators, they will not expend much effort looking for better and cheaper ways of doing things.

For centuries, the cause of economic progress has been identified with that of free trade. In the decades to come, sustaining economic progress will depend, more and more, upon our ability to progressively reduce and eventually eliminate intellectual monopoly. As in the battle for free trade, the first step must consist in destroying the intellectual foundations of the obscurantist position. Back then, the mercantilist fallacy taught that to become wealthy, a country must regulate trade and strive for trade surpluses. Today, the same fallacy teaches that without intellectual monopoly innovations would be impossible and that our governments should prohibit parallel import and enforce draconian intellectual monopoly rules. We hope that we have made some progress in demolishing that myth.

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A Cautious Defense of Intellectual Oligopoly With Fringe Competition*

*Mark A. Lemley***

Michele Boldrin and David Levine offer a strong attack on intellectual property (IP), which they call "intellectual monopoly."[1] In their view, IP is not necessary to encourage invention or creation. Quite the contrary, they argue that we get innovation from competition, not monopoly. Further, because monopoly imposes well-recognized social costs, we are better off without it if it does not in fact spur new innovation.

Boldrin and Levine make a plausible case on their own terms. Nonetheless, I think their terms are misleading. IP rights are rarely if ever "intellectual monopolies."[2] Most patents, to say nothing of most copyrights, create no economic rents. I may have the right to prevent anyone else from selling a "thumb-wrestling ring with stabilizing handle,"[3] but it is not meaningful to talk about my having a "monopoly" over thumb-wrestling rings with stabilizing handles. There is no economic market limited to thumb-wrestling rings. Similarly, and with even more confidence, we can say that even quite successful books, music and movies do not define or dominate any economic market. Stephanie Meyer may be a popular author, but the price she charges for her books is the same as the price every other author charges. The existence of IP rights allows a certain amount of market segmentation – I can write a book somewhat like Stephanie Meyer's, but I cannot just copy Meyer's – and therefore allows virtually all creators to charge a price above the marginal cost of copying, which approaches zero,[4] but it does not create a monopoly.

What this means is that we cannot assume that IP rights generally impose deadweight losses on society. They cause deviation from atomistic, perfect competition, but they do not cause monopoly pricing. With a small number of exceptions, therefore, they do not cause the social harms Boldrin and Levine correctly associate with monopoly pricing. Some patents, and perhaps one or two copyrights, do in fact confer power in a relevant economic market. And we should pay attention to those. But it is a very large exaggeration to say that

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1. Michele Boldrin & David K. Levine, Against Intellectual Monopoly (2008).
2. For discussion, *See*, e.g., *Illinois Toolofknowledge Works, Inc.* v. *Independent Ink, Inc.*, 547 U.S. 28 (2006); 1 Herbert Hovenkamp et al., IP and Antitrust § 4.2.
3. U.S. Patent No. 4,998,724. Or see a recent episode of "Chuck" featuring the ring.
4. *See* Christopher S. Yoo, *Copyright and Product Differentiation*, 79 N.Y.U. L. Rev. 212 (2004).

patents and copyrights are intellectual monopolies.

More significant is Boldrin and Levine's claim that competition, not monopoly, drives innovation. If this is right, we do not need IP rights even if they were costless. I am sympathetic to the idea that competition is an important driver of innovation.[5] But as I suggest below, I think Boldrin and Levine overstate the case for competitive innovation and understate the case for innovation driven by either market power or the prospect of acquiring market power through patent. In the debate between Ken Arrow and Joseph Schumpeter,[6] I tend to be an Arrowhead, not a Schumpeterian: I agree that competition often drives innovation and that monopoly often inhibits it. But often is not always, and the fact that in some circumstances market exclusivity promotes innovation counsels against a blanket condemnation of IP.[7]

The analysis of the wisdom of IP rights is complicated by the fact that innovation – and IP rights – work differently in different industries. As Dan Burk and I have argued, the rules appropriate for some industries work poorly in others.[8] The classic theory of patent law arguably works poorly in the information technology industries for a variety of reasons that have been

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5. *See, e.g.*, Mark A. Lemley, *A New Balance Between IP and Antitrust*, 13 Sw. J. L. & Trade Ams. 237 (2007); Jonathan B. Baker, *Beyond Schumpeter v. Arrow: How Antitrust Fosters Innovation*, 74 Antitrust L.J. 575 (2007). On the relative value of innovation and static competition, see, e.g., Robert M. Solow, *A Contribution to the Theory of Economic Growth*, 70 Q.J. Econ. 65 (1956) (attributing nearly 90% of GNP growth in the U.S. to technological change rather than labour and capital improvements); James Bessen, *More Machines or Better Machines?* (working paper 2009) (studying the 19th Century cotton weaving industry and finding the same).
6. *Compare* Kenneth Arrow, *Economic Welfare and the Allocation of Resources for Invention*, The Rate and Direction of Inventive Activity: Economic and Social Factors (1962) *with* Joseph Schumpeter, Capitalism, Socialism, and Democracy (1943).
7. Boldrin and Levine ask – presumably rhetorically – "how many industries can you mention where the mechanism described in the Schumpeterian model has been at work, with innovators frequently supplanting the incumbent monopolist, becoming a monopolist in turn, to be killed shortly after by yet another innovator?" Boldrin & Levine, *supra* note 1, at 170-71. Presumably the reader is intended, after a moment's reflection, to answer "well, gosh, none." In fact, however, a moment's reflection reveals quite a few. Off the top of my head, they include computer hardware (bought an IBM computer lately?), video games (it's Atari, no wait it's Nintendo, no wait it's Sega, no wait it's Sony, no wait it's Microsoft, oops, it's Sony again, but here comes Nintendo again), search engines (Altavista, then Excite, then Yahoo!, then Google), statins (where the prescribed drug of choice seems to vary year by year), and cell phones (Motorola StarTac anyone?). Remember, I am not a Schumpeterian: I don't think we should passively accept monopoly in the hopes that it will always or even usually sow the seeds of its own destruction. But Boldrin and Levine's claim that it *never* happens just won't fly.
8. Dan L. Burk & Mark A. Lemley, The Patent Crisis and How the Courts Can Solve It (2009).
9. *See, e.g.*, James Bessen & Michael J. Meurer, Patent Failure: How Judges, Lawyers and Bureaucrats Put Innovation at Risk (2008).

explained elsewhere,[9] and that Boldrin and Levine echo.[10] Innovators in the IT industries tend to use patents defensively, to protect themselves against suit, rather than relying on exclusivity and affirmative enforcement of IP rights. By contrast, the pharmaceutical, biotechnology, and medical devices industries depend critically on the enforcement of patents to obtain at least partial market exclusivity.[11] Similarly, commercialization-based theories of patents that focus on the purported need for exclusivity to produce and market the invention rather than to invent it[12] also seem to carry more weight in the pharmaceutical industry, burdened by government regulation of entry, than in other industries in which commercialization is easier.[13]

We see similar divisions in copyright, though they don't divide as cleanly by industry. Significant sectors of the computer software industry have effectively abandoned copyright protection, using the copyright law only to ensure the continued openness of open source software.[14] At the same time, other software developers rely heavily on copyright protection to prevent counterfeiting. In other industries, the importance of strong copyright protection depends on the economics of creativity in that industry. It is fairly cheap to produce music, for instance, so that – the vehement effort to expand music copyrights notwithstanding – we might well get significant new music even absent copyright protection. By contrast, blockbuster movies often require the investment of hundreds of millions of dollars, something that seems unlikely without some prospect of recouping that investment. That does not mean we would get no movies at all; the outpouring of creativity occasioned by YouTube makes it clear that people want to create, and will do so even absent any realistic prospect of making money by doing so. But the movies that would be created absent copyright protection will not include high-budget films like The Lord of the Rings.

The fundamental question dividing these technologies and industries involves appropriability. Appropriability – the ability of the creator to capture rents sufficient to pay back the fixed cost investment of creation – is itself a

10. Boldrin & Levine, *supra* note 1, at 72-78.
11. Burk & Lemley, *supra* note 8, at ch. 4.
12. *See, e.g.*, Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J. L. & Econ. 265 (1977).
13. *See, e.g.*, Mark A. Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. Chi. L. Rev. 129 (2004).
14. For analyses of open source peer production, see, e.g., Yochai Benkler, The Wealth of Networks (2006); Yochai Benkler, *Coase's Penguin, or Linux and the Nature of the Firm*, 112 Yale L.J. 369 (2002); David McGowan, *Legal Implications of Open Source Software*, 2001 U. Ill. L. Rev. 241.

function of both a number of different factors. Among those factors are the fixed cost of creation, the cost of imitation, and the availability of other returns than those provided by IP law. Boldrin and Levine correctly point out that a creator does not need to capture the full social value of their inventions; in fact, we do not want them to.[15] They also correctly identify a number of mechanisms other than IP that companies can and do use to appropriate returns, including first-mover advantage, learning externalities, prizes, and complementary products.[16] To this list, we might reasonably add peer recognition, network effects, personal drive, government or private sponsorship, and brand identification.[17] There is no question that these appropriation mechanisms provide some incentive to creators, and that in some cases they provide enough incentive to drive creation. Similarly, Boldrin and Levine point to particular examples in which imitation is costly and time-consuming, though notably that is in part because of *other* IP rights – trade secrets – that they do not criticize.[18] But pointing to examples where IP is not necessary is not sufficient to support the Boldrin-Levine thesis. They need to demonstrate that *all* innovation and creation – or at least all innovation and creation we want to have – will be motivated by these alternative mechanisms.[19] To evaluate that implicit claim, we need to know exactly how much money the average inventor needs to make in order to break even.[20] That, in turn, is a function of the ratio between the cost of creation and the cost and delay associated with imitation. If it is easy to create, and it is relatively hard to copy, first mover advantages may well be sufficient to ensure returns to creators. But if innovation is costly and time-consuming, and if copying is easy, the likelihood of recoupment is much less. One way to distinguish the industries that rely heavily on patent law from

15. Boldrin & Levine, *supra* note 1, at 160-66; Brett M. Frischmann & Mark A. Lemley, *Spillovers*, 107 Colum. L. Rev. 257 (2007).
16. Boldrin & Levine, *supra* note 1, at 130-45.
17. Boldin and Levine do not object to trademark law.
18. Boldrin & Levine, *supra* note 1, at 161-66.
19. The closest they come to making this case is in chapter 8, discussing the inconclusive-but-not-promising results of economic studies of the role of patents. Unfortunately, social science is hard. We do not get many natural experiments. And most of the natural "experiments" conducted on the patent system involve national variations in patent rules over time. Those experiments contain a fatal flaw: the expected return from an invention is based on its global sales, not national sales. As a result, it does not make sense to say, as Boldrin and Levine do in talking about the pharmaceutical industry, that "cross-country variations in patent protection of medical products should have had a dramatic impact on national pharmaceutical industries." Boldrin & Levine, *supra* note 1, at 218, 232. National differences in patent laws should affect the price and quantity of drugs sold in those countries, but the worldwide sales of a pharmaceutical patented everywhere except Switzerland should be the same whether the inventor is Swiss or not.
20. Boldrin and Levine rightly point out that it is the average expected return, not the actual ex post return, that matters, *supra* note 1 at 130-34.

those that do not is that the patent-reliant industries face significant innovation costs, in part because of the way innovation works in those industries, but in significant part because of regulatory delay imposed by the FDA.[21] It is not that it is costless to bring a generic drug to market, but that the ratio of innovator cost to imitator cost is too high to rely on first mover or trademark advantages.[22]

Focusing on the ratio of creation to imitation cost also enables us to pay attention to how the need for IP rights might change over time. Advances in technology can make it both easier to create and distribute original works and easier to copy those works. Technology has made it much easier to produce and distribute new music than ever before. Accordingly, it has made record company intermediaries – the traditional beneficiaries of music copyright – less and less relevant. At the same time, technology has made illegal copying cheap and easy, taking it out of the province of commercial counterfeiters and making it possible for everyone to infringe music copyrights.[23] As a result, some argue (focusing on the cost of innovation) that we do not need music copyright in the new digital environment, while others argue (focusing on the cost of imitation) that it needs to be strengthened. Each side is focused on one part of the fraction; to get the right answer, we need to pay attention to the whole fraction. Similarly, scholars have disputed whether fashion design should be brought within the copyright system.[24] The question is once again complicated, because technology has both reduced the cost of design and also reduced the cost of imitation.[25] And even the pharmaceutical industry – the poster child for strong patent

21. *See, e.g.*, William E. Ridgway, *Realizing Two-tiered Innovation Policy Through Drug Regulation*, 58 Stan. L. Rev. 1221 (2006); Rebecca S. Eisenberg, *The Shifting Functional Balance of Patents and Drug Regulation*, 19 Health Aff. 119, 123 (2001).
22. Boldrin and Levine assert that we did not have or need patent protection for most of the critical advances in medicine. But most of the advances they cite were not drugs. And when they do turn to drugs, they get the facts wrong – for example, by claiming that aspirin was not patented. Boldrin & Levine, *supra* note 1, at 229. *Contra* Diarmuid Jeffreys. Aspirin: The Remarkable Story of a Wonder Drug 77-80 (2005) (documenting the patenting and successful enforcement of aspirin in the U.S.). Boldrin and Levine may be relying on the fact that aspirin was not patented in Germany, where it was invented. But as I noted above, the market for inventions is global, and so is the calculus of risk and reward. The fact that even in the 19th Century Bayer was careful to obtain patent protection in the U.S. and the U.K. suggests that they were certainly not indifferent to the patentability of aspirin.
23. *See* Boldrin & Levine, *supra* note 1, at 173.
24. *Compare* Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687 (2006) (arguing that fashion design flourishes in the absence of copyright protection) *with* C. Scott Hemphill & Jeannie Suk, *The Law, Culture, and Economics of Fashion*, __ Stan. L. Rev. __ (forthcoming 2009) (arguing that decreases in the cost of imitation in fashion are beginning to erode incentives for designers).
25. Boldrin and Levine object that no one knows what inventions or creations to copy unless they wait to see which ones are successful, and by that time the inventor has recouped investment. Boldrin & Levine, *supra* note 1, at 137-45. This is a fair point, but it only works sometimes. If an unknown creator designs a new dress, it may not be quickly copied. But if the dress is a hit,

protection – presents a tougher case than one might suppose,[26] because the high costs of bringing a new drug to market are counterbalanced by the extraordinary legal power we confer on pharmaceutical inventors by combining patent protection with the exclusivity of the regulatory state.[27]

The Bottom line is: Do we need monopoly to drive appropriability? Perhaps occasionally, but generally, no. But remember that IP rights are not generally monopolies. Perhaps occasionally, but generally, no. So, while we do not need "intellectual monopoly," what IP law gives us is more akin to "intellectual oligopoly" – product-differentiated competition among a limited number of market players – and the more modest boost in appropriability provided by that product differentiation may be desirable in some circumstances.[28] To be clear, oligopoly is not desirable in and of itself, but only to the extent Schumpeter is right that perfect competition drives prices too quickly to marginal cost and prevents recoupment of fixed cost investments.

Further, IP rights may facilitate start-ups in some circumstances by giving an inventor who does not have the capital to enter the market at scale some breathing room. The fact that I can prevent exact duplication of my new idea by a large established player in my industry may give me the time to get established in that industry. It may also facilitate capital investment, since venture capitalists often look at IP portfolios in deciding whether to invest in a new company.[29] Thus, IP rights may facilitate not just oligopoly, but what is arguably the most important form of competition – the "creative destruction" of a new disruptive technology.[30] And while I agree with Boldrin and Levine that competition is valuable, there seems little question that innovation is more valuable still. (Ask yourself whether you'd rather have a $200 iPhone, despite being stuck with a lousy cellular carrier, or a really, really cheap 1990s-era

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imitators will rush to copy the next dress from the same designer. So Boldrin and Levine's argument might bring us new creation by unknown creators, but it won't give any margin to new innovation by established creators.

26. *See* Boldrin & Levine, *supra* note 1, ch. 9.
27. *See* Ridgway, *supra* note 21.
28. Curiously, Boldrin and Levine criticize the pharmaceutical industry for spending so much R&D money on "me-too" drugs rather than drugs that open entirely new markets. Boldrin & Levine, *supra* note 1, at 226. But that is precisely the sort of competitive, as opposed to Schumpeterian, innovation that they purport to want to encourage by eliminating IP rights. They deride it as an "anemic and pathetic version" of market competition, *id*. at 231. To the contrary, competitive innovation is in general more likely to benefit society than pure copying.
29. *See* Mark A. Lemley, *Reconceiving Patents in the Age of Venture Capital*, 4 J. Sm. & Emerging Bus. L. 137 (2000); Clarisa Long, *Patent Signals*, 69 U. Chi. L. Rev. 625 (2002). John Allison and Ronald Mann find a significant positive relationship between startup patents and the success of those firms, though it is not clear which way causation runs in that story. John R. Allison & Ronald J. Mann, *Software Patents, Incumbents, and Entry*, 85 Tex. L. Rev. 1579 (2007).
30. Schumpeter, *supra* note 6.

brick-shaped cell phone). So IP rights offer the promise of promoting not just intellectual oligopoly but also fringe competition by using new technologies.

That sounds like a good deal. Why, then, call this a "cautious defense"? The answer is two-fold. First, Boldrin and Levine are surely correct that we will get some innovation in many industries, and even the same level of innovation in some industries, without IP protection. And IP rights are not costless. They not only impose static inefficiencies in the forms of reduced output and higher prices, but can interfere with innovation as well as promote it by raising input costs and creating the potential for holdup. Monopolists, as Boldrin and Levine correctly point out, are frequently stupid.[31] We do not want them running our economy, any more than we want Soviet central planners doing so. So in an ideal world, we would give IP protection only in those circumstances in which we need it.[32] And if we could tell in advance what those circumstances were, we would adjust policy accordingly. But for the most part, we cannot. The need for IP-driven appropriability varies by industry, within industry by technology, within technology by particular invention and particular inventor, and even then may vary over time. We sometimes do carve particular pieces out of the IP regime: we do not give copyright protection to cooking or fashion design, and we do not give patents to abstract scientific principles or laws of nature. But for most types of invention and creation we just cannot be confident that IP is not driving at least some innovation. The result is an educated guess that, on balance, IP protection will give us more benefit in the industries in which it spurs competitive innovation and fringe competition than the harm it causes in raising prices and constraining downstream innovation.

Second, and more important, the fact that some stylized version of "IP" will promote innovation doesn't mean that our existing IP regime necessarily does so. Boldrin and Levine overreach in calling for the abolition of IP, but it is surely the case that some aspects of the IP regime inhibit rather than promote innovation. So their effort might more profitably be directed to not attack IP as a whole, but in focusing on the subset of IP rules that seem unlikely to promote innovation. Some examples of rules that might be thought to inhibit rather than promote innovation follow:[33]

- There is no question that the duration of copyright is far too long. Whether extending copyright terms retroactively or not is constitutional,[34] it is a

31. Boldrin & Levine, *supra* note 1, at 87-90.
32. As Larry Lessig puts it, "sufficient incentive is something less than perfect control." Lawrence Lessig, *Intellectual Property and Code*, 11 St. John's J. Legal Comm. 635, 638 (1996).
33. N.B. I am *not* suggesting that all these changes are desirable, only that these are the places where Boldrin and Levine might make their strongest stand.
34. *Eldred* v. *Ashcroft*, 537 U.S. 186 (2003).

really terrible idea. It provides no new incentive to create, and it makes it harder to build on the works of others.

- Copyright law too often restricts not slavish imitation, but a defendant's own creative works that use small amounts of the plaintiff's creativity, whether in music sampling, satire, collage, or backgrounds in movies and television. Not only are these uses unlikely to interfere with any expected copyright owner incentive, but enforcement of copyright against them raises the cost of the defendant's creativity and the prospect of having that creativity enjoined or held up.
- Indirect infringement rules in copyright may be too broad, shutting down "dual-use" technologies that have many legitimate uses as well as being usable for infringement. Doing so stifles innovation in media technologies in the service of promoting creativity in copyright industries.
- In modern patent litigation the overwhelming majority (90% or more) of lawsuits are brought not against copiers, but against defendants who independently invented the technology in question.[35] Whether or not you consider that a problem in itself, it certainly suggests that patent litigation is too often used for ends other than promoting technology transfer. And it suggests that there is an awful lot of near-simultaneous invention going on, something that might or might not be consistent with Boldrin and Levine's claim that we do not need patents to drive those inventions.[36]
- In some circumstances damages rather than an injunction may be the appropriate remedy for infringement of an IP right, particularly where an injunction would block legal as well as illegal activity.[37] The Supreme Court decision in *eBay v. MercExchange*[38] took an important step

35. Christopher A. Cotropia & Mark A. Lemley, *Copying in Patent Law*, __ N.C. L. Rev. __ (forthcoming 2009).
36. *See* Boldrin & Levine, *supra* note 1, at 202-208; Samson Vermont, *Independent Invention As a Defense to Patent Infringement*, 105 Mich. L. Rev. 475 (2006). Boldrin and Levine take this as evidence that "intellectual monopoly is absolutely not necessary for great inventions to take place." Boldrin & Levine, *supra* note 1, at 208. But I am not so sure. Sometimes simultaneous invention will be the result of exogenous changes in circumstances that make the invention possible for anyone, where it was not before. But patent law, properly interpreted, should not grant patents in those cases. *See* Mark A. Lemley, *Should Patent Infringement Require Proof of Copying?*, 105 Mich. L. Rev. 1525 (2007). And sometimes pure serendipity is at work. But sometimes simultaneous invention reflects not the ease of invention, but the fact of a "patent race." *See* John F. Duffy, *Rethinking the Prospect Theory of Patents*, 71 U. Chi. L. Rev. 435 (2004) (discussing the advantages of patent races). Without the lure of a patent, neither inventor may have been racing to be the first.
37. *See, e.g.*, Mark A. Lemley & Philip J. Weiser, *Should Property or Liability Rules Govern Information?*, 85 Tex. L Rev. 783 (2007).
38. 547 U.S. 388 (2006).

toward rationalizing the law of IP remedies by requiring that a plaintiff prove entitlement to an injunction on a case-by-case basis. But the benefits of a liability rule will be undone if the damages awarded under that rule are punitive, as both statutory damages in copyright law[39] and current patent practice in setting reasonable royalties often overcompensate IP owners,[40] leading to unintended deterrence.

- Antitrust law too often defers to claims of IP ownership, allowing IP owners to convert a weak right into a strong one or a narrow right into a broad one.[41]

My argument, then, is not that the existing IP regime gets the balance right; I do not think it does. Our IP regime should be more concerned with preventing rapid duplication, and less concerned with internalizing all social benefits or giving creators control over productive reuses, than it is today. Rather, the argument is that the right set of policies for encouraging innovation will probably include at least some IP in the mix – not because we want to encourage intellectual monopoly, but because we want to encourage dynamic competition.

39. 17 U.S.C. § 504(c).
40. *See, e.g.*, Mark A. Lemley, *Distinguishing Lost Profits From Reasonable Royalties*, __ WM. & MARY L. REV. __ (forthcoming 2009);Brian J. Love, *Patentee Overcompensation and the Entire Market Value Rule*, 60 STAN. L. REV. 263 (2007).
41. A notable example involves agreements by pharmaceutical companies to pay generics not to enter the market, preserving legal exclusivity of a weak patent. Despite the unquestionably anticompetitive nature of these agreements, courts have generally permitted them on the grounds that they must defer to the IP right in question. *See, e.g., In re Ciprofloxacin Hydrochloride Antitrust Litig*., 544 F.3d 1323 (Fed. Cir. 2008). For criticism, see, e.g., Herbert Hovenkamp et al. *Anticompetitive Settlement of Intellectual Property Disputes*, 87 MINN. L. REV. 1719 (2003); C. Scott Hemphill, *Paying for Delay: Pharmaceutical Patent Settlement as a Regulatory Design Problem*, 81 N.Y.U. L. REV. 1553 (2006). For detailed analysis of the complex relationship between IP and antitrust, see Hovenkamp et al., *supra* note 2.

CROSSING BORDERS OR CROSSING SWORDS: CONFLICTS IN "MORAL RIGHTS" AND "FAIR USE" IN THE DIGITAL WORLD

Joseph M. Beck,[*] Allison M. Scott,[**] and Katharine M. Sullivan[***]

I. INTRODUCTION

The copyright laws of the 164 countries that are members of the Berne Convention[1] are remarkably similar in many respects. Indeed, when those laws are compared with other kinds of legal concerns of the same Berne Convention members states - for instance, job safety regulation; laws governing marriage and divorce; licensing requirements for professions and trades (or the absence thereof); even patent and trademark statutes and procedures - copyright law appears to be relatively uniform among the nations. Yet despite numerous overall similarities, important differences have emerged in recent years, specifically in what is referred to in the United States of America ("U.S.A.") as "fair use"; and in the recognition and enforcement of "moral rights" rights violations. An article written or used in a lawful manner under United States copyright law, for example, may be vulnerable to a claim of infringement or "mutilation" under the copyright law or moral rights law of another Berne Convention member state. The internet, by its very nature, permits worldwide dissemination of the same article that is lawful in one country but of less certain status in another, hence it has become increasingly important for content owners and content users to appreciate and evaluate the risks of contradictory legal outcomes in various jurisdictions of Berne Convention members.

It is beyond the scope of this article to survey the international copyright disputes that already have arisen, much less to catalogue the differences in the laws of Berne member nations that have and may in the future give rise to

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1. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 221, S. TREATY DOC. No. 99-27, (1989) (codified in various sections of 17. U.S.C. § 106A) [hereinafter referred to as "Berne Convention"].

further such disputes; however, several recent European copyright lawsuits (one of which included a "moral rights" claim) brought against Google Inc. illustrate some of the issues.[2]

Through its search engine, its Gmail email program, and its content-specific search engines, Google has changed the way many people experience the internet. Part of the price for being a market leader, however, has been continuing legal battles over the rights in the content that Google indexes. Over the last five years, a flurry of litigation has surrounded the various internet search engine applications developed by Google, Inc.: from the class action lawsuit brought by the Author's Guild, Inc. in the United States over Google's scanning of library books,[3] to recent copyright infringement cases decided in France,[4] and a pending copyright and moral rights case in Belgium.[5] These cases have raised questions regarding the application of U.S. fair use laws to the ever-expanding world of digitized information.[6]

Section II., below, summarizes relevant U.S. fair use law, points to certain international disparities in fair use laws, and observes that the relatively robust fair use defense available under U.S. law (along with free speech rights) could prevent some non-U.S. copyright judgments from being enforced in the United States. Section III summarizes relevant U.S. moral rights law and explores how those same U.S. policies of fair use and freedom of expression could also prevent the enforcement in the U.S. of non-U.S. moral rights judgments in the U.S.

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2. Two authors of this article, Joseph Beck and Allison Scott, have represented Google in litigation in the United States and Europe.
3. The *Author's Guild, Inc., et al. v. Google, Inc.*, No. 05-Civ-8036 (S.D.N.Y.). This litigation has drawn the attention and involvement of Indian copyright owners. The Indian Reprographic Rights Organisation and Federation of Indian Publishers objected to the settlement in the Google Books case. Reuters, *India Objects to Google Books Settlement*, Jan. 29, 2010, http://www.reuters.com/article/idUS321904617620100129.
4. *Editions du Seuil v. Google Inc.*, Tribunal de Grande Instance de Paris, 3ème ch., 2ème section, December 18, 2009, *available at* http://www.nuv.nl/Scripts/Download.aspx?doc=/SiteCollection Documents/Editions%20du%20Seuil%20et%20al%20v.%20 Google%20 (Paris%20Court%20of%20 First%20Instance) (18%20Dec%2009)EN%5B1%5D.doc; Société des Auteurs des Arts Visuels et de l'Image ("SAIF"), T.G.I. Paris 3e ch., May 20, 2008, *available at* http://www.kluweripcases.com/samples/ Copyright/fulltext.html.
5. *Copiepresse v. Google*, No. 06/10.928/C Tribunal de premiere instance de Bruxelles, Feb. 13, 2007; *see also* Eric Pfanner, *In Europe, Challenges For Google on Privacy and Copyright Protection*, N.Y. Times, February 2, 2010, at B1.
6. The article does not purport to be a survey of all copyright litigation against Google, much less of all fair use international copyright litigation, a subject which is far beyond the article's scope. Nor does the article attempt to discuss the myriad arguments that a plaintiff might advance in support of enforcement because of Berne, much less international conflict of laws issues more generally.

II. Fair Use

A. Fair Use and Transformative Use in the United States

In the U.S., fair use seeks to balance the rights of authors and the public. Although generalizations and simplifications can be hazardous when discussing fair use, nevertheless, to simplify and generalize, fair use excuses reasonable copying of a copyrighted work if the second author used the material in a work that would itself benefit the public interest without substantially impairing the present or potential market of the first work.[7] The doctrine, which continues to evolve under the common law, was codified at 17 U.S.C. §107, which provides,

"Notwithstanding the provisions of sections 106 and 106A [listing the rights of owners of copyrights and of moral rights], the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include -

(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.

The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors."[8]

Although the importance of the respective *'factors'* will vary with and depend upon the facts of a particular lawsuit, fair use decisions in the last two decades have increasingly focused on the first factor - the purpose and character of the use. As a result, a favorable finding for a defendant under the first factor can sometimes dispose of an entire infringement claim. The seminal case was *Campbell v. Acuff-Rose Music, Inc.*,[9] in which the Supreme Court examined a rap parody by the band 2 Live Crew of the Roy Orbison song *'Oh, Pretty*

7. *See* 4 William F. Patry, Patry on Copyright § 10:2.
8. 17 U.S.C. §107.
9. *Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 569, 114 S. Ct. 1164 (1994).

Woman.' The Court found that the first factor, character and purpose of the use, weighted in favor of the parody because of its transformative nature.

> "The central purpose of this investigation is to see…whether the new work merely "supersede[s] the objects" of the original creation…or instead adds something new…it asks, in other words, whether and to what extent the new work is "transformative."[10]

Though the commercial nature of the use is also an element under the first factor and had been considered dispositive in some previous cases, the Court found that the commercial nature of the use was less important in the context of a parody.

Another important 'transformative use' case in which the first factor to some degree controlled analysis of the other three was *Suntrust Bank v. Houghton Mifflin Co.*,[11] where the Eleventh Circuit found that the author of the book *The Wind Done Gone*, which used many of the characters and plot elements of *Gone With the Wind*, but from the perspective of one of the slaves on the plantation, had made a transformative and hence fair use of the copyrighted work.

Significantly, both *Acuff Rose* and *Suntrust* involved transformations of the copyrighted works themselves—respectively, the song 'Oh, Pretty Woman' and the novel *Gone With the Wind*—in the form of parodies. By comparison, the more recent decisions by the Ninth and Second U.S. Courts of Appeals in *Kelly v. Arriba Soft Corp.*,[12] *Bill Graham Archives v. Dorling Kindersley Ltd.*,[13] and *Perfect 10, Inc. v. Amazon.com, Inc.*,[14] recognize and privilege transformative uses that do not alter the underlying copyrighted works, but rather put them to a different use. These decisions, discussed below, have direct relevance to the activities of content users such as Google that reproduce entire copyrighted works in archives but make only segments or 'snippets' of them available to the public.

In sum, even before the Supreme Court's adoption in *Acuff-Rose* of 'transformative use' as a key part of its analysis under the first factor, U.S. fair use law granted more protection to defendants than was available in some other Berne Convention member nations. The expansive interpretations of transformative (and hence, 'fair') use advanced by the Ninth and Second

10. *Id.* at 579, quoting *Folsom v. Marsh*, 9 F. Cas. 342, 348 (C.C.D. Mass. 1841) (No. 4901).
11. *Suntrust Bank v. Houghton Mifflin Co.* 268 F.3d 1257, 1263 (11th Cir. 2001).
12. *Kelly v. Arriba Soft Corp.* 336 F.3d 811 (9th Cir. 2003)*; see infra* Part II.A.i.
13. *Bill Graham Archives v. Dorling Kindersley Ltd.* 448 F.3d 605 (2d Cir. 2006); *see infra* Part II.A.ii.
14. *Perfect 10, Inc. v. Amazon.com, Inc.* 508 F.3d 1146 (9th Cir. 2007); *see infra* Part II.A.iii.

Circuits in *Arriba Soft* and *Bill Graham*, and reiterated by the Ninth Circuit in *Perfect 10,* have served to underscore the differences between the copyright laws of the United States and other Berne member nations.

(i) Arriba Soft

In *Kelly v. Arriba Soft Corp.*,[15] a photographer who displayed some of his images on his website objected to another site's inclusion of thumbnail versions of the images in its search engine results.[16] The Ninth Circuit Court of Appeals found, under the first factor, that the use was transformative because the thumbnails had an entirely different purpose than the original images: "improving access to information on the internet versus artistic expression."[17] Under the second factor, the photographs were deemed creative works warranting broad copyright protection; however, as published works, they were more likely to qualify for fair use, and the court therefore found that the second factor only slightly favored the photographer.[18] The third factor was neutral because although the defendant used the images in their entirety, what was reproduced was 'reasonable' in light of the search engine's purpose.[19] As for the fourth factor, the court found that the search engine's use actually drove people to the photographer's site, rather than harming his market, for an overall finding of fair use.[20]

(ii) Bill Graham

In *Bill Graham Archives v. Dorling Kindersley Ltd.*,[21] the Second Circuit Court of Appeals examined a claim by the creator of seven Grateful Dead posters that had been used, without permission, in a biography of the band.[22] The court, on its way to upholding a defense of fair use, gave particular weight to its finding that the use was transformative. Specifically, the biography used the posters to document events in Grateful Dead history, a purpose that was different from the original purpose of artistic expression and announcing dates and venues for performances.[23]

The second factor weighed against the defendants because the posters were expressive works close to the core of copyright; however, the court gave this factor limited weight because of the transformative nature of the use.

15. *Kelly v. Arriba Soft Corp.* 336 F.3d 811 (9th Cir. 2003).
16. *Id.* at 815.
17. *Id.* at 819.
18. *Id*. at 820.
19. *Id.* at 821.
20. *Id.* at 821.
21. *Bill Graham Archives v. Dorling Kindersley Ltd.* 448 F.3d 605 (2d. Cir. 2006).
22. *Id.* at 607.
23. *Id.* at 609.

Even though the book used the entirety of the posters, the third factor did not weigh against fair use because reproduction of the entire poster was necessary to accomplish the transformative purpose and because the small size of the images reduced their expressive value.[24] Finally, the court found that though there was a market for licensed reproduction of the posters, the transformative nature of the use was again dispositive; in addition, "were a court automatically to conclude in every case that potential licensing revenues were impermissibly impaired simply because the secondary user did not pay a fee for the right to engage in the use, the fourth fair use factor would always favor the copyright holder."[25]

(iii) Perfect 10

In *Perfect 10, Inc. v. Amazon.com, Inc.*,[26] the Ninth Circuit again found fair use despite exact copying of an entire copyrighted work.[27] Like *Arriba Soft, Perfect 10* concerns the search engine, Google which used thumbnails of another website's images. The Ninth Circuit again found the thumbnail use transformative, stating that "a search engine transforms the image into a pointer directing a user to a source of information."[28] It also reemphasized that an exact copy of a work could be transformative as long as the copy served a different function than the original work.[29] Though the district court had found that Google's advertising revenues from directing users to sites using the thumbnails rendered the use commercial, the Ninth Circuit decided that this was outweighed by the degree to which Google promoted the purpose of copyright and served the interest of the public.[30]

The photographs were close to the core of copyright under the second factor, though this weighed only slightly in favor of the plaintiffs, and the use of the full image was held reasonable, however favoring neither party under the third factor.[31] The analysis under the fourth factor was different, however, because *Perfect 10* did have a market for reduced-sized images for cell phones. The court found that there was no evidence that users had substituted Google's images in this context, making the fourth factor also neutral, and went on to find fair use.[32]

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24. *Id.* at 613.
25. *Id.* at 614 (quoting *Am. Geophysical Union v. Texaco*, 60 F.3d 913, 930 n.17 (2d. Cir. 1994)).
26. *Perfect 10, Inc. v. Amazon.com, Inc.*508 F.3d 1146 (9th Cir. 2007).
27. Specifically, a likelihood of fair use is sufficient to vacate a preliminary injunction. *Id.* at 1168.
28. *Id.* at 1165.
29. *Id.*
30. *Id.* at 1166.
31. *Id.* at 1167.
32. *Id.* at 1168.

These cases show how vital 'transformative use' is to a finding of fair use. A use that has a different purpose than the original work can overcome the commercial nature of the use, or use of the entire original work; framing a use as transformative can be essential to protecting content hosts such as Google.

B. Fair Use outside the U.S.

The fair use doctrine in the United States varies so widely from comparable doctrines in other countries that various scholars have theorized that fair use prevents the U.S. from being in compliance with its treaty obligations under TRIPS and Berne Convention.[33] In civil law systems such as France, for example, fair use is limited to a statutory list of narrow exemptions for specific uses.[34] Even in other common law systems such as Britain, where the concepts of 'fair dealing' and 'public interest' serve a similar purpose to American fair use, the doctrine is still confined to statutorily exempted categories.[35] India's fair dealing statute, for example, protects the following categories,

"Subject to certain conditions, a fair deal for research, study, criticism, review and news reporting, as well as use of works in library and schools and in the legislatures, is permitted without specific permission of the copyright owners. In order to protect the interests of users, some exemptions have been prescribed in respect of specific uses of works enjoying copyright. Some of the exemptions are the uses of the work

I. for the purpose of research or private study,

II. for criticism or review,

III. for reporting current events,

IV. in connection with judicial proceedings,

V. performance by an amateur club or society if the performance is given to a non-paying audience, and

VI. the making of sound recordings of literary, dramatic or musical works under certain conditions.[36]

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33. Richard J. Peltz, *Global Warming Trend? The Creeping Indulgence of Fair Use in International Copyright Law,* 17 Texas Intell. Prop. L.J. 267, 272-6 (2009).
34. *Id.* at 274.
35. *Id.* at 276. One exception is Israel, which in 2007 enacted a copyright law whose statutory fair use exception does not include an exhaustive list. *Id* at 285.
36. Government of India, Ministry of Human Resource Development, Department of Secondary Education and Higher Education, *A Hand Book of Copyright Law,* http://copyright.gov.in/Documents/handbook.html (last visited Apr. 2, 2010), *See* Copyright Act, 1957 [Act No. 14 of 1957], Section 52.

In addition, parody, a traditional fair use under U.S. law, is far less certain of protection in other systems, a consequence that may render protected uses under U.S. law vulnerable to moral rights claims in some Berne Convention countries."[37]

C. Choice of Law - Does U.S. Fair Use Law Apply?

One of the most important questions involved in copyright and moral rights cases filed against defendants such as Google outside the United States is whether the court will apply U.S. law or the law of the forum country. Due to the comparatively robust protection granted to content users under the U.S. fair use doctrine (as well as the importance of the First Amendment's prohibition of laws restricting speech), it is likely that a decision applying U.S. copyright law could be very different than a decision based on the law of the forum state.[38] If non-U.S. law is applied and a judgment is entered for the plaintiff, the related issue of the enforceability in the U.S. of such a judgment may arise.

The French courts, in a series of recent cases, have addressed the question of whether U.S. copyright law applies to claims brought by French plaintiffs based on various Google applications available over the internet. The inconsistency of these decisions makes it difficult for content creators and users to predict outcomes.

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37. Peltz, *supra* note 37, at 281.
38. A recent Jan. 14, 2010 French decision widens the gap even further. *Tiscali v. Dargaud Lombard, Cour Cass*, (docket number not available), ruled that the site host provider Tiscali could not benefit from the infringement liability exception for host service providers under French law, because its services extended well beyond simple, technical hosting, to include publishing and providing advertising space. Obviously this classification would affect a large number of host service providers, including Google. However, there are discussions in Great Britain about creating a new exemption from copyright law for search engines that create copies of web pages in order to perform their search duties. The proposed amendment reads, "*Clause 29 Protection of search engines from liability for copyright infringement:* (1) The Copyright, Designs and Patents Act 1988 is amended as follows. (2) After section 116F (as inserted by section (Compulsory licensing of recorded music to be made available via the internet)) insert - 116G Protection of search engines from liability for copyright infringement: (1) Every provider of a publicly accessible website shall be presumed to give a standing and non-exclusive license to providers of search engine services to make a copy of some or all of the content of that website, for the purpose only of providing said search engine services. (2) The presumption referred to in subsection (1) may be rebutted by explicit evidence that such a licence was not granted. (3) Such explicit evidence shall be found only in the form of statements in a machine-readable file to be placed on the website and accessible to providers of search engine services. (4) A provider of search engine services who acts in accordance with this section shall not be liable for any breach of copyright in respect of the actions described in subsection (1)," Digital Economy Bill, http://www.publications.parliament.uk/pa/ld200910/ldbills/001/amend/ml001-ire.htm. *Also See* Out-law, *Peer proposes copyright exemption for search engines*, http://www.out-law.com/page-10658 (last visited Feb. 16, 2010).

i. Société des Auteurs des Arts Visuels et de l'Image Fixe v. Google

In 2005, Société des Auteurs des Arts Visuels et de l'Image Fixe ("SAIF") brought suit in France against Google Inc. and Google France, alleging that Google's 'Google Images' application violated the copyright of the professional authors whose interests SAIF represents.[39] The Google Images application allows Internet users to search for images on the Internet by entering search terms. The results are displayed as low-resolution thumbnail images with links to the sites at which the full-sized images can be found.[40]

The Tribunal de Grande Instance de Paris dismissed Google France as a defendant in the case. The court found that Google France, a subsidiary of Google Inc., had no authority to manage Google's search engine in France or to represent the U.S. Corporation in France. Thus, the court found that the allegedly infringing acts of which SAIF had accused Google France, including the operation of the www.google.fr website and its use by parties in France, was improperly brought against Google France.[41]

Regarding the applicable law, the parties agreed that the issue was governed by Article 5 of the Berne Convention. The Court looked to the 2007 *Lamore* decision of the French Court of Cassation.[42] In this case, the Court read Article 5 of the Berne Convention with the French statute and concluded that the applicable law is the law of the country where the allegedly infringing acts occurred, not where the harm was sustained. Based on this precedent, the court found that the applicable law was the law of the U.S., because the allegedly infringing acts—the collection of the images on the Google Images website, the operation of the search engine, and use of the www.google.fr server—was the activity of Google Inc., and the U.S. is where Google Inc.'s registered office is located, where Google Inc.'s decisions were made, and where the activity of the Google Images search engine was implemented.[43]

Once the French Court determined that U.S. law should govern, it applied the four fair use factors and determined that Google Images' use as fair use and that SAIF's claims should be dismissed.[44]

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39. *Société des Auteurs des Arts Visuels et de l'Image Fixe v. Google* T.G.I. Paris 3ème chamber, 1ère section, ., May 20, 2008, N° RG 05/12117, available at http://www.kluweripcases.com/samples/Copyright/toc-fulltext.html [hereinafter referred to as "SAIF case."
40. *See id.*
41. *See id.*
42. *Lamore v. Universal City Studios, Inc*., Cour de Cassation, Jan. 30, 2007.
43. *SAIF* case.
44. *See id.*

(ii) H & K v. Google Inc.

Standing in stark contrast to the Tribunal de Grande Instance de Paris's decision in the *SAIF* case is the court's decision on October 9, 2009 in *H & K v. Google Inc.*, another case based on Google's Google Images application.[45] In *H&K*, the plaintiffs, the author of a particular photograph and a company asserting to be the publisher of the photograph, sued Google Inc. and Google France for the inclusion of the photograph in the Google Images application. The plaintiffs brought claims for copyright infringement and for violation of the author's moral rights of disclosure, attribution, and integrity, for the reproduction of plaintiffs' image in a cropped form without identification of the author's name.[46]

As in the *SAIF* case, the defendants sought to have Google France dismissed from the case, arguing that Google France was not involved in the operation of Google Images which occurred in the U.S. and that Google France merely acted as a business office responsible for customer service matters in France. Unlike in the *SAIF* case, however, the court in *H & K* did not accept these arguments and rejected that Google France's petition be dismissed. In making its decision, the court pointed to Google's contract with Google France, Google France's interactions with Google Inc., and evidence that Google France did in fact provide Internet and software services in France, including the negotiation and sale of online advertising.[47]

In making its determination of applicable law, the court made neither made reference to the*Lamore* Court of Cassation decision nor its own recent decision in the *SAIF* case. Instead, the same court asserted that the applicable law was the law of the country in which the alleged harm occurred - France.[48]

After deciding to apply French law, the court held that Google Images infringed the plaintiffs' copyright. As for the author's moral rights claims, the court dismissed the right of disclosure claim, finding it extinguished by the author's prior first publication of the work, but held in the plaintiff's favor on the attribution and integrity claims, finding Google's display of an unattributed, reduced-resolution thumbnail image of the author's work to violate his moral rights.[49]

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45. H & K v. Google, Tribunal de Grande Instance de Paris, 3ème ch., 2ème section, Oct. 9, 2009*available at* http://www.legalis.net/jurisprudence-decision.php3?id_article=2776.
46. *See id*.
47. *See id*.
48. *See id*.
49. *See id*.

(iii) Editions du Seuil v. Google Inc.

In December of 2009, the Tribunal de Grande Instance de Paris rendered another copyright decision against Google, on facts very similar to those involved in the *SAIF* case and *H & K* cases. The suit was brought against Google Inc. and Google France in 2006 by a group of French publishers known as La Martiniere Groupe, and was based on Google's 'Google Book Search' application.[50] The Google Book Search application depends on the scanning and digitizing of books in order to make them searchable over the Internet using Google's search engine. The results of a search conducted on the Google Book Search website are displayed in two different formats, depending on the copyright and permissions status of the work. Works not in copyright or for which permissions have been obtained are displayed in full on the Google Book Search results web page. Search results for works in copyright and for which permissions have not been obtained are displayed in 'snippet view,' meaning that only short extracts of the book's text are displayed on Google Book Search.[51]

As in the *H & K* case, but in contrast to its decision in the *SAIF* case, the Tribunal de Grande Instance de Paris declined to dismiss Google France as a defendant in *Editions du Seuil*. Moreover, regarding applicable law, the court found that French copyright law governed the dispute, rather than U.S. law. Again, the Court made no reference to the *Lamore* Court of Cassation decision or the *SAIF* case. The Court stated that it would consider *both*, the places where the damaging act occurred *and* the place where the harm is realized; and the governing law would be of the territory which has the closest connection to the dispute. The court then enumerated several contacts between the alleged harm and France and determined that France had the closest connection with the parties' dispute, which justified application of French law. The court relied on the fact that (1) the works at issue were by French authors, (2) the excerpts on Google Book Search were available to Internet users on French national territory, (3) the deciding court was a French court, (4) the plaintiffs were French companies, (5) Google France's headquarters is in France, and (6) the French Google Book Search website has an ".fr" extension and is written in French. Based on French law, the court held Google liable for copyright infringement.[52]

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50. *Editions du Seuil v. Google Inc.*, Tribunal de Grande Instance de Paris, 3ème ch., 2ème section, December 18, 2009.
51. *See id.*
52. *See id.*

The *Editions du Seuil* and *H & K* decisions stand directly opposed to the *SAIF* case on the issue of the law applicable to copyright cases brought in France against U.S. defendants like Google Inc. None of these cases, however, have been affirmed by the French Court of Cassation, and the French legislature has not yet clarified the issue, and therefore the law of France in this area is still unsettled. Google has announced that it will appeal the *Editions du Seuil* decision.

D. Viewfinder

In the instance that a court chooses to apply the copyright law of a country other than the U.S. to claims based on a U.S. company's activities, an important conflicts of laws issue still remains—the enforceability of the non-U.S. judgment in the U.S. A recent Second Circuit case raised the possibility that fair use could be used to shield an American company from a non-U.S. copyright judgment. In *Sarl Louis Feraud International v. Viewfinder, Inc.*,[53] two French fashion design corporations sued Viewfinder, an American corporation that operates a website that posts pictures of fashion shows from around the world.[54] The original lawsuit was filed in France. The French corporations claimed copyright infringement, based on unauthorized use of photographs of their collections, and also unfair competition.[55] Viewfinder did not enter an appearance and the French court awarded a default judgment against it, ordering Viewfinder to remove the offending photographs, pay damages of 500,000 francs to each plaintiff, and pay a fine of 50,000 francs for each day they failed to comply with the judgment.[56]

The French corporations later filed separate complaints in the Southern District of New York to enforce the judgment.[57] Non-U.S. judgments are enforced in the United States under state law, so the procedure and standard for enforcing judgments can vary from state to state. New York law provides that "A foreign country judgment need not be recognized if…the cause of action on which the judgment is based is repugnant to the public policy of this state."[58] The district court of the Southern District of New York found that

53. *Sarl Louis Feraud International v. Viewfinder, Inc* 489 F.3d 474 (2d Cir. 2007).
54. *Id.* at 476.
55. *Id.* at 477.
56. *Id*.
57. *Id*.
58. *Id* at 478. *See* New York's law is based on The Uniform Foreign Money-Judgments Recognition Act, drafted by the National Conference of Commissioners on Uniform State Laws in 1962. 27 other states have also enacted the Act: Alaska, Colorado, Connecticut, Delaware, D.C., Florida, Georgia, Hawaii, Illinois, Iowa, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Texas, Virginia, and Washington. Four states have enacted a 2005 version of

enforcing the French judgments would be repugnant to the public policy of New York because the shows at issue were public events and Viewfinder had a right under the First Amendment to publish the photographs. The court also referred to the possibility of a fair use exemption for Viewfinder.[59] The French companies appealed. Although the Second Circuit remanded the case for the district court to determine whether French intellectual property law provided protections comparable to these required by the First Amendment and directed it to conduct a full fair use analysis,[60] the unavailability in some Berne countries of a strong fair use defense (and the free speech values that it protects) may serve to prevent enforcement in the U.S. of some judgments of copyright infringement based on laws of such Berne member states.

III. Moral Rights

'Moral rights,' also referred to as *le droit moral*, are a bundle of rights entirely separate from personal property or copyright rights and that are personal to the artist, who retains them even after the work is sold, the copyright in the work is sold or licensed, or the work falls into the public domain.[61] Of the various moral rights,[62] this Article focuses primarily on the right of attribution and the right of integrity. The right of attribution protects an author's right to control recognition of authorship—basically, to require the author's name to be associated with, or withdrawn from, a work.[63] The right of integrity protects authors from reputational harm from the intentional truncation, distortion, modification, or mutilation of their works.[64]

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the law, which says the non-U.S. judgment need not be enforced if "the judgment or the [cause of action] [claim for relief] on which the judgment is based is repugnant to the public policy of this state or of the United States." They are California, Idaho, Michigan, and Nevada. Charles W. Mondora, *The Public Policy Exception, "The Freedom of Speech, or of the Press," and the Uniform Foreign-Country Money Judgments Recognition Act,* 36 Hofstra L. Rev. 1139, 1139-41 (2008).

59. *Sarl Louis Feraud Int'l v. Viewfinder, Inc*., 489 F.3d 474, 477-478 (2d Cir. 2007).
60. *Id*. at 481-484.
61. *See* Berne Convention art. 6bis; ; 3 Melville B. Nimmer & David Nimmer, Nimmer on Copyright, at Ch. 8D (Matthew Bender, rev. ed.); *see also* Kathryn A. Kelly, *Moral Rights and the First Amendment: Putting Honor Before Free Speech?*, 11 U. Miami Ent. & Sports L. Rev. 211, 215–16 (1994); Timothy E. Nielander, *Reflections on a Gossamer Thread in the World Wide Web: Claims for Protection of the Droit Moral Right of Integrity in Digitally Distributed Works of Authorship*, 20 Hastings Comm. & Ent. L.J. 59, 68 (1997).
62. Other moral rights include the right of disclosure (or first publication) and the right of withdrawal or the author's right to withdraw or disavow his work after it is published *See* 3 Nimmer & Nimmer, *supra* note 59, §§ 8D.03–.05.
63. *See id.* § 8D.03; *see also* 17 U.S.C. § 106A(a)(1) (2006).
64. *See* 3 Nimmer & Nimmer, *supra* note 59, § 8D.04; *see also* 17 U.S.C. § 106A(a)(2)–(3) (2006).

A. Moral Rights in the U.S. Compared to Moral Rights in Other Berne Countries

The differences between the U.S. and other Berne member countries in granting fair use rights to content users pale in comparison to the differences in recognizing moral rights.[65] The Berne Convention not only requires protection of moral rights, specifically the right of attribution and the right of integrity, but also permits member countries to provide greater protection as well.[66] Moral rights protection in the United States is much more limited than in many other Berne member countries, and exists primarily in the federal Visual Artist Rights Act of 1990[67] and some narrowly-drawn state laws. Any remaining protection required under Berne Convention is supposedly provided in the United States by its privacy, defamation, unfair competition, and intellectual property laws.

In contrast to the broad definition of 'literary and artistic works' covered by the Berne Convention,[68] application of the U.S. Visual Artists Rights Act of 1990 ("VARA") is limited to certain works of visual art, specifically, certain paintings, drawings, prints, and sculptures and limited-edition photographs.[69] VARA does not apply to films, literary works, electronic publications, advertising, works made for hire, or works not under copyright.[70] In addition to being limited to certain types of works of visual art, the federal rights of attribution and integrity created by VARA are themselves more limited than similar rights in some civil law countries. For example, while the rights of attribution and integrity are perpetual in France, Italy, and Spain, and while they endure for the full period of copyright protection in the United Kingdom, Australia, and New Zealand, works created on or after the effective date of VARA are subject to the federal U.S. rights of attribution and integrity only during the life of the artist.[71]

65. That spectrum probably starts with France, where moral rights are unwaivable, and then moves to countries like Great Britain, where moral rights can be waived, and ends with the United States, where moral rights do not exist except in connection with visual artists. Great Britain, however, has recently been considering a move toward the French end of the spectrum. *See* Ali Qassim, *U.K. Deliberates Need to Strengthen Moral Rights in Copyright Framework*, Pat. Trademark & Copyright L. Daily (March 25, 2010).
66. *See* Berne Convention art. 6bis.
67. *See* Visual Artists Rights Act of 1990 (hereinafter referred to as "VARA"), 17 U.S.C. § 106A (2006) (providing for the rights of attributionand integrity).
68. *See* Berne Convention art. 2 ("[T]he expression 'literary and artistic works' shall include every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression . . . .").
69. *See id.*; *see also* 17 U.S.C. § 101 (defining "work of visual art").
70. 17 U.S.C. § 106A.
71. 17 U.S.C. § 106A(d)(2), works subject to VARA but created before its effective date, the title to which has not been transferred, are eligible for moral rights protection under VARA that is coextensive with the period of copyright protection for such works. VARA, 17 U.S.C.

Other than the limited federal moral rights created by VARA for certain works of visual art, the only sources of moral rights protection in the United States are state moral rights laws, to the extent they are not preempted by federal law, common law moral rights-type claims that have been recognized by courts, and possible protection under § 43(a) of the Lanham Act. After the passage of VARA, however, the vitality of decisions in which courts recognized, or appeared to recognize moral rights-type claims has been called into doubt.[72] For example, in *Gilliam v. American Broadcasting Co.*,[73] a case decided before the enactment of VARA, the Second Circuit Court of Appeals extended relief for a right of integrity-type claim under § 43(a) of the Federal Lanham Act.[74] The plaintiffs in *Gilliam*, members of the comedy troupe 'Monty Python,' argued that defendant ABC's truncation of their 'Monty Python's Flying Circus' works to fit them within the dictates of U.S. commercial television constituted a mutilation of their works, and that attributing the edited program to plaintiffs as their work constituted a misrepresentation that harmed their reputations.[75]

§ 106A(c)(3), the moral rights created by VARA are also limited by several exceptions, including the notable exception that they do not apply to any reproduction, depiction, portrayal, or other use of a work in, upon, or in any connection with any ["poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audiovisual work, book, magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar publication"; or "any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container"; or any portion of any such item, or "any work made for hire"]. (quoting 17 U.S.C. § 101).

72. *See, e.g.*, Stevens v. Nat'l Broad. Co., 148 U.S.P.Q. 755, 758 (Cal. Super. Ct. 1966) (the Court granted in a pre-VARA oral opinion, a preliminary injunction which prevented the National Broadcasting Company from cutting and editing the plaintiff's film, *A Place in the Sun*, to insert commercials that would "alter, adversely affect, or emasculate the artistic or pictorial quality of said motion picture . . . ." The Court founded its decision on the fact that "a photofilm can be an art form," and that the court can grant relief to protect an art form's "artistic integrity." VARA, of course, explicitly exempts motion pictures from protection under 17 U.S.C. § 106A(c)(3).); *cf.* Franconero v. Universal Music Corp., 70 U.S.P.Q.2d 1398 (S.D.N.Y. Dec. 18, 2003) ("United States law does not recognize moral rights with respect to vocal performances, and only recognizes moral rights claims as to visual arts that have been altered or deformed."); Crimi v. Rutgers Presbyterian Church, 194 Misc. 570, 575 89 NYS2d 813 (Sup. Ct. 1949) (responding to plaintiff's reliance on language in the Berne Convention and the concept of "moral rights" in European cases by stating that "[t]he conception of 'moral rights' of authors, so fully recognized and developed in the civil law countries has not yet received acceptance in the law of the United States. No such right is referred to by legislation, court decision or writers." (quoting Vargas v. Esquire, Inc., 164 F.2d 522, 526 (7th Cir. 1947))). There are also cases that appear to allude to moral rights in U.S. common law, but which turn on contract law and which, if any, rights remained with the author as per the sales contract. *See, e.g.*, Preminger v. Columbia Pictures Corp., 49 Misc. 2d 363 (N.Y. Sup. Ct. 1966) (establishing, on the basis of contract law principles, that as long as custom and usage provided, the grantee of television rights had the right to cut and edit a film, and in such case the artistic merit of the work was not impaired).

73. *Gilliam v. American Broadcasting Co* 538 F.2d 14 (2d Cir. 1976).

74. The Federal Lanham Act. *See* 15 U.S.C. § 1114 *et seq*.

75. *Gilliam v. American Broadcasting Co* 538 F.2d 14, 18 (2d Cir. 1976),

The Second Circuit found that "an allegation that a defendant has presented to the public a 'garbled,' distorted version of plaintiff's work seeks to redress the very rights sought to be protected by the Lanham Act, 15 U.S.C. § 1125(a), and should be recognized as stating a cause of action under that statute."[76] The court added that "the edited version broadcast by ABC impaired the integrity of appellants' work and represented to the public as the product of appellants what was actually a mere caricature of their talents. We believe that a valid cause of action for such distortion exists . . . ."[77]

Nearly twenty years later, however, and after the passage of VARA, a district court in the Second Circuit denied that any common law moral rights claim of integrity emerged from *Gilliam*. On the contrary, in *Choe v. Fordham University School of Law*, the Southern District of New York held that:

"There is no federal claim for violation of plaintiff's alleged "moral rights." The Court in *Gilliam* stated that nearly 20 years ago. . . . Whatever language there may be in [*Community for Creative Non-Violence v.] Reid* or *Gilliam* to suggest a federal common law claim for deprivation of an author's "moral rights" is dictum, and has not generated any claim in this Circuit for almost 20 years . . . . Because the law in this Circuit does not recognize an author's common law "moral rights" to sue for alleged distortion of his written work, plaintiff's purported "moral rights" claim is dismissed."[78]

As demonstrated by the restrictive language of VARA and the dearth and dubious vitality of U.S. decisions recognizing moral rights-type claims beyond the limited protection of VARA, the U.S.'s protection of moral rights is much narrower than in many other Berne Convention member countries.

The magnitude of the differences between the protection of moral rights in the U.S. and in other Berne Convention countries, is reflective of the strong

76. *Id.* at 24–25 (internal citations omitted); *see also* 15 U.S.C. § 1125(a) ("(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.").

77. *Id.* at 25-27. Judge Gurfein, in his concurring opinion, was more skeptical:If a distortion or truncation in connection with a use constitutes an infringement of copyright, there is no need for an additional cause of action beyond copyright infringement. . . . So far as the Lanham Act is concerned, it is not a substitute for *droit moral* which authors in Europe enjoy. . . . [T]he Lanham Act does not deal with artistic integrity. It only goes to misdescription of origin and the like. (internal citations omitted).

78. *Choe v. Fordham Univ. Sch. of Law*, 920 F. Supp. 44, 49 (S.D.N.Y. 1995).

and different cultural points of view about art and artists' rights, and it suggests that a non-U.S. court hearing a moral rights case against a U.S. defendant may apply its own domestic moral rights laws to the case. Importantly, however, those differences in laws and cultures may also increase the likelihood that a moral rights judgment rendered by a non-U.S. court would be found unenforceable in the U.S., on the grounds that such a judgment impinges on First Amendment rights and is repugnant to a fundamental public policy underlying U.S. copyright law, namely, the fair use doctrine. A recent case against Google in Belgium involving both copyright and moral rights claims provides a context to test this analysis.

B. Google v. Copiepresse

In *Copiepresse v. Google*,[79] the plaintiff was a Belgian newspaper association, who claimed that the display of headlines and short excerpt 'snippets' of news stories which were published on the internet without mentioning the names of the individual authors of the articles on the Google News page amounted to a violation of the authors' moral rights of disclosure, integrity, and attribution. Google's "Google News" application allows Internet users to utilize a single website to search for news stories published by news sources all across the Internet. Users can identify specific news stories with search terms and can also browse Google News's database by topic. The Google News website does not display the articles themselves, however, it provides a headline, a 'snippet' of the first 300 characters of the story, and perhaps a low-resolution thumbnail image of a photograph. The headline acts as a hot link, transferring the user to the internet news source where the article is published and may be viewed in full.[80]

The Belgian trial court noted that Google News only indexes news articles already published on the web and denied the right of disclosure claim. The court found, however, that Google News violated the right of attribution of the authors of the articles because the Google News website listed only the internet news' publisher's name, not the names of the individual authors of the articles. The court also concluded a violation of the authors' right of integrity as Google News reproduced only part of the authors' works and, because Google clustered different articles together by way of topic in a manner that could lead to associations which might wrongfully alter the authors' intended editorial or philosophical positions.[81]

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79. Copiepresse v. Google, No. 06/10.928/C.
80. *Id*.
81. *Id*.

Google appealed the decision, and the authors submitted arguments that Google News' use constituted a fair use under U.S. copyright law and that Copiepressee's moral rights claims would likely be considered fundamentally to conflict with core values of U.S. law. However, even if the appellate court were to determine Copiepresse's moral rights claims based on Belgian law, and even if Copiepresse were to be granted a judgment in its favor, it is doubtful that the plaintiff would be able to enforce such a judgment in the United States due to fundamental conflicts both with the U.S. Copyright Act and the First Amendment, as discussed below.

C. Copiepresse's Moral Rights Claims: Conflicts with the U.S. Copyright Act[82]

i. The Right of Attribution

Attribution claims under U.S. law must be analyzed in light of the U.S. Supreme Court's decision in *Dastar Corp. v. Twentieth Century Fox Film Corp*.[83] In *Dastar,* the Court held that if it would recognize a claim of failure to attribute authorship of a certain public domain work, then the express limitations on the scope of the right of attribution under 17 U.S.C. § 106A under the federal Lanham Act would be rendered superfluous and would create a perpetual copyright not authorized by the U.S. Constitution.[84]

At issue in *Dastar* was the defendant's copying, editing, and repackaging of tapes of a public-domain television series based on a copyrighted book about World War II. The tapes and their advertising referred to defendant Dastar Corporation and its employees as the producers of the tapes and made no mention of the original book, the plaintiff's television series from which the defendants copied the footage, or the plaintiff's series' producers. The Supreme Court ruled on the plaintiff's Lanham Act reverse passing-off claim, to hold that the attribution of the 'origin' of the tapes sold by defendant was not a false designation of origin as prohibited by the Lanham Act. The Court further added that if failure to attribute authorship for a public-domain work was recognized under the Lanham Act, then it would "create a species of mutant copyright law that limits the public's 'federal right to "copy and to use," ' "[85] effectively creating a "species of perpetual . . . copyright, which Congress may not do" under the U.S. Constitution.[86]

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82. The analysis in Parts III.B. and III.C.is also discussed in an article published in the *Journal of Intellectual Property Law*. *See* Joseph M. Beck and Allison M. Scott, *Digital-Age Claims for Old-World Rights*, 17 J. OF INTELL. PROP. L. 5 (2009).
83. *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).
84. *Id.* at 34–35, 37.
85. *Id.* at 34.
86. *Id.* at 37.

The *Dastar* decision involved a public domain work; however the U.S. courts have used the Supreme Court's reasoning in that case to dismiss moral rights-style attribution claims which involved copyrighted as well as public domain works.[87] A particular district court explained the post-*Dastar* landscape for attribution claims under the Lanham Act in the following words,

"*Dastar* makes clear that a claim that a defendant's failure to credit the plaintiff on the defendant's goods is actionable only where the defendant literally repackages the plaintiff's goods and sells them as the defendant's own—not where, as here, Defendants are accused only of failing to identify someone who contributed not goods, but ideas or communications (or, for that matter, 'services') to Defendants' product."[88]

The Lanham Act attribution claim that survives *Dastar*, then, appears to be a very narrow claim for false attribution.

If Copiepresse sought to enforce in the U.S. a judgment based on its Belgian attribution claim, it is likely that it would be found to be unenforceable as impermissibly conflicting with the U.S. Copyright Act. If viewed as akin to a judgment under Lanham Act § 43(a),[89] it would likely be found to usurp the superior position of U.S. Copyright Law under the cases following *Dastar*, which have refused to enforce such claims except "where the defendant literally repackages the plaintiff's goods and sells them as the defendant's own."[90] In *Copiepresse*, the plaintiff did not allege that Google "repackaged" news articles as Google's own, but rather that Google modified them without attribution. As

87. *See, e.g., Zyla v. Wadsworth*, 360 F.3d 243 (1st Cir. 2004) (affirming summary judgment for defendant on Lanham Act claim for failure to grant plaintiff co-author credit of a copyrighted textbook, and citing *Dastar* for its statement that "[t]he Supreme Court has determined . . . that Section 43(a)(1)(A) does not apply to the type of claim that Zyla raises . . . . Claims of false authorship . . . should be pursued under copyright law instead."); *Carroll v. Kahn*, 68 U.S.P.Q.2d 1357 (N.D.N.Y. 2003) ("A Lanham Act claim based on Defendants' alleged failure to give Plaintiff proper credit as author and/or producer, however, is foreclosed by *Dastar*."); *Williams v. UMG Recording, Inc.*, 281 F. Supp. 2d 1177 (C.D. Cal. 2003) (holding barred as a matter of law under *Dastar* plaintiff's Lanham Act claim based on failure to attribute to plaintiff his contribution in re-editing and re-scoring a copyrighted film).
88. *Williams v. UMG Recording, Inc.*, 281 F. Supp. 2d 1177, 1184 (C.D. Cal. 2003)
89. *See* 15 U.S.C. § 1125 (false designations of origin; false description or representation).
90. *Williams v. UMG Recording, Inc.*, 281 F. Supp. 2d 1177, 1184 (C.D. Cal. 2003) (holding barred as a matter of law under *Dastar* plaintiff's Lanham Act claim based on failure to attribute to plaintiff his contribution in re-editing and re-scoring a copyrighted film); *see also Zyla v. Wadsworth*, 360 F.3d 243 (1st Cir. 2004) (affirming summary judgment for defendant on Lanham Act claim for failure to grant plaintiff co-author credit of a copyrighted textbook, and citing *Dastar* for its statement that "[t]he Supreme Court has determined . . . that Section 43(a)(1)(A) does not apply to the type of claim that *Zyla* raises . . . . Claims of false authorship . . . should be pursued under copyright law instead."); *Carroll v. Kahn*, 68 U.S.P.Q.2d 1357 (N.D.N.Y. 2003) ("A Lanham Act claim based on Defendants' alleged failure to give Plaintiff proper credit as author and/or producer, however, is foreclosed by *Dastar*.").

such, Copiepresse's claim of failure to attribute does not fall within the narrow Lanham Act false attribution claim that survives *Dastar*, and would likely be found to conflict impermissibly with the U.S. Copyright Act.

Furthermore, under the reasoning in *Dastar*, enforcing a state law attribution right like that asserted by the Belgian *Copiepresse* plaintiff would create a 'mutant copyright,' one extending the author's exclusive rights beyond those created by Congress and providing neither a fair use nor an idea-expression defense which would directly conflict with the U.S. Constitution and federal law. If the attribution right asserted by the plaintiff in *Copiepresse* existed in the United States, a party such as Google making a highly transformative, lawful fair use under copyright law[91] would still be subject to moral rights liability if the original author's name was not included. On the other hand, if Google attributed to the original authors the modified versions of their works, Google would be subject to liability under the Lanham Act claim for false attribution that survived the Supreme Court's holding in *Dastar*. Allowing such a broad state-law claim for right of attribution claim in the U.S., in sum, would destroy the U.S. Copyright Act's carefully-crafted balance of public and private rights, in violation of the Supremacy Clause of the U.S. Constitution.[92]

ii. The Right of Integrity

Although the Second Circuit granted relief for a moral rights-type integrity claim in *Gilliam v. American Broadcasting Co*,[93] subsequent cases have called into question that decision's continued viability,[94] and in any case, Copiepresse's

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91. The transformative alteration of a copyrighted work has been endorsed expressly by the U.S. Supreme Court. *See* Campbell, 510 U.S. at 578–9; *cf. SAIF,* T.G.I. Paris 3e ch., May 20, 2008 (finding Google Image Search's display of thumbnail images of the complainants' works to be a fair use under U.S. law). Authors Beck and Scott submitted the testimony of five U.S. law school professors with expertise in copyright law in a parallel case in France to the effect that Google's reproduction of snippets was transformative.
92. *See* U.S. CONST. art. VI, cl. 2.
93. *Gilliam v. American Broadcasting Co.* 538 F.2d 14 (1976).
94. *See Choe v. Fordham Univ. Sch. of Law*, 920 F. Supp. 44, 49 (S.D.N.Y. 1995) ("There is no federal claim for violation of plaintiff's alleged 'moral rights.' The Court in *Gilliam* stated that nearly 20 years ago. . . . Whatever language there may be in [*Community for Creative Non-Violence v.*] *Reid*[, 490 U.S. 730 (1989)] or *Gilliam* to suggest a federal common law claim for deprivation of an author's 'moral rights' is dictum, and has not generated any claim in this Circuit for almost 20 years . . . . Because the law in this Circuit does not recognize an author's common law 'moral rights' to sue for alleged distortion of his written work, plaintiff's purported 'moral rights' claim is dismissed."); *see also* United States v. Microsoft Corp., No. Civ. A. 98-1232, 1998 WL 614485, at *16 (D.D.C. 1998) ("But the *Gilliam* court acknowledged the lack of statutory or doctrinal support in copyright law for the right it recognized and ultimately grounded its decision in trademark law. Several subsequent decisions considering *Gilliam* have declined to endorse the 'moral right' argument Microsoft advances.") (internal citations omitted).

claims are distinguishable. Even if the pre-VARA claim recognized in *Gilliam* were still enforceable today, it would not be broad enough to encompass the facts of the integrity claim asserted in *Copiepresse*. In *Gilliam*, the defendants had attributed to plaintiffs a truncated version of the plaintiffs' work, which was found to constitute a misrepresentation under U.S. law.[95] As Google News does not include the name of the individual authors of the articles (this omission is the very basis of Copiepresse's right of attribution claim), there would be no basis under U.S. law for a post-*Gilliam* claim. Moreover, enforcement in the U.S. of an integrity judgment based on non-U.S. law could raise issues under *Dastar* for reasons similar to those that prevented enforcement of an attribution claim.

D. Copiepresse's Moral Rights Claims: Conflicts with the First Amendment to the U.S. Constitution

There are also strong arguments that moral rights claims of the type asserted by the plaintiff in *Copiepresse* would be unenforceable in the U.S. because they would impermissibly alter the traditional contours of copyright protection in a manner that would chill free speech in violation of the First Amendment.[96]

(i) The Right of Integrity

In the U.S., the successful coexistence of the Constitution's First Amendment free speech protections and copyright law (which restrains infringing speech, but is also authorized by the U.S. Constitution) depends on the fair use defense and the idea-expression dichotomy,[97] which are safeguards built into copyright law to prevent it from eroding First Amendment rights.[98] The civil law right of integrity asserted by the plaintiff in *Google v. Copiepresse*

95. *Gilliam*, 538 F.2d at 24.

96. Under analogy to the rule in *Golan v. Gonzales*, 501 F.3d 1179, 1184 (10th Cir. 2007), derived from the Supreme Court's opinion in *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2003), moral rights claims that would alter the traditional contours of protection under the U.S. copyright law by expanding the author's exclusive rights in a manner that would impair freedom of expression would have to withstand First Amendment scrutiny.

97. The "idea-expression dichotomy" refers to the distinction in U.S. copyright law between ideas, which are not copyrightable, and the particular expression of an idea, which may be protected by copyright law. *See, e.g.*, 17 U.S.C. § 102(b); *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 344 – 45 (1991) ("The most fundamental axiom of copyright law is that no author may copyright his ideas . . . .") (internal quotation marks and citations omitted).

98. *See, e.g., Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 556 (1985); *Suntrust Bank v. Houghton Mifflin Co.* 268 F.3d 1257, 1263 (11th Cir. 2001) ("In copyright law, the balance between the First Amendment and copyright is preserved, in part, by the idea/expression dichotomy and the doctrine of fair use.").

neither preserves the built-in First Amendment safeguards nor replaces them with safeguards of its own. As a result, consideration of the factors applied by U.S. courts in conducting fair use analysis shows that uses permitted as fair use under traditional U.S. copyright law would be prevented by enforcement of Copiepresse's integrity claims.

For example, the very type of transformative use which the doctrine of fair use allows in order to provide adequate 'breathing room'[99] for the First Amendment would be punished by enforcement of Copiepresse's integrity claims. The second fair use factor allows greater use of nonfiction, utilitarian expression than of more highly creative works, but the integrity claims brought by Copiepresse based on the use of news articles clearly do not distinguish between creative and nonfiction works. As for the third fair use factor, the less a defendant copies from the original work, the more likely the third factor will weigh in favor of fair use. By contrast, under a right of integrity analysis, the less a defendant copies, the more the defendant has arguably 'truncated' or 'mutilated' the work. Finally, the fourth factor would be irrelevant to a right of integrity analysis because whether or not the defendant's use affected the copyright owner's potential market for a particular use does not carry weight in an assessment of the reputational harm that moral rights seek to remedy.

Likewise, the First Amendment safety valve of the idea-expression dichotomy[100] would provide no defense against an integrity claim such as the one brought against Google in *Copiepresse*. Even extensively revising an author's original work so that only uncopyrightable ideas and facts are used would not immunize a party from an integrity claim for mutilation of the original work.

ii. The Right of Attribution.

Similarly, Copiepresse's civil law moral right of attribution claims would likely be found unenforceable in the United States as running afoul of the core constitutional values embodied in the First Amendment. In *Copiepresse*,

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99. *See Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 579, 114 S. Ct. 1164 (1994) ("Although such transformative use is not absolutely necessary for a finding of fair use, the goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works. Such works thus lie at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright . . . .") (internal citation omitted).
100. The idea-expression dichotomy traditionally has been viewed as a safeguard for free speech built into U.S. copyright law. *See, e.g, Harper & Row*, 471 U.S. at 556 ("[C]opyright's idea/expression dichotomy strikes a definitional balance between the First Amendment and the Copyright Act by permitting free communication of facts while still protecting an author's expression.") (internal quotation marks and citations omitted).

Google's use was of excerpts of the authors' news articles that were not attributed to the individuals who penned them, a use arguably protected, according to dicta, in a district court case in which an altered painting was nevertheless attributed to the original artist. While the court in *Wojnarowicz v. American Family Ass'n*[101] noted that the display of an altered work falsely attributed to the original work's author was not speech protected by the First Amendment, the court recognized that the alteration or mutilation of a work without express or implied attribution to the original artist "is protected speech."[102] Therefore, enforcement in the United States of an attribution claim such as Copiepresse's would threaten to punish speech protected by the First Amendment.

In sum, allowing enforcement of such integrity and attribution claims would impermissibly chill protected speech in violation of core constitutional values under the First Amendment. Authors wishing to make use of another's work would face a difficult choice: reproducing with attribution the unaltered original work in its entirety, thereby subjecting themselves to copyright liability, or reproducing an excerpt or otherwise altered version of the original, thereby subjecting themselves to moral right of integrity claims (as well as attribution claims if the author's name were omitted and a possible Lanham Act §43(a) claim if the author's name were included).[103]

Moral rights claims like those brought by Copiepresse against Google, which are typical of claims which exist in a number of Berne Convention member countries, conflict with core fundamental U.S. laws and the U.S. Constitution. The idea-expression dichotomy and fair use doctrines are critical to the U.S. Copyright Act's coexistence with the First Amendment, the latter being one of the most foundational principles of U.S. Constitutional law. Due to the significance of the conflict that would be created (including the inapplicability of a fair use defense and the idea-expression dichotomy to an integrity claim), it is likely that constitutional principles and public policy considerations would weigh strongly against enforcement in the U.S. of civil law rights of attribution and integrity of the nature asserted by the plaintiff in the Belgian *Copiepresse* case.

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101. *Wojnarowicz v. American Family Ass'n* 745 F. Supp. 130, (S.D.N.Y. 1990).
102. *Id.* at 140.
103. While a divided court in *Gilliam v. American Broadcasting Co.* narrowly upheld a moral rights-type integrity claim under § 43(a) of the Lanham Act, where the defendant attributed to the plaintiffs a truncated version the plaintiffs' work, the *Copiepresse* case involved no false attribution. Rather, Google News's use in *Copiepresse* was exactly the type of use protected in *Wojnarowicz*, 745 F. Supp. at 140, "public display of an altered reproduction . . . in which there is no express or reasonably implied attribution to the original artist." .

IV. Conclusion

The disparity between the strength of U.S. fair use and First Amendment law on the one hand, and other countries' focus on the protection of artists' rights on the other, has created significant uncertainty for internet content hosts with international audiences. If jurisdictions outside the U.S. continue to apply their own laws to disputes with U.S.-based content hosts, the question of the enforceability in the U.S. of judgments rendered under non-U.S. copyright and moral rights laws will become increasingly important.

FROM *LADDU* TO GI AND AFTER: A POST-GRANT ANALYSIS OF THE *TIRUPATI LADDU* REGISTRATION

Sumathi Chandrashekaran[*]

I. INTRODUCTION

That religion is a money-spinner is a truism repeated frequently enough. But the commercializing potential of intellectual property rights in religion appears to have been discovered only recently in India. This throws up some fascinating conundrums for anyone observing the Indian IP system, which in any case is grappling with preserving the old and broaching the new. This tussle has had no better advertisement in the recent past than in the grant of a geographical indication (henceforth, "GI") to the *Tirupati Laddu*. This note tries to enquire into some of the controversial issues raised in the aftermath of the grant, in light of the policy objectives of the law governing geographical indications in India, as well as recent decisions of the administrative authorities. The note concludes with a speculative discussion on the rationale for applying for a GI on the *Laddu*, and whether those objectives have been met.

II. THE BACK-STORY: FROM *LADDU* TO GI

A GI is a name or sign attached to goods that signifies the geographical location of origin or manufacture of the goods. The GI may also by extension indicate an inherent quality, reputation or other characteristic associated with the goods. India has embraced GI's as part of its system of protecting intellectual property rights with enthusiasm by designing a statute, i.e., the Geographical Indications of Goods (Registration and Protection) Act, 1999 [henceforth, "the Act"], to favour agricultural, natural and manufactured goods, including handicraft products and foodstuffs. Nearly 200 applications for GI's have been made to date since the Registry commenced functioning, just over 6 years ago, with over a third having been successfully registered.[1]

The application for the *Tirupati laddu* is one such application, filed on March 31, 2008 by the *Tirumala Tirupati Devasthanam*, (henceforth, TTD), a body that manages, among others, the Venkateswara temple at Tirupati in the southern Indian state of Andhra Pradesh, reportedly one of the richest Hindu temples in the world. From the description of goods offered by the applicants, one notes that the *Tirupati Laddu* is "*offered as* naivedyam *to the Lord and*

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1. *See* GI Journals 1 to 31.

distributed and sold as prasadam *to the devotees after they worship Lord Venkateswara, the presiding deity at the Sri Vari Temple at Tirumala Hills at Tirupathi*" (GI Application No. 121, 2008). For anyone familiar with an Indian kitchen, a *laddu* requires no further explanation. The *Tirupati* variety claims to be unique not only because of the combination of ingredients used in its manufacture which "*impart a distinctive aroma, appearance and taste*", but also because of the reputation, quality and human skill associated with the product. What makes it more special, according to the application for its GI, is that the *laddus* are prepared in the religious centre of Tirupati, and that the *laddus* are the same ones that are first offered to the temple deity before being sold or distributed to waiting pilgrims as *prasadam*.

The GI registration for the *Tirupati Laddu* was granted in 2009, and instantly became the cynosure of all attention. Critics pointed to at least two possible grounds for rejection that appeared to have been ignored: first, that the TTD could not be considered an applicant fit to apply for a GI, since it was not an association of persons or producers, or organization or authority representing the interests of producers (Section 11(1) of the Act)[2]; and second, that the GI, indicating a religious offering, fell under the statutory exception of comprising or containing "any matter likely to hurt the religious susceptibilities of any class or section of the citizens of India" (Section 9(d) of the Act)[3].

III. The TTD and 'An Association of Producers'

To understand the first of these two concerns better, it may be relevant to keep in mind the mandate with which the bill governing GIs was introduced in Parliament in 1999 (*See* 'Statement of Objects and Reasons', GI Bill 1999)[4], which was as follows:

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2. Section 11(1) states, "Any association of persons or producers or any organization or authority established by or under any law for the time being in force representing the interest of the producers of the concerned goods, who are desirous of registering a geographical indication in relation to such goods shall apply in writing to the Registrar in such form and in such manner and accompanied by such fees as may be prescribed for the registration of the geographical indication."
3. Section 9(d) states, "A geographical indication: … which comprise or contains any matter likely to hurt the religious susceptibilities of any class or section of the citizens of India… shall not be registered as a geographical indication."
4. The exact words of the 'Statement of Objects and Reasons' in the GI Bill 1999 read as follows: "At present there is no specific law governing geographical indications of goods in the country which could adequately protect the interests of producers of such goods. Exclusion of unauthorised persons from misusing the geographical indications would serve to protect consumers from deception, add to the economic prosperity of the producers of such goods and also promote goods bearing Indian geographical indications in the export market… In view of the above circumstances, it is considered necessary to have a comprehensive legislation for registration and for providing adequate protection for geographical indications. Hence the Bill."

- To protect the interests of producers of goods;
- To exclude unauthorized persons from misusing geographical indications;
- To protect consumers from deception;
- To add to the economic prosperity of the producers of such goods; and
- To promote goods bearing Indian geographical indications in the export market.

A key term, relevant to our understanding of the present case, and one that recurs in the mandate both explicitly and implicitly, is that of "producers". The legislation sought to protect the interests, and add to the economic prosperity, of producers. To reinforce this mandate, the statute requires that a GI application shall be made by "any association of persons or producers or any organization or authority representing the interest of the producers of the concerned goods" (Section 11(1) of the Act). The legislature further offers a definition of "producer" in relation to goods to mean any person who (a) produces, processes or packages the goods, if such goods are agricultural goods; (b) exploits, trades or deals in, the goods, if they are natural goods; or (c) makes, manufactures, trades or deals in, goods, if they are handicraft or industrial goods (Section 2(1)(k) of the Act)[5].

As an aside, the Act does not provide for the definition of "producers" in the context of food products. It is interesting that the *Tirupati Laddu* remains classified as "Food Stuff", although there is no provision for such terminology in the legislation. If one wishes to be pedantic about referring to goods as per the categories provided in, say, Section 2(1)(k), the *Tirupati Laddu* would appear to fall into the agricultural goods category; and to such extent, the application could have been challenged on grounds of being wrongly categorized. As it turns out, it was not challenged thus. The *Laddu* remains in the GI Register, along with Dharwad *Pedha*, as the only "Food Stuffs" registered in India.

The Geographical Indications of Goods (Registration and Protection) Rules, 2002 [henceforth, "the Rules"], which accompany the Act, require that the names, addresses and other identifying particulars of the association of persons, producers, authorized users and other persons shall be submitted in

5. Section 2(1)(k) states: "producer", in relation to goods, means any person who:- (i) if such goods are agricultural goods, produces the goods and includes the person who processes or packages such goods; (ii) if such goods are natural goods, exploits the goods; (iii) if such goods are handicraft or industrial goods, makes or manufactures the goods, and includes any person who trades or deals in such production, exploitation, making or manufacturing, as the case may be, of the goods

full in an application [Rule 15(1)][6]. Section 11(2)(e) of the Act read with Rule 32(1)(5)[7] requires that the application include a statement containing particulars of the producers, if any, proposed to be initially registered with the GI. This may include a "collective reference to all the producers of the goods in respect of which the application is made". Rule 32(1)(6)(a)[8] further adds that the statement shall also include an affidavit as to how the applicants claim to represent the interests of the association of persons or producers.

All of these provisions, read with the legislative intent in introducing the statute, point in the direction of protecting the collective rights of producers *as a community*. This is further validated by the absence of any provision for assignment, transmission, licensing or any such transfer of rights under the Act (except in the case of an authorized user, where the user's right may devolve to the successor in title) [Section 24 of the Act[9]]. As a corollary, it is also evident that the law does not intend to extend GI protection to individual entities that may not have the mandate of the producers of the concerned goods. This is clearly shown in the repeated requirement of stating the particulars of producers in the application.

Having said this, it bears to note that these provisions also give applicants a little license when it comes to identifying the producers that are to be registered under the GI; the statement shall include particulars of producers that will be *initially* registered with the application, say Section 11(2)(e) and Rule 32(1)(5). This provision is taken full advantage of in the actual application process – a cursory reading of the applications that are published in the GI Journals shows that applicants frequently prefer to state that these particulars will be "provided

6. Rule 15(1) states: "Names and addresses of the association of persons, producers, authorised users and other persons shall be given in full, together with their nationality, calling and such other particulars as are necessary for identification."
7. Section 11(2)(e) states: "The application … shall contain … a statement containing such particulars of the producers of the concerned goods, if any, proposed to be initially registered with the registration of the geographical indication as may be prescribed"; and Rule 32(1)(5) states: "Every application for the registration of a geographical indication shall be made in the prescribed forms and shall contain the following … A statement containing such particulars of the producers of the concerned goods proposed to be initially registered. The statement may contain such other particulars of the producers mentioned in Section 11(2)(f) including a collective reference to all the producers of the goods in respect of which the application is made."
8. Rule 32(1)(6)(a) states: "the statement contained in the application shall also include the following: an affidavit as to how the applicant claim to represent the interest of the association of persons or producers or any organization or authority established by or under any law."
9. Section 24 states: "Notwithstanding anything contained in any law for the time being in force, any right to a registered geographical indication shall not be the subject matter of assignment, transmission, licensing, pledge, mortgage or any such other agreement; Provided that on the death of an authorised user his right in a registered geographical indication shall devolve on his successor in title under the law for the time being in force."

on request", and then proceed to prosecute the application without furnishing these particulars.

The *Tirupati laddu* application stands out because it identifies the TTD as not merely the applicant, but also as the entity under the "list of association of persons or producers or organization or authority" to be registered under the GI. This is clearly intended to indicate that the TTD is the sole producer, and by extension the sole beneficiary, of the *Tirupati laddu*. This is further enforced by the accompanying statement, which suggests little other than the idea that the TTD is the sole beneficiary. At best, it makes a passing reference to the approximately 200 workers (of which at least 60 are hired on a contractual basis) who make about 1.25 lakh *laddus* everyday (*See* GI Application No. 121), but no further suggestion that these workers may be involved in any way in the revenues generated from the sale of the goods.

It is relevant here to reiterate that GIs, unlike other forms of intellectual property, are essentially community rights. Rather than creating incentives for individual monopolies, GI's offer entire communities the opportunity to exploit their collective rights over products peculiarly representative of their region.

That the TTD has obtained a GI registration in its independent capacity, rather than in a representative role, appears to defeat the purpose of GIs as rights that seek to protect the collective community interests of producers. To treat the TTD as being equivalent to a "community" suggests instead that any entity in the future may successfully obtain a registration without needing to show either representation, or collective interests, in the right to a GI in India.

A similar issue came up in the case of the GI applications for the name 'Jamnagar' in connection with petrol, fuel, LPG and diesel, filed by Reliance Industries Limited (which was merged upon an order by the Registrar into GI Application No. 38). These applications stayed alive for over four years, from the time they were applied for in 2005. Opposition proceedings in the matters were scheduled for July 2009, but according to reports, the Indian conglomerate withdrew the applications before they were heard.[10] Nevertheless, there was no lack of debate on the functioning of a GI system, which permitted a private entity to pursue this application for a significant length of time. The 'Jamnagar' applications are similar to the *Tirupati Laddu* one to the extent that they were prosecuted by private entities, rather than by identifiable "communities", thereby

10. P. Manoj, *Reliance Drops GI Tag for KG Gas, Jamnagar Refinery Fuel*, September 7, 2009, Available at: http://www.livemint.com/2009/09/07214706/Reliance-drops-GI-tag-bid-for.html.

appearing to defeat the very purpose of a GI. That applications of this sort were entertained at all by the GI Registry is indicative perhaps of the lack of understanding of the legal nature of geographical indications, on the part of the applicants, their legal counsel, and the administrative authority. This is surely evidence, if evidence were needed at all, that legal education when it comes to matters of GI's is urgently needed.

IV. *LADDUS* AND OBJECTS OF RELIGIOUS SENTIMENT

The second line of criticism leveled at the *Tirupati Laddu* GI is less substantial and perhaps more emotional. That a product with a spiritual connotation should be granted a GI has attracted reference to Section 9(d) of the Act, which, excludes from registration anything that comprises or contains any matter likely to hurt the religious susceptibilities of any class or section of the citizens of India.

This line of argument against the *Tirupati Laddu* GI registration gains significance when read in light of comments relating to a sister legislation: the Trade Marks Act, 1999. This Act contains a similar provision under Section 9(2)(b) which cites matter hurting religious susceptibilities as an absolute ground for refusal of registration[11]. In reference to this clause, and in its report on the Trade Marks Bill that eventually became the Act, the Department-related Parliamentary Standing Committee for the Ministry of Industry (1999) observed, "The Committee is of the opinion that any symbol relating to religion, gods, goddesses, places of worship should not ordinarily be registered as a trademark." This observation came up again in a 2005 order of the Intellectual Property Appellate Board (henceforth, "IPAB") in an appeal from the grant of a trademark on the word "Ramayan" in connection with incense sticks (*agarbattis)* and related goods[12]. The IPAB, setting aside the order of the Assistant Registrar of Trade Marks, said, "our courts, particularly the apex court, had been sensitive about the religions, social and cultural susceptibilities of various segments of our social fabric. Observations of the Hon'ble Parliamentary Committees in 1993 too are a pointer in the same direction." While it remains reasonable to argue that the motives behind a trade mark application and a GI application are slightly different, it does not deter from the generic nature of the observations made by the Standing Committee, which preferred to disfavour granting registration to marks having any religious

11. Section 9(2)(b) of the Trade Marks Act 1999 states: "A mark shall not he registered as a trade mark if … it contains or comprises of any matter likely to hurl the religious susceptibilities of any class or section of the citizens of India"
12. *Amritpal Singh* v. *Lal Babu Priyadarshi and another*, 2005 (30) PTC 94 IPAB, also available also at: http://www.ipab.tn.nic.in/Orders/005-2005.htm

association. In the specific context of the present note, it is evident that the word "Ramayan" has extremely wide usage, and cannot be said to be the unique property of any person or community or group. To such extent, this example may not be exactly parallel to the idea of the *Tirupati Laddu*. However, it is arguable that by granting a GI to the *Tirupati Laddu*, one profanes the idea of *prasad*, which, in religious terms, has absolutely no commercial value.

Interestingly enough, despite these observations with reference to trademarks being within sighting distance, the GI Registry has attempted to take a contrary view of the matter. In a July 2009 order discussing the opposition to an application for the *Payyanur Pavithra Ring*[13], the Assistant Registar for GIs discussed the opposition to the ring for reasons of being "a sentimental issue of the public and could not be considered a GI product". The Registry studied the history of manufacture of the ring, a 'sacred ornament' with religious and ritualistic associations, and the associated rituals from which the product is said to derive sanctity, and concluded, "the ring is the product available in the particular region and famous in the name of Payyanur Pavithra Ring having specific quality... In view of that the product Ring is the goods of GI and use of sentimental of religion does not bar for registration."

In essence, the order suggests that so long as the product is available in a particular region, and has a specific quality, reputation or other characteristic associated with it, it may proceed for registration, notwithstanding any religious sentiment.

V. A GI FOR THE *LADDU*: WHAT NEXT?

The preceding discussion begs a singular question that remains unsatisfactorily answered, at least in this author's interpretation of the present case. That is, what exactly was the motivation for obtaining a GI status for the *Tirupati Laddu*? Surely, it could not have been to "officially" sanctify what has already been sanctified!

If one revisits the mandate of the GI legislation, as laid down in the Statement of Objects and Reasons accompanying the GI Bill, and examines *this* grant in light of the same, it is evident that this registration will protect the interest of but one producer of the *laddus*, and will add to the economic prosperity of but one producer of the goods. Had the applicants provided information on how the actual producers would gain from such a grant, the response to the registration could have been slightly more sympathetic. Instead, one is compelled to speculate, and contrarily at that, upon how the finances of the TTD would have changed had the GI not been granted at all.

13. *Payyannur Pavithra Ring, Artisans & Devp* v. *K Balakrishnan* , 2009 (41) PTC 719 (GIG)

Separately, if the intent of the application, and the rights gained upon the subsequent grant, is to protect customers from deception, and to exclude unauthorized persons from misusing the tag of Tirupati *laddu*, surely the TTD may have had avenues for protection in other existing legislation, for instance the Trade Marks Act 1999 or even the Consumer Protection Act 1986. Additionally, going by the precedent set by this application, one should not be surprised if other temples proceed to similarly obtain GI protection for their own products.

As a passing thought, one wonders if the TTD may have nipped its own growth in the bud by obtaining this registration: the TTD maintains a dozen temples, and has funded several others, including ones outside the country. Would a *laddu* made and obtained as *prasadam* from one such TTD temple 'branch' not be deemed as a '*Tirupati*' *laddu*, or be denied its sanctity merely because it was not made in Tirupati? Even the Board of Trustees managing the TTD would balk at this thought.

VI. CONCLUSION

The discussion offered in the present note suggests not only that the TTD is not an applicant fit to apply for a GI, but also that the grant of a GI for the *Tirupati Laddu* fails to establish how the registration will protect the interests and add to the economic prosperity of an entire community of producers. The application is thus contrary to the original mandate of the legislation. Whether or not the GI amounts to hurting religious susceptibilities is a matter of debate still, but it sets a precedent for other temples and religious or communal institutions to obtain GIs for their own products of manufacture, which in the view of this commentator may not be a healthy prospect. It is true that GI's as a form of legal protection in India remain immature, particularly since no court has been brought to deliberate on any of the issues discussed above. Nevertheless, all of these factors prompt immediate and urgent introspection on the part of various stakeholders in the system, including prospective applicants, their legal counsel, and the GI Registry itself, on their vision of the GI system's future.

EXCLUDING THE TROLL: AN ATTEMPT TO REFORM PATENT LAW

Raag Yadava[*]

I. IDENTIFYING THE ISSUE

The right to exclude, without the right to use, is somewhat peculiar to patent law.[1] The grant of a patent, in *status quo*, does not create in the patentee the right to make, use, and vend the thing patented.[2] Nor does it imply any such rights. A patent, as Chisum states, merely "*grants to the patentee the negative right to exclude others … it does not grant the affirmative right to make, use or sell.*"[3] This paper seeks to question this negative right of exclusion that is often asserted as a "bedrock principle" with no further analysis or validation.[4]

In this context, it becomes interesting to take note of a recent phenomenon that has crept up in the Patent Office, the phenomenon being, one of patent trolls.[5] The scope of this term, subject to an independent debate in itself, is fiercely contested. However, for the purposes of this discussion, it refers broadly to "a person or company that enforces its patents against infringers with no intention to manufacture or market the patented invention itself."[6] As succinctly put forth by Peter Detkin, patent trolls "*make a lot of money off a patent that they are not practicing and have no intention of practicing and in most cases never practiced.*"[7]

With this background, this article operates on a very limited scope in relation to the manner in which patents are defined in *status quo*, which allows for the existence of patent trolls. The normative analysis conducted through the course of the paper will primarily seek to weed out the concept of patent trolls by means of redefining patent rights and obligations. To this end, two questions will be answered. First, why, on principle, should patent trolls be done away with? And secondly, what changes are required to be made to the current framework to effectuate their exclusion?

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1. A. Mossoff, *Exclusion and Exclusive Use in Patent Law* 321, 22 HARV. JL & TECH. (2009), at 5; *See* Sections 24 and 48, Indian Patent Act, 1970.
2. *Ibid.*, at 336.
3. D. S. CHISUM, CHISUM ON PATENTS (Lexis Publishing, 2000), at § 16.02.
4. *Supra* note 1, at 325.
5. In 2001, when he was assistant general counsel at Intel Corp., Peter Detkin famously coined the term "patent troll" to describe firms that acquire patents only to extract settlements from companies on dubious infringement claims.
6. L. A. Fennell, *Adjusting Alienability*, 1403, 122 HARV. L. REV. (2009), at 1407.
7. Intellectual Property Today, *The Original Patent Troll Returns*, <http://www.iptoday.com/news-article.asp?id=372&type=ip> (last accessed on August 12, 2009).

As a caveat, this paper does not question the foundations of the patent system, i.e. it does not intend to enter the public versus private interest debate and assumes the incentive theory of patents to be true.[8] It only offers a modest alteration to the current system to remedy the issue of patent trolls.

II. Patent Law Deviating Off Course: A Historical Context

The history of patents began with royal grants by Queen Elizabeth (1558-1603) for monopoly privileges that advanced her economic and industrial policies.[9] Hence, one of the primary differences between these sixteenth-century royal manufacturing monopolies and the current patent system is that the former imposed on their recipients an affirmative duty to practice the trade.[10] By the late eighteenth century, Courts had altered the *quid pro quo* of the patent from an affirmative duty to a disclosure of the invention.[11] This paradigmatic change, in the opinion of the author, requires a second thought.

Patents originated as a mechanism for ensuring the progress of industry, production of commodities and public access to goods by means of allowing only one individual to produce an item, and excluding all others.[12] The current system, by defining patents solely in terms of the right to exclude, violates this fundamental rationale for the existence of patents – ensuring public access to products. *Status quo* permits patent trolls to *just* exclude others and not practice the invention itself thereby leading to an expropriatory situation where the troll has no accountability to society.

In essence, a patent is a social contract between the patentee and the state. The former is placed under an obligation to utilize the license *and* disclose its working in exchange for a monopoly right as opposed to *only* disclosing the innovation – a fundamental distinction which the law currently bears no nexus to. Logically, as patent trolls violate this social contract - disclosing the working of the patent but failing to utilize it - protection granted by the current system should not be extended to them. Further, patent law has always rested on the inarticulate major premise of a delicate balance of personal interest versus private interest. Patent trolls, through usage of patents as mere exploitative commodities, accrue *no* public interest.[13] For this reason, their activity must lie

8. *See generally* G. Ghadini, Intellectual Property and Competition Law: the Innovation Nexus (Edward Elgar Publishing Ltd., 2006).
9. A. Mossoff, *Rethinking the Development of Patents: An Intellectual History*, 1550-1800 1255, 52 Hastings L. J. (2001), at 1255.
10. *Ibid.*, at 1256.
11. *Supra* note 9, at 1256.
12. W. R. Cornish, Intellectual Property: Patents, Copyright, Trade Marks and allied Rights (Sweet & Maxwell, 1996), at 108.
13. Whilst public disclosure of the invention *does* provide a public interest, the same exists only in the long term after expiration of the patent term.

outside the scope of protection of the law.[14]

Attempts to ensure the compulsory working of patents have been spread across jurisdictions to varying extents, most notably by Section 83 of the Indian patent legislation.[15] Consequently, such protection of unilateral contracts and unproductive behaviour within the domain of patent law in India and all over the world, has not been a conscious policy decision of the drafters. On the contrary, it has the inadvertent result of a fundamental flaw in the current definitional framework, which such entities have utilized to the maximum extent. This flaw, as discussed above, lies in defining patents solely on the basis of the right to exclude. *Status quo* does not impose any obligation upon the patentee with respect to other use-rights. When the historical development explained previously is combined with Hohfeld's classification of use-rights as "privileges" and exclusion as a "claim/right", one can see the reason for the existence of the current system.[16] I seek to elucidate how these so-called use-*rights* must rather be use-*obligations*. Logically contradictory as that may be, the bundle of rights encompassed under the heading of a "property right", *inter alia* the right to alienate, the right to exploit etc., ordinarily *protected* by the legal system are subject to restrictions as regards patents in light of the public purpose which trumps the protection of individual *rights*.

This system creates a distinction between tangible and intangible property resources and assigns the exclusion concept solely to the latter due to certain doctrinal differences, adverted to subsequently.[17]

III. Remedying *Status Quo*

In this regard, this article proposes a compulsory utilization and/or licensing model, as is explained below, which aims to exclude patent trolls from the existing legal framework without affecting the interests of other patentees.

Currently, patentees are under no obligation outside of disclosure, other than those relating to misuse, fraudulence etc.[18] However, the proposed model advocates fixation of an additional *duty to compulsorily utilize the patent* in return for the right to monopoly and exclusion of others. Such an modification of the system should be viewed from two grounds; first it would not affect those who are currently utilizing their patents and hence, would preserve *status*

14. *Supra* note 8, at 13.
15. David G. Barker, *Comment, Troll or No Troll? Policing Patent Usage with an Open Post-Grant Review* Duke L. & Tech. Rev (2005).
16. *Supra* note 1, at 343; *see generally* W. N. Hohfeld, *Some Fundamentals Legal Conceptions as Applied in Judicial Reasoning* 16, 23 Yale Law Journal (1913).
17. *Supra* note 1, at 325.
18. *Supra* note 12, at 216.

quo, and, secondly, it specifically singles out patent trolls and forces them to utilize or sell their patents which can subsequently be exercised in the public domain for the benefit of society.

In this regard, the author is aware that the definition of patent trolls used in this paper would incorporate universities, students and independent inventors within its ambit as well. In order to remedy such an issue, patent trolls who claim that they are incapable of production must necessarily license the patent to an entity capable of production. Thus, on one hand, due to the presence of licensing fees, such inventors still retain incentive to innovate, while on the other, utilization of patents would be simultaneously ensured.

However, a common obstacle one runs into with such an approach lies in defining what constitutes 'use'. The question which forms the crux of the debate is whether patentees can produce a minimal number of units per year and thereby avoid sanction in the proposed model or does such behaviour violate principles of competition law? If such is not the case, should patent law impose a minimum production limit or is such behaviour adequate to constitute 'use'? In this regard, it is proposed that the scale of manufacturing or production so as to fulfil such an obligation may be determined in accordance with the demand for, necessity of and public interest in the product produced through utilization of that patent. Insignificant production by a patentee which falls grossly below the market demand should not be considered adequate 'use' of the patent under any circumstance. Admittedly, the legal framework may only go so far as outline the framework. The intricacies of determining the exact limits of production lie in sphere of economics and public policy, which lie outside the present concern. Such a proposal stands notwithstanding safeguards and sanctions under competition law. It is only where market power is unlawfully obtained or exploited, as is not the case in relation to patent trolls, that a true antitrust problem arises.[19] Thus, the independent decisions of the patentee regarding the means by which a particular invention is to be marketed or produced or as the case may be, combined with other productive inputs, ought to be regarded as having no inherent anticompetitive import.[20] Furthermore, patent holders are granted the right to exclude as opposed to a monopoly or any form of exclusive market power. Antitrust and competition law, therefore, is rendered inapplicable to a large extent.

IV. Demystifying Doctrinal Differences

Whilst imposition of such a duty to necessarily utilize the patent would

19. JD Briggs, *Intellectual Property and Antitrust: Two Scorpions in a Bottle*, 10 Sedona Conference Journal 65(2009), at 69.
20. *id*.

weed out patent trolls, one must also consider the doctrinal differences and justifications provided for defining patents as they are presently in *status quo*.[21] The most important doctrinal scenario evidenced for the necessity of defining patents in terms of only a negative right to exclude is that of 'blocking patents'.[22]

This concept of a blocking patent is best illustrated by an example. A, having patented drug X and process Y to produce the drug, can exercise her right to exclude B from commercially exploiting his own patented process W to produce X. In this situation, A has a 'blocking patent' because she can block B's use of his own patented process. In sum, if a patentee has a use-right for a particular patent, then a blocking patent, which is another valid patent that can exclude such use, would necessarily entail an infringement of this use-right.[23]

In the context of the example, A has monopoly over production of drug X. Consequently, B is precluded from utilizing that process as the final product X may only be produced by the A. In sum, B's *right* to the process W is being infringed by A's *right* to produce X. Both rights are legitimate. Thus, it seems logically inescapable that the conceptual content of a patent necessarily comprises a negative right to exclude.[24]

Such a conflict can be easily resolved through application of one of the simplest and most commonsensical maxims, '*your right stops where my nose begins*'. The presence of a positive use-right, if granted, need not necessarily lead to violation of others' use-rights. This can be achieved as long as subsequent use-rights are subject to earlier patents. In the above example, B will be accorded positive use-rights subject to non-violation of an earlier exclusion right of A.

The system proposed, wherein positive use-rights are in fact transformed into duties, will ensure eradication of patent trolls without interfering with the concept of blocking patents. Continuing from the above example, A will still be guaranteed her right to exclude others as B's use-right remains 'blocked' since it is subject to the former. Simultaneously, A would be under duty to utilize her patent to ensure its availability in the public domain. If, however, A is a patent troll, her right to exclude others would be inoperative and thus B, who would have otherwise been 'blocked' under *status quo*, can exercise the use of his patented process without fear of infringement. Therefore, in either scenario, the patent is utilized and the product is released into the public domain.

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21. *Supra* note 1, at 325.
22. *Supra* note 1, at 327.
23. *Supra* note 1, at 326.
24. *Supra* note 1, at 326.

While *solely* a right to exclusion, without the duty to exercise positive use rights,[25] can be granted for tangible property, the same cannot be applicable to intangible property, especially patents.[26] A patent protects a *unique* innovation and hence, it envelops the entire universe of that particular patented resource. Further, by virtue of the resource being unique, no other individual can lay claim on it or any similar resource. Conversely, with respect to tangible property, resources are rarely unique. Therefore, individuals can lay claim on other resources of a similar nature. Thus, exclusion, has a much more comprehensive effect in relation to patents.[27]

To elucidate the situation being: I own a sheep farm. The law stops you from trespassing on or utilizing my sheep farm. However, you are free to purchase your own sheep farm, which number in the thousands. But if I patent a process for the extraction of wool from those sheep, you are wholly excluded from using that process and extracting wool from your sheep wherever you may be (assuming that my process is substantially cost-effective). Simplistic as this example may be, in the field of pharmaceuticals and information technology, the ramifications are, at the least, severe.[28]

V. Tangible v. Intangible Property: Drawing Distinctions

Thus, in the case of tangible resources, a right to exclude others from one's property does not preclude the opportunity of excluding others from obtaining their own properties of a similar nature. A patent, however, universally and completely excludes. Therefore, defining patents solely on the basis of the right to exclude carries with it certain ethical concerns considering the all encompassing, concrete obstacle it places in front of other members of society from acquiring that knowledge, especially if the patent holder is under no obligation to exercise his patent.

VI. Concluding Remarks

In conclusion, this article draws five observations. First, patent trolls should not be accorded protection by the law due to a) violation of the social contract; and b) skewing the public-private interest balance unjustly. Second, the current conception of patents solely in terms of the right to exclude marks a manifest deviation from the principles on which the concept of patents was

25. *See generally* W. N. Hohfeld, *Some Fundamentals Legal Conceptions as Applied in Judicial Reasoning* 16, 23 Yale L. J. (1913).
26. G. W. Paton, A Textbook of Jurisprudence (OUP, 1972), at 516.
27. Jason Kirby, "*Patent Troll or Producer? The Evolution of Intellectual Property*", NAT'L POST (Ont., Can.), (Jan. 14, 2006)
28. Connell O'Neill, *The Battle Over Blackberry: Patent Trolls and Information Technology*, 17 The Journal of Law, Information, and Science (2008), at 99-112

founded. Third, such deviation must be remedied in order to regain the balance between public and private interests. Fourth, the defence of 'blocking patents' in favour of *status quo* can be easily resolved through the proposed model which ensures removal of patent trolls for the benefit of society, while protecting the interests of other patent holders in possession of 'blocking patents'. Lastly, patents are a form of intangible property *vis-à-vis* tangible property and the concerns regarding the right to exclusion must be addressed in both scenarios individually, keeping in mind fundamental differences.

LEGAL PROTECTION FOR FASHION DESIGNS

Adithya Reddy & Gowtham Shivshankar[*]

I. INTRODUCTION

The Indian Fashion Industry has been growing at a rate of 9.5 % annually and is expected to become a Rs. 750-crore industry by 2012.[1] Demand for clothes made by fashion designers has been constantly rising. As in the case of any social change, law has much catching up to do. Instances of copying of designs have been bothering designers for some time. Copying in the fashion industry is often referred to as "knocking off".[2] The Indian legal framework for protection of fashion designs is complex and has been in need of greater clarity. Laws pertaining to trademarks[3], designs and copyrights have all been used by designers, but that has not prevented them from being wary of the adequacy of our legal framework.[4] It is in this context that two recent decisions of the High Court of Delhi assume great significance. While the first case denied the plantiff-designers to sue for infringement under copyright law, the second case upheld the very same. However, a close reading of both the judgments is necessary to see if they lay down contradictory principles with regard to applicability of copyright law to fashion designs. We have thus attempted to cull out a coherent framework for protection of fashion designs under Indian Laws from the judgments.

Before we begin our discussion of the judgments, we believe it is necessary to discuss the legal position with regard to the issue in certain foreign jurisdictions. In particular, the United States ("U.S.") and the European Union ("EU") offer two sharply contrasting models for protection of fashion designs. In the U.S., protection is scarce and attempts to provide legislative protection have been made only as recently as 2006, whereas the position in the EU has seen exceptionally high levels of protection for fashion design.

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1. *See* http://www.fashionenigma.com/articles/article168.asp.
2. Teri Agins, *Copy Shops: Fashion Knockoffs Hit Stores before Originals As Designers Seethe*, The Wall Street Journal, August 8, 1994. Available at: http://leda.law.harvard.edu/leda/data/36/MAGDO.html#fn1.
3. At least in the U.S., the law of Trademarks is considered to give little protection against illegal copying of fashion designs as "for the vast majority of apparel goods the trademarks are either inside the garment or subtly displayed on small portions such as buttons." *See generally*, Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 VA. L. REV. 1687, 1740 (2006).
4. *Wary of copycats, fashion designers rush to register designs, See* http://www.expressindia.com/news/fullstory.php?newsid=50734.

II. THE AMERICAN POSITION – CHANGING TIMES

In the U. S., there has been a history of debate between pro-protection and anti-protection lobbies both within and outside the fashion industry. The original Copyright Act enacted in 1870 granted protection to "*paintings, drawings… models or designs intended to be perfected as works of the fine arts….*"[5] However, the term "fine arts" was never meant to include useful articles, but apparel designs were always considered to fall in to that category.[6] The definition of "works of art" under the statue was revised in 1909[7] and 1949[8]. However, the Act continued to label garments as utilitarian and failed to consider them protectable works.[9] In 1935, a highly effective association called the 'Fashion Originator's Guild of America' was formed by designers wherein they pledged to deal only in original creations. However the guild had to be closed because the Supreme Court found their practices to be in violation of the Sherman Anti-Trust Act.[10]

Under the current U.S. copyright statute, works of artistic craftsmanship are included "insofar as their form but not their mechanical or *utilitarian* aspects are concerned."[11] The statute further provides "*the design of useful articles... shall be considered a pictorial, graphic or sculptural work (and thus afforded copyright protection) only if, and only to the extent that such design incorporates pictorial, graphic or sculptural features separately from, and are capable of existing independently of the utilitarian aspects of the article*".[12]

The question as to whether design elements can be separated from the utilitarian aspects of clothing has been looked into in several cases.[13] The much

5. Act of July 8, 1870, ch. 230, 86, 16 Stat. 198, 212 (repealed 1916). As cited in S.A. Nurbhai, *Style Piracy Revisited*, 10 J.L. & Pol'y 489 (2002).
6. *Ibid.* at p. 494.
7. "In 1909 the Copyright Act was revised, and the word 'fine' was dropped. It thus appeared that useful articles could gain protection. To the disappointment of fashion designers, however, although the new law did not differentiate between 'fine arts' and arts that have a useful function, a 1910 Copyright Office regulation did", *Ibid* at p. 494. As cited in Stuart Jay Young, *Freebooters in Fashions: The Need for a Copyright in Textile and Garment Designs*, 9 Copyright L. Symp. (ASCAP) 76, 103 n.10 (1958).
8. *Ibid* at p. 495
9. *Wm. Filene's Sons Co. v. Fashion Originator's Guild of Am.*, 14 F. Supp. 353, 354 (D. Mass. 1936), aff'd, 90 F.2d 556 (1st Cir. 1937).
10. *Fashion Originator's Guild of Am v.. Federal Trade Commission*, 312 U.S. 457 (1941).
11. H.R. Rep. No. 94-1476, at 55 (1976).
12. This provision is considered to be codification of the principle laid down in the landmark case *Mazer v.. Stein*, 347 U.S. 201 (1954).
13. Such separation has been categorized into Conceptual and Physical. For a detailed discussion of the principles and cases. *See* Richard G. Frenkel, *Intellectual Property in the Balance: Proposals for Improving Industrial Design Protection in the Post-Trips Era*, 32 Loy. L.A. L.

discussed *Whimsicality* cases held that clothing, at least in the context of costumes, is inherently utilitarian and designs thereupon cannot be separated from its utilitarian character.[14]

However, there has been growing support to the perception that in the American fashion industry a fashion design has changed from its primarily utilitarian function. This has led it to its intertwining with the art industry more and more over time.[15] Exhibits in renowned museums displaying art by fashion designers are often touted as evidence of this blend of fashion and art.[16]

Questions have also been raised within the industry about the desirability of copyright protection. Arguments have been advanced that the American fashion industry has only gained from copying. In fact, it is believed that the practice of the American fashion industry to 'knock off' European designs was the primary reason for its growth in the early 20th century. While some authors argue against strong protection for fashion designs on the basis that copying in the fashion industry makes trends saturate the market quickly and forces fashion designers to search for newer looks,[17] others believe that there are several factors that would limit copying even in the absence of copyright law including inferior quality, duration of copying, contractual alternative, benefits beyond royalty etc.[18] The former argument is commonly known as the 'piracy paradox.'

In recent times, there has been a firm shift in the U.S. Congress' attitude towards affording copyright protection for utilitarian goods. The Vessel Hull Design Protection Act, Title 17, Chapter 13 of the United States Code, was signed into law on October 28, 1998, providing for protection for original designs of vessel hulls.[19]

A section of the American fashion industry has been hoping that their produce would be added to the list of such utilitarian goods that are afforded copyright protection for their original expression. This hope was realised on

Rev. 531, 541 (1999). *See Also*, Brandon Scruggs, *Should Fashion Design be Copyrightable*, 6 Nw. J. of Tech. & Intell. Prop. 122 (Fall, 2007).

14. *Whimsicality, Inc v.. Rubie's Costume Co*., 891 F. 2d 452 (2d Cir. 1989) (Whimsicality I).
15. Julie. P. Tsai, *Fashioning Protection: A Note on the Protection of Fashion Designs in the United States*, 9 Lewis & Clark. L. Rev. 447, 461 (2005).
16. *Ibid*.
17. Kal Raustiala & Christopher Sprigman, *The Piracy Paradox: Innovation and Intellectual Property in Fashion Design*, 92 Va. L. Rev. 1687 (2006).
18. William Landes & Richard Posner, *The Economic Structure of Intellectual Property Law* (2003). As cited in, Brandon Scruggs, *Supra* Note No. 13.
19. For a discussion in the context of fashion design, *See* Statement of the United States Copyright Office before the Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary, United States House of Representatives, 109th Congress, 2nd Session, July 27, 2006 available at http://www.copyright.gov/docs/regstat072706.html. (Hereinafter "Statement of the Copyright Office").

May 30, 2006 when a bill titled House Resolution 5055 ("H.R.5055"). This Bill was introduced in the American House of Representatives - the Design Piracy Prohibition Act (S1957: The Schumer-Hutchison-Feinstein Bill) to afford protection to fashion designs under the scope of the Digital Millennium Copyright Protection Act.[20]

The proposed legislation would "*prevent anyone from copying an original clothing design in the United States and give designers the exclusive right to make, import, distribute and sell clothes based on their designs.*"[21]

It is pertinent to note that the term 'original' is used in the legislation. The definition of originality is given as "*if it is the designers' creative endeavour that provides a distinguishable variation over prior work pertaining to similar articles which is more than merely trivial and has not been copied from another source.*"[22] Apart from requirement of originality, the legislation provides for an application process for registration to be completed before the copyright office. The copyright office is empowered to accept or deny the application against which decision the legislation provides for an appeal process and at the next level allows for judicial review.[23] Once a creation is 'deemed original' and is registered, the fashion design would enjoy protection for a stint of three years.[24] Although the term of three years is considerably shorter than the usual duration for protection under the general copyright law, it appears that the utilitarian nature of fashion designs has been an important consideration in not putting it in the same category as any other artistic work.[25] Infringement of a registered fashion design would lead to allowance of compensatory damages, recoupment of profits, attorney's fees and destruction of all infringing articles.[26]

The Bill is yet to be approved by the House and according to several authors and commentators it is likely that the resolution would be forced to undergo certain modifications. Nonetheless, it marks a major shift in American policy away from its long held disinclination towards granting protection to fashion designs.

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20. *See* http://thomas.loc.gov/cgi-bin/query/z?c109:H.R.5055.
21. Emily. S. Day, *Double-Edged Scissor: Legal Protection for Fashion Design*, 86 N.C.L. Rev. 237, at p. 268 (2007).
22. 17 U.S.C. § 1301 (b)(1) (2000).
23. For the requirements of the copyright application. *See* 17 U.S.C. § 1310 (b)(1) (2000). For the appeal process, *See* 17 U.S.C. § 1313 (b)(1) (2000).
24. H.R.5055 § 1(c) (2006).
25. The three year period is also considered to be the period of time during which fashion designs are most at risk. *See* Statement of the Copyright Office, *Supra* Note No. 21.
26. H.R.5055 § 1(g) (2006).

III. Position in the EU – The Land of Fashion

While the American fashion industry has always been considered to be under-protected by intellectual property law, the European position, by contrast, is clearly one of abundant protection. National laws of most European countries offer high levels of protection for fashion designs.

France is considered to afford the most liberal copyright protection to the fashion industry under the 'doctrine of unity of art'.[27] The product's utilitarian function or the originality of its creation is immaterial. As an author summarizes,

> "*In France, the Copyright Act of 1793 protects a fashion design as applied art and the Copyright Act of 1909 protects it as a nonfunctional design and pattern. Moreover, French law does not require the element of originality in the design; it provides copyright protection once the design becomes popular with the general public.*"[28]

In addition to these strong national laws, the EU has introduced the 'European Directive on Legal Protection'. This directive requires member countries to create a 'design right' which needs to display novelty, be registered and have individual character.[29] A designer who is granted such a right enjoys, firstly, an exclusive right to use his design and any design that produces the same overall impression and secondly, along with the right to prevent any third party from using it without his consent[30] both can be enjoyed for "*one or more period of five years…. upto a total of 25 years.*"[31]

IV. THE INDIAN POSITION-RECENT DEVELOPMENTS

The Delhi High Court ("Court") in *Microfibres Inc. v. Girdhar & Co*.[32] ("*Microfibres*"), attempted to postulate the Indian legal position on copyright protection for fashion designs. The decision of the Single Judge in the case was challenged before the Division Bench. We shall first deal with the judgment of the Learned Single Judge and its salient features. Briefly, the facts of the case entailed an American company which was engaged in the business of selling and exporting upholstery fabrics under the brand name 'Microfibres'. It filed a suit for infringement against the defendant for manufacturing and selling

27. *Supra* Note No. 20, at p. 266.
28. Oliver Medenica, *Designers seek to prevent cheaper knockoffs*, Nat'l L J, Aug. 28, 2006, *See* http://www.wrlawfirm.com/Blog/2006/10/fashion-copyright-bill-analysis-by-wm.html.
29. Council Directive 98/71, 1998 O.J. (L 289)28 (EC). Article 3.
30. *Ibid.*, Article 12.
31. *Ibid.*, Article 10.
32. *Microfibres Inc. v. Girdhar & Co.*, 2006 (32) PTC 157 (Del).

upholstery fabric that bore the artistic works considered to be identical copies or colourable imitations of the artistic work of the plaintiff. Though there were several contentions raised by both sides, for the purpose of this comment, we shall be concerned with just one issue decided in the case – the plaintiffs' claim that their work constituted original artistic work under the meaning of Section 2(c) of the Indian Copyright Act, 1957 which would entitle them to enjoy copyright protection under Section 40 of the Act.[33] The defense raised by the defendant was simply that the artistic works claimed by the plaintiff were actually designs relating to textile product and thus came within the scope of the Designs Act, 1911 and not the Copyright Act, 1957. The defendants claimed that under the Designs Act, the work on the plaintiffs' fabric was not entitled to any protection as registration is a mandatory requirement under it.[34]

The legislature has attempted to establish the relationship between copyrights and designs through two of the aforesaid provisions. Section 2(d) of the Designs Act, 2000 defines a design as expressly exclusive of any artistic work as defined in Section 2(c) of the Copyright Act.[35] It is noteworthy that the Designs Act, 1911 did not have this specific exception in relation to artistic work.[36] Similarly, Section 15(1) of the Copyright Act makes it clear that any design which is registered under the Designs Act shall not be copyrightable, the only exception being Section 15(2) which shall be dealt with later. Therefore, a design which has already been registered or is capable of being registered

33. *Ibid*, at ¶5.

34. It must be noted that unlike the provisions of the Copyright Act, the Designs Act, 2000 requires registration for extending its protection. Chapter II of the Act deals with registration of Designs. Section 11 reads: "Copyright on registration, (1) when a design is registered, the registered proprietor of the design shall, subject to the provisions of this Act, have copyright in the design during ten years from the date of registration. (2) If, before the expiration of the said ten years, application for the extension of the period of copyright is made to the Controller in the prescribed manner, the Controller shall, on payment of the prescribed fee, extend the period of copyright for a second period of five years from the expiration of the original period of ten years."

35. The Designs Act, 2000, Section 2 (d), "design means only the features of shape, configuration, pattern, ornament or composition of lines or colours applied to any article whether in two dimensional or three dimensional or in both forms, by any industrial process or means, whether manual, mechanical or Chemical, separate or combined, which in the finished article appeal to and are judged solely by the eye; but does not include any mode or principle of construction or anything which is in substance a mere mechanical devise, and does not include any trade mark as defined in clause (V) of Sub-Section (1) of Section 2 of the Trade and Merchandise Marks Act, 1958 (43 of 1958) or property mark as defined in Section 479 of the Indian Penal Code, 1860 (45 of 1860) or any artistic work as defined in clause (c) of Section 2 of the Copyright Act, 1957 (14 of 1957)."

36. The Designs Act, 2000 was enacted to provide a more effective protection to the registered designs. In terms of Section 48, the Designs Act, 1911 was repealed. However any notification, rule, etc., under the old Act, was to continue to be in force.

under the Designs Act[37] is not copyrightable and an artistic work as defined in the Copyright Act cannot be treated as a design.

As stated earlier, the Learned Judge denied the plaintiff's right to claim infringement under the Copyright Act, on the basis that the fabric designs fall within the definition of designs under the Designs Act. The reasons for such a conclusion, as given by the Learned Judge, can be arrayed as follows:

1) The Learned Judge was pleased to accept the contention of the Counsel for the Defendant that the only category in which such fabric designs can possibly fall in the definition of artistic work as under Section 2(c), would be 'painting'. The Court drew a distinction between paintings in the sense of the works of M.F. Hussain and designs on fabrics stating that only the former could be considered as 'painting' under the definition of artistic work.[38] It might be relevant to note that Section 2(c) specifically excludes the requirement of 'artistic quality' in paintings.[39] In view of this, it might not be entirely correct to state that only paintings of the nature of M.F. Hussain's work form part of artistic work under the Copyright Act. The Court also made reference to the definition of 'design' under Section 2(d) of the Designs Act to observe that "*in a design the features are merely ornamental and are applied to another article*" unlike an artistic painting which has independent existence.[40]

2) The Learned Judge also referred to Classes 13 and 14 of the Fourth Schedule of the Designs Act, 1911 which specifically dealt with printed or woven designs on textile goods being checks or stripes or otherwise. Such protection is now said to be available under Class 5 of the New Design Rules, 2001. The Court termed this an 'important and relevant aspect' to determine that fashion designs should be treated as designs and not artistic work.[41]

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37. The Designs Act, 2000, Section 15, "Special provision regarding copyright in designs registered or capable of being registered under the Designs Act, 1911, 1) Copyright shall not subsist under this Act in any design which is registered under the Designs Act, 1911 (2 of 1911) 2) Copyright in any designs, which is capable of being registered under the Designs Act, 1911 (2 of 1911), but which has not been so registered, shall cease as soon as any article to which the design has been applied has been reproduced more than fifty times by an industrial process by the owner of the copyright, or, with his license, by any other person."
38. *Supra* Note No. 31, ¶ 65.
39. Section 2 (c) "'artistic work' means, - i) a painting, a sculpture, a drawing (including a diagram, map, chart or plain), an engraving or a photograph, whether or not any such work possesses artistic quality;…"
40. *Supra* Note No. 31, ¶ 65
41. *Ibid,* at ¶ 62

3) The third and last leg of the Learned Judge's reasoning seems to be the most compelling. The term for protection of a work under the Copyright Act is sixty years as opposed to ten years extendable by five years in case of designs. The Court dwelled elaborately upon the rationale for such a distinction.

The Learned Judge seems to have accepted the defendant's argument that; if the plaintiff's plea were to be accepted then every design would be excluded from the purview of the Designs Act as each design would be able to trace its origin to a diagram, chart, drawing etc. This would have rendered the law of designs redundant and would have stifled competition and industrial innovativeness by granting sixty years monopoly to industrial and commercial designs.[42] The decision of the *Privy Council in Interlego A.G. v. Tyco Industries Inc., (1988) R.P.C. 343* was referred to note the following;[43]

"Indeed the whole purpose of a design is that it shall not stand on its own as an artistic work but shall be copied by embodiment in a commercially produced artefact. Thus, the primary concern is what the finished article is to look like and not with what it does and the monopoly provided for the proprietor is effected by according not, as in the case of ordinary copyright, a right to prevent direct reproduction of the image registered as the design but the right, *over a much more limited period*, to prevent the manufacture and sale of articles of a design not substantially different from the registered design". (Emphasis supplied)

The Learned Judge also referred to a decision in *SS Sarna Inc., v. Talwar and Khullar Private Limited*[44] wherein it was observed that;

> "Copyright Act in general protects the artistic work, but the idea behind excluding certain designs from the protection under the Copyright Act, although otherwise the same design might have been so entitled to protection, appears to be to avoid any hindrance being caused to the manufacture and sale of industrial articles which in the absence of a provision similar to Section 15 could not be achieved. The intention of the Legislature appears to be very clear that *wherever any artistic work has to be in a commercial exploitation by the owner of the copyright the same should be excluded from the protection under the Copyright Act* and should be provided protection under the Designs Act, 1911." (Emphasis supplied)

42. *Ibid*, at ¶ 51, 64
43. *Ibid*, at ¶ 51
44. *Ibid*, ¶ 52, 66

After referring to the above authorities as well as other cases, the Learned Judge concluded as follows[45] :

> *"In order for the work of the plaintiff to qualify as an 'artistic work', it must fall within the definition of sub-section (c) of Section 2 of the Copyright Act. A reading of the said provision would show that attempt of the plaintiff can only to bring it within the concept of 'painting'. The comparison with the painting of M.F.Hussain would be otiose as the work in question, in the present case, is not a piece of art by itself in the form of a painting. There is no doubt that labour has been put and there is some innovativeness applied to put a particular configuration in place. Such configuration is of the motifs and designs which by themselves would not be original. The originality is being claimed on the basis of the arrangement made. What cannot be lost sight of is the very object with which such arrangements or works had been made. The object is to put them to industrial use. An industrial process has to be done to apply the work or configuration to the textile. It is not something which has to be framed and put on the wall or would have any utility by itself. The two important aspects are the object with which it is made which is industrial and its inability to stand by itself as a piece of art. In fact, it has no independent existence of itself".* (Emphasis supplied)

The Learned Judge categorized designs and patents as industrial works that warranted shorter duration of protection than copyrighted works. The commercial nature of fabric designs and their inability to possess independent utility seemingly weighed heavily on the Court's mind. By implication the Court was of the opinion that fashion designs, *per se*, are not copyrightable. As discussed earlier, the position in the U.S. has been very similar. In particular, the American view that works of a commercial / utilitarian nature should not enjoy copyright protection has been impliedly accepted by the Court.

Therefore, it appears from judgment of the Single Judge that, fashion designs are eligible for protection only under the law of designs which, as noted earlier, mandates registration.

As stated, the decision of the Single Judge was appealed against and thus, a Division Bench had the occasion to consider afresh the question of the inter-relationship between the protections offered by the Copyright Act, 1957

45. *Ibid*, ¶ 62

and the Designs Act, 2000.[46] It would be pertinent to note that the Division Bench clubbed the appeal in the *Microfibres case* with appeals from two other cases which essentially dealt with the same question but in non-fashion contexts.

For instance, in one of the appeals, Mattel Inc claimed a copyright in their "Scrabble" board, as well as a copyright in the underlying drawings which were used to create the board. Mattel's case was essentially that the existence of a copyright upon the underlying drawings would confer upon it the exclusive right to apply these drawings upon any board. They contended that this right would continue to exist irrespective of the fact that Mattel might have lost its 'copyright in the design' of the Scrabble Board itself through the operation of Section 15(2) of the Copyrights Act, 1957 by reason of having failed to register the design under the Design Act 2000 and producing more than 50 copies of the Scrabble Board. This is similar to the contention in the fashion context that the underlying 'painting' prior to its application to an article of clothing is a copyrightable 'artistic work' within the meaning of Section 2(c) of the Copyrights Act. It may be usefully recalled that the Single Judge in *Microfibres* had explicitly rejected such an approach by holding that in the fashion context, the underlying 'painting' alleged to exist was in fact incapable of any independent existence prior to its application to an article of commerce, and that the underlying 'painting' was created with the sole intention of such industrial application. In the Scrabble context, while it is clear that the underlying image was undoubtedly capable of existing independently from the Board itself (in fact the Board can be considered simply as a 3-D depiction of the 2-D image underlying it), it was still the case that the underlying image was created solely with the intention of commercially producing Scrabble Boards.

The decision of the Division Bench, in this background, makes interesting reading and perhaps is best viewed as a highly nuanced attempt to give effect to a clearly intended but unhappily articulated legislative policy. Although the Division Bench finally dismisses the appeal in the *Microfibres* context as meritless, its judgment is certainly not to be viewed as a mere affirmation of the entire chain of reasoning adopted by the Single Judge. In fact, the Appellate Bench clearly repudiates some of the premises of the Single Judge and uses an alternative path in reaching an identical conclusion. The most important of these repudiations in our view, is in the assertion that the 'artist's commercial intent' at the time of production of the work is irrelevant. We shall deal with this aspect in due course, prior to which we seek to briefly consider the various other underpinnings of the judgment.

46. *Microfibres Inc. v. Giridhar,* 2009 (40) PTC 519 (Del).

The Division Bench retains the premise of the Single Judge that the legislative policy behind the Designs Act was primarily to 'water down' the protection given by the Copyright Act, 1957 to artistic works which were being commercially exploited as distinct from works which were purely in the nature of the fine arts. The Division Bench justifies this reading of the legislative policy underlying the Designs Act by looking to the Act's Preamble, its Statement of Objects and Reasons of the Act, as well as the scheme for registration as envisaged under Section 6 of the said Act. This is made abundantly clear from the following passage of the court's decision:[47]

> "A perusal of the Copyright Act and the Designs Act and indeed the Preamble and the Statement of Objects and Reasons of the Designs Act makes it clear that the legislative intent was to grant a higher protection to pure original artistic works such as paintings, sculptures etc and lesser period of protection to design activity commercial in nature. The period of copyright would be the author's life span plus 60 years. However, the legislature has allocated a lesser time span for the protection available to a registered design as only being 15 years. Thus, commerce and art have been treated differently by the Legislature and any activity which is commercial in nature has been granted lesser period of protection. On the other hand, pure artistic works *per se* have been granted a longer protection."

However, starting from this common ground, the Division Bench takes off in a completely different direction and seeks to harmonize the Copyright Act and the Designs Act through a fine reading of Section(s) 2(c) & 15 of the Copyright Act, and Section 2(d) of the Design Act, 2000. The Court firstly highlights the distinction between the design itself and the underlying/original[48] artistic work by giving an example of how an underlying drawing of a futuristic motor car can give rise to a 'design' when the same drawing is reproduced in another material form having appeal to the eye (for example, an actual car made of metal sheets resembling the car in the drawing), through an industrial process. The design would then be *"the features of shape, configuration, pattern, ornament or composition of lines or colours applied to the article*

47. *Ibid*,*at* ¶32.
48. Although the court uses the term 'original artistic work' the context seems to imply that the term 'original' is used in the sense of 'underlying' rather than in the copyright sense of 'original'. The copyright sense of being 'original' requires that the work would have to 'originate' from an author and not be merely a copy of any previously existing work. I use the expression 'underlying/original' wherever necessary to draw out the distinction between the two senses.

by the industrial process."[49] The distinction was emphasized by the courts as follows:

> "There is, therefore, a clear distinction between an original artistic work, and the design derived from it for industrial application on an article. This position is clarified by the use of the expression 'only' before the words 'the features of shape, configuration, pattern, ornament or composition of lines or colours in the definition of 'design' in the Designs Act. Therefore, the original artistic work, which may have inspired the creation of a design, is not merely the feature of shape, configuration, pattern, ornament or composition of lines or colours which are created to apply to an article by an industrial process. The original artistic work is something different from the design. Secondly, the definition of 'design' expressly excludes, inter alia, any artistic work defined in Section 2(c) of the Copyright act, 1957."

Having highlighted this distinction as well as the fact that the definition of design excludes any artistic work, the Court then asserts rather bewilderingly that the resultant design would itself be an artistic work which would be copyrightable if it is 'original' so as to satisfy the requirement of originality under the Copyright Act.[50] This can be seen in the following passage of the court's decision:

> "Whether or not a design is preceded by an original artistic work, a design would, in its own right qualify to be termed as an artistic work within the meaning of Section 2(c) of the Copyright Act. This is so because the expression 'artistic work' as defined in Section 2(c) of the Copyright Act bears a wide definition to mean a painting, a sculpture, a drawing (including a diagram, map, chart or plan), an engraving or a photograph, whether or not any such work possesses artistic quality. However, the design may or may not enjoy a copyright protection under the Copyright Act, depending on whether it is an 'original artistic work' or not."

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49. *Supra* Note No. 48, ¶22; the court also acknowledges the possibility that a design may come into existence directly without the occurrence of transformation of any underlying/original artistic work in ¶24 of its judgment.
50. Here obviously the court uses the word original in the copyright sense and not to refer to any underlying artistic work which might have inspired the creation of the design.

As we shall see a similar conclusion was reached by the Delhi High Court in *Tahiliani Design* wherein the Court refused to rule out the possibility that the design itself maybe an artistic work worthy of securing copyright protection as long as it was not commercially applied more than fifty times as stipulated under Section 15 of the Copyright Act, 1956. The assertion that the design itself is an artistic work seems to contradict the almost immediately preceding observation by the Court that the Designs Act excludes from the definition of 'design' under Section 2(d) anything which qualifies as an artistic work under Section 2(c) of the Copyright Act. The question that begs to be asked – if the design itself is an artistic work, then does not Section 2(d) seem to exclude every 'design' itself from the purview of the definition of 'design'. How then do we understand the Court's reading of Section 2(d) so as to avoid this absurdity? The answer seems to be that the phrase "any artistic work as defined under S. 2(c) of the Copyright Act" as it appears under Section 2(d) of the Designs Act has been read by the court thus - "any '*underlying'* artistic work as defined under Section 2(c) of the Copyright Act." It appears that this minor deviation from what is arguably the plain meaning of Section 2(d) may well be justified in terms of the greater synergy which the Court has admirably managed to weave between the provisions of the Copyright Act and the Designs Act. The way the Division Bench achieves this will be dealt with in due course.

Prior to that analysis, it is interesting to note that the Single Judge tried to deal with the issue in quite a different way – it may be recalled here that the Single Judge clearly asserted that the 'design' itself would not be an 'artistic work' under Section 2(c) of the Copyright Act because (i) it was not capable of existing independently, like a painting by M.F. Hussain would be capable; and (ii) the intention of the creator was to commercially exploit the design. The problem with such an analysis is also two fold;

Firstly, it must be noted that this approach relies more on an interpretation of the term 'artistic expression' under the Copyright Act itself rather than the width of the exclusion clause under Section 2(d) of the Designs Act. While this is not strictly a problem it must be realized that this might have implications outside the arena of designs. For instance, is it not possible to conceive of works which are paintings, or sculptures etc. which are produced only because the artist is being paid for them (commercial in that sense) and which do not involve the application of an industrial process upon an article in the sense envisaged by the Designs Act i.e. 'commercial' artistic works not covered by the Designs Act? An instance might be that an artist may paint to order in a specified way a few similar paintings using nothing else but the normal tools of his trade only for the purpose. Would such works then be considered neither as designs nor artistic works and

not be given any protection at all? In contrast to such a situation, the approach of the Division Bench in curtailing the ambit of the exclusion clause under Section 2(d) of the Designs Act will not have any ancillary effects.

Secondly, and more importantly the focus of the Single Judge on the intention of the creator to commercially exploit the work raises some problems. The Division Bench, by repudiating the relevance of any 'commercial' intent of the author, the judgment eliminates these problems which ride on such a criterion's back. The first of these problems is that there is no guarantee of transformation of the creator's intent into reality. There exists is the very real possibility that the artist's intention at the time he created the work in question could be totally irrelevant to what is in fact done with the work after its creation. The converse situation can also be envisaged where the commercial intent behind the creation of the work can be frustrated by circumstances after the creation that render such commercial production and exploitation non-viable. One can also envisage another situation where the creator did have a commercial intent, and the work is actually commercially exploited - but nonetheless in a way totally different from that envisaged by the creator. Here the problem is not one of a totally absent transformation of commercial intent but rather one of the forms that such transformation finally acquires. The second problem is one of attribution – whose intention is relevant? Is it the creator's intent alone, or could it be the intent of a person who subsequently acquires title to the work. The third problem is one of ascertainability of the creator's intent - how do we establish what the artist was thinking with even a reasonable degree of objectivity and certainty?

A reading of the Division Bench Judgment indicates that the Court indeed realized these problems inherent in the 'intention' test and consciously repudiated the same. This is evident from the following excerpt:[51]

> "We are also of the view that it is not correct on behalf of the appellant to urge that the intention of the creation of the work determines the Intellectual Property Rights contained therein, and not whether such work fell within the classification of 'Designs' under the Designs Act or the Copyright Act. The Designs Act nowhere stipulates the intention of the creator of the work as a determinative criteria and the exhaustive definition given not only in the Designs Act but indeed the Copyright Act clearly rules out such interpretation as suggested by Shri Raju Ramachandran."

51. *Supra* Note No. 46, ¶31

The court further adumbrated as follows:

> "We cannot accede to the plea of Shri Sanjay Jain that the intention of creating an artistic work would determine as to which enactment applies. The artist' s intent at the time of creation of the artistic work is indecipherable at the best of times. Artists are governed more often than not by their emotions and moods and whatever be the intention at the time of the creation of the artistic work cannot, in our view, determine the nature of protection available to the artistic work. Indeed such a plea of Shri Ramachandran has already been rejected by us, as the stupendous and commercial success of a particular artistic work may spur on the artist to permit commercial utilization and exploitation of such a work of article. To this extent, we agree with Mr. Praveen Anand that an intention of creation is difficult to ascertain and cannot form the basis of determining the rights."

The Division Bench finally addressed the issue of when the protection under the Copyright Act for a design which is also an original artistic work would cease and the requirement for its registration as a design under the Designs Act would arise. The Division Bench fits this last block in its reasoning in place by utilizing the exclusion from copyright protection enshrined under Section 15 of the Copyright Act for works which have been commercially applied more than fifty times. The court stated as follows in this regard:[52]

"Thus, for instance, a famous painting will continue to enjoy the protection available to an artistic work under the Copyright Act. A design created from such a painting for the purpose of industrial application on an article so as to produce an article which has features or shape or configuration or pattern or ornament or composition of lines or colours and which appeals to the eye would also be entitled design protection in terms of the provisions of the Designs Act. Therefore, if the design is registered under the Designs Act, the design would lose its copyright protection under the Copyright Act but not the original painting. If it is a design registrable under the Designs Act but has not so been registered, the design would continue to enjoy copyright protection under the Act so long as the threshold limit of its application on an article by an industrial process for more than 50 times is reached. But once that limit is crossed, it would lose its copyright protection under the Copyright Act. This interpretation, in our view, would harmonize the Copyright and the Designs Act in accordance with the legislative intent."

52. *Id, at* ¶45.

Moving on to the second case, that is, *Rajesh Masrani v. Tahiliani Design*[53]. In this case, the plaintiff was a company headed by one of India's most famous fashion designers Mr. Tarun Tahiliani. The plaintiff's case was that the defendant infringed his copyright by colourable imitation or substantial reproduction of the plaintiff's fabric prints including the underlying drawings / sketches thereof. The plaintiff's case rested largely on the contention that his drawings were made in the course of developing of garments and accessories which are artistic works under Section 2 (c) of the Copyright Act. While there was no dispute as to the authorship, originality of the work and also of the fact that the defendant's works were substantial reproductions, the moot question as in the previous case, remained as to whether the plaintiff's designs would qualify the test of being 'artistic works' under the Copyright Act , thus not requiring registration. The Court accepted the plaintiff's averments "drawings which are artistic work under Section 2 (c) of the Copyright Act are made in the course of developing both the garments and accessories as such and of patterns for printing and / or embroidering on the fabric use. The garments or accessories themselves are works of artistic craftsmanship under Section 2 (c) (iii) of the Act, *while the patterns printed or embroidered on the fabric are artistic works in their own right*."[54] (Emphasis supplied).

The Court, therefore, seems to have rejected the principle laid down in the *Microfibres case* with regard to inability of a fabric design to exist independently. While dealing with the issue of fashion designs' commercial nature, Court made use of Section 15 (2) of the Copyright Act. According to the Court, even if the Mr. Taihiliani's work was capable of registration as design, in view of the fact that not more than 20 pieces of the work have been produced by the plaintiff due to their exclusive nature, the subject matter of the work did not cease to subsist by virtue of Section 15 (2) of the Copyright Act[55]. The Court has distinguished the dictum in *Microfibres* primarily by relying on Section 15(2). The Court's reasoning based on Section 15(2) appears to be correct as the plaintiff's works were not meant to be commercially exploited, unlike the situation in *Microfibres*.

53. *Rajesh Masrani v. Tahiliani Design* AIR 2009 Delhi 44.
54. *Ibid*, at ¶ 18, the Court extracts certain paragraphs in the Plaint and states in ¶ 22 "…it is clear that there is hardly any denial made by the defendant of alleged infringement of copyright by him and it appears that it is a flagrant case of piracy of copyrights."
55. *Supra* Note No. 36.

V. CONCLUSION

It can be seen that the Division Bench in *Microfibres* weaves a tenuous thread uniting the reasoning of the two judgments which had preceded it. On the one hand, it reiterated the premise of the Single Judge in the same case that the Designs Act intends to water down the protection granted to copyrightable artistic works capable of being registered as designs under the Designs Act *upon* their commercial exploitation. The crucial trigger for the watering down to take effect is the factum of commercial exploitation by industrial application of the work to an article in excess of fifty times. The trigger of creator's intent propounded by the Single Judge was considered and rejected and to this extent the Division Bench adopted the reasoning of the Single Judge in *Tahiliani Design.* In light of the fact that the garments of a particular design had been produced for more than fifty times in *Microfibres*, the Division Bench finally dismissed the appeals as without merit and upheld the finding of the Single Judge that any copyright in the designs was extinguished upon such commercial production of the articles to which the design had been applied.

LEVERAGE: REVIEW OF DAN L. BURK & MARK A. LEMLEY, THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT

*Stephen M. McJohn**

The Patent Crisis and How The Courts Can Solve It[1] is an invaluable book for anyone interested in patent law. The book serves two goals. First, it suggests how patent reform in the United States can best be accomplished: not through Congressional amendment of the Patent Statute, but by judicial implementation of industry-specific reforms, in interpreting the existing Act. Some jurisdictions, such as India, already differentiate between industrial sectors more explicitly in patent policy than the United States. Second, of interest to patent law worldwide, the book provides a clear and concise explanation of the many applications of economics to patent law and theory over the past few decades, especially with respect to how the diverse forms in innovation in different industries are reflected in patent economics, and could bolster patent reform.

The patent system in the United States has systemic problems. But when patent reform legislation is drafted, different industries see entirely different problems. In the pharmaceutical industry it seems that "*claims are clear, patents are subject to significant scrutiny, and strong protection is necessary to allow companies to recover hundreds of millions of dollars in investment.*"[2] Similar conditions exist in other industries such as "medical devices and chemistry."[3] Patent reform, from the viewpoint of these patent-reliant industries, should include stronger protection (such as greater damages and more available injunctions), fewer challenges to validity for alleged failures to make the necessary disclosure, and harmonizations with the patent laws of other countries (especially to increase protection of pharmaceuticals). By stark contrast, information technology companies increasingly regard patents as much a cost as an asset.[4] Reform to them would mean limits on remedies (so a single patent on one element of a complex product would not yield market-wide damages or support an injunction against marketing the entire product) and readier means to invalidate suspect patents.[5] Not surprisingly, with the two main industry sectors seeking conflicting goals, legislative patent reform in the

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1. DAN L. BURK & MARK A. LEMLEY, THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT (The University of Chicago Press 2009).
2. *Ibid.* at 3.
3. *Ibid.* at 3.
4. *Ibid.* at 4.
5. *Id.* at 4.

United States has ground to a standstill in successive Congressional sessions.[6] The reason is that "innovation works differently in different industries."[7] The book sets out to explain how that affects the operation of patent law. In addition, it supports reform not through legislation (where industry groups will either deadlock or exacerbate problems in many instances), but through judicial interpretation of patent law in a manner sensitive to its effects.[8] To the objection that courts should make policy, the answer is that courts already make policy in interpreting the broad requirements of the patent statute, and so would make better policy if they better understood the consequences of their decisions.[9]

The systemic problems in United States patent law have several sources. First, the USPTO is staggering under a huge workload.[10] The USPTO receives around half a million applications a year, and now is sufficiently backed-up that it typically takes three to five years to decide whether to issue a patent.[11] Unlike many jurisdictions, there is no opposition process while the application is pending, so the decision depends on input only from the applicant and the overburdened examiner (who can only devote a few dozen hours at best to that particular application over those several years).[12] The applicant must disclose prior art only of which she is aware, and the examiner's access to prior art in many areas is severely limited.[13] The easiest path is for the examiner to grant the application, avoiding disputes with the applicant and clearing the case load a little.[14] The process also suffers from the ability of applicants to manipulate the process. Continuation rules allow the applicant, not the USPTO, to decide when an application is finally denied (because the applicant can always continue an application), when a patent issues (because even if the examiner allows claims, the applicant can keep the process going by adding new claims), or if the patent issues at all (because the applicant can likewise abandon the claims and start the process from square one).[15]

This unitary system faces increasing pressure from differences between industries: "In the pharmaceutical industry, the medical device field, or the traditional mechanical field, an individual may only have one or two patents covering his invention. In IT, however, one product regularly involves the

6. *Id.* at 4-5.
7. *Id.* at 5.
8. *Id.* at 3.
9. *Id.* at 8-9.
10. *Id.* at
11. *Id.* at 22-23.
12. *Id.* at 23.
13. *Id.* at 23.
14. *Id.* at 23.
15. *Id.* at 24.

combination of fifty, one hundred, even one thousand, or - as Intel lawyers themselves say with respect to their own core microprocessor- five thousand different patent rights."[16] Added to this uncertainty is a distinct feature of patent law, the lack of a defense of independent creation, meaning that someone who develops technology is liable to another who invented it first, even if the defendant had no knowledge of the patent.[17] In information technology industries especially, many factors combine to leverage the risks of infringement, and reward of holding even uncertain patents: "The combination of injunctive relief, patent damages that do not take sufficient account of the contributions made by others, and the prospect of treble damages for willful infringement even if the defendant developed its product on its own, all lead to a litigation system that is skewed in favor of patent plaintiffs, and that therefore encourages patent owners to roll the dice of litigation in hopes of reaping a large reward."[18] The chance that a patent holder may obtain an injunction can lead to "patent holdup," where a patent on a small component of a product gives the right to shut the product from the market, allowing the patent holder great strength in negotiation.[19] "Royalty stacking" may also result from overlapping patents, where a product maker must account for licenses to numerous patents on aspects of the product, a duplication that courts have not accounted for sufficiently.[20] Even where an injunction is not available, the prospect may skew the calculation of a "reasonable royalty," for courts think of the value of continuing to allow the product to be marketed at all, as opposed to the actual contribution to the product from that single component.[21] Adding these risks together, it may well be the case that in many industries, the overall costs of patents (including the risks of patent litigation involving invalid patents) may outweigh the benefit to the industry – although of course for individual market actors the balance may be quite different.[22] In addition, companies appear to react to the large magnitude but infrequent occurrence of patent litigation costs with "rational ignorance."[23] Because there are so many patents out there that could read on a product, because searching for applicable patents is so uncertain and costly, and because the chance of actually being sued is relatively small, the pragmatic course is often for companies, in effect, to simply close their eyes, cross their fingers, and pretend that great pile of patents does not threaten them.[24] An instructive comparison is

16. *Id.* at 27.
17. *Id.* at 28.
18. *Id.* at 28-29.
19. *Id.* at 29.
20. *Id.* at 29.
21. *Id.* at 30.
22. *Id.* at 30-31.
23. *Id.* at 31-32.
24. *Id.* at 31-33.

with the pharmaceutical industry, where there is far less uncertainty. Patent owners must list their patents in the Orange Book, ensuring that potential generic competitors are aware of them (as opposed to patentees in some industries, who are best advised to wait in the weeds until their patents cover valuable products).[25] There is less uncertainty about claim construction – because the generic manufacturer must copy the patented drug in order to piggyback on its Food and Drug Administration approval.[26] So patents as a form of title to property can work, at least in some industries, without the rampant uncertainty present in most sectors.[27]

Innovation functions quite differently in specific industries. The cost of research and development varies enormously between sectors.[28] "The R&D, drug design, and testing of a new drug can take a decade or more and cost, on average, hundreds of millions of dollars."[29] A new generation of semiconductors, with a new fabrication facility – entails years and likely four billion dollars.[30] Software, by contrast, is likely to cost less. The days of garage start-ups may be over, but developing a new software package is likely to be an investment of a different order of magnitude, some millions of dollars.[31] In some industries (software, biotech, manufacturing), the costs of innovation are coming down with the use of automated design tools.[32] Likewise, advances in gene-sequencing and bioinformatics have dramatically lowered the cost of innovation in some areas of biotechnology.[33] Variations among industries also include the importance of being first to market, as opposed to the importance of having a product that cannot be copied, which reduces the importance of being the first mover.[34] Generally, innovation is now less frequently the work of the prototypical inventor working alone in her lab or garage; innovation now comes from collaboration among teams, often requiring considerable laboratory and other resources.[35]

Other aspects of innovation have differential impacts among industries. The importance of patent protection depends in part on the availability of other incentives to innovate. If there are other incentives (such as peer recognition or prizes for scientists, or alternative forms of intellectual property protection, such as trade secrets for manufacturing processes), then the impact of patent

25. *Id.* at 32-33.
26. *Id.* at 32-33.
27. *Id.* at 33.
28. *Id.* at 38.
29. *Id.* at 39.
30. *Id.* at 39.
31. *Id.* at 40.
32. *Id.* at 40.
33. *Id.* at 40.
34. *Id.* at 43-44.
35. *Id.* at 40-41.

protection may be diminished.[36] Innovators also vary by industry with respect to how much the value of their innovation they can capture in a market, and how much of that value flows to the public without monetary compensation ("spillover effects," a term that captures the idea that intellectual property law need only provide incentive to innovate, rather than allow innovators to capture all the market value of their innovation – and also the idea that externalized benefits are better than deadweight losses).[37] Perhaps the biggest difference between industries lies in the amount of cumulative innovation: pharmaceuticals tend "to be a stand-alone process generating a single finished product."[38] By contrast, software products "will be incrementally improved over time."[39] In different industries, innovation also poses different negative risks: impeding standardization in markets requiring overall coordination, such as information technology; decreasing stability of existing products, especially in software; and risks to health and safety in areas such as biotech and nanotechnology, where the long-term risks of innovations are not immediately apparent.[40]

These differences are reflected in the different ways industries make use of the patent system. Whether to seek patent protection at all is a much different decision with respect to pharmaceuticals, where companies depend on patents to exclude competition for their overall product, and computer-related industries, where one patent will not protect a product, but a bulging patent portfolio may be necessary to keep up with the competition.[41] Patent prosecution also shows marked differences. Pharmaceutical, chemical, and biotech applications appear to receive more thorough scrutiny, with more prior art cited, more time spent on examinations, and more actions by the applicants during the process.[42] Computer-related inventions, especially software, show considerably fewer prior art references, perhaps because the sources of such information are less accessible in those areas; rather than being in patents and professional journals, prior art may simply be embodied in products or user manuals.[43] The value assigned to patents depends on sector as well. Pharmaceutical patents are more likely to have a predictable value, whereas software patents are likely to be subject to a higher range of valuations, where such a patent could prove worthless or be a money-spinner if its technology is

36. *Id.* at 43-44.
37. *Id.* at 46-47.
38. *Id.* at 47.
39. *Id.* at 47.
40. *Id.* at 47-48.
41. *Id.* at 50-51.
42. *Id.* at 50.
43. *Id.* at 51.

incorporated in a best-selling product or industry standard.[44] The scope of patents is also highly technology-specific.

> *"In some industries, such as chemistry and pharmaceuticals, a single patent normally covers a single product. . . In industries such as semiconductors, by contrast, new products are so complex that they can incorporate hundreds and even thousands of different inventions – inventions frequently patented by different companies."* [45]

In such industries, a valuable asset is a patent portfolio; a mass of patents is worth more than their sum, because the portfolio owner is less likely to be sued by an industry competitor, who would fear a counterstrike.[46] Accordingly, the companies receiving the most patents are all in the computer hardware and electronics industries.[47]

Licensing practices, including litigation to protect licensing markets, vary depending on the industry. The vast majority of patents are never litigated.[48] Litigation in pharmaceuticals is likely to involve a dispute over who can market the most popular drug in a market. Litigation in software is more likely to involve application of an outdated patented technology to a newer generation of software, given the quick turnover in software products and the slow process of patenting.[49] Likewise, the value of patents as a part of the overall company varies with respect to pharmaceuticals, where a single patent could cover a multibillion dollar market, and information technology, where a company is more likely to point to a patent portfolio.[50]

The Federal Circuit, the court in the United States that hears patent appeals (subject to occasional review by the Supreme Court) has applied patent law differentially. The starkest example is biotechnology and software.[51] In biotechnology, the court has applied a strict written description requirement (such as requiring disclosure of genetic sequences, as opposed to functional descriptions, even where the description lays out a clear plan to get the sequence) and a relatively low obviousness requirement (by stressing that biotechnology is an unpredictable art, so even apparent inventions are risky and therefore not

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44. *Id.* at 49-50.
45. *Id.* at 54-55.
46. *Id.* at 55.
47. *Id.* at 55.
48. *Id.* at 55.
49. *Id.* at 57.
50. *Id.* at 57.
51. *Id.* at 60.

obvious).[52] In software, the court has applied a lax written disclosure requirement, accepting functional descriptions, on the theory that writing the software code to implement them is well within the typical skill in the art. The court has, however, applied a higher obvious requirement for software, if not always consistently.[53]

Patent theory responds to this industry diversity with a diversity of theories. Prospect theory suggests that patents should be sufficiently strong to protect not just invention, but the entire process of investing in innovation, and "coordinating the development, implementation, and improvement of an invention."[54] Competitive innovation theory suggests that patents do not provide a monopoly (as is often thought), but rather serve to foster competition by giving parties rights in competing inventions.[55] Cumulative innovation theory looks to balancing incentives to inventors against the costs of their patent to other inventors, using "tailored incentives" to encourage both initial inventors and improvers.[56] Anti-commons theory raises concerns that patents can result in economic inefficiencies, such as where many different technologies must be aggregated for innovation, raising hazards of holdouts, rent-seeking, and transaction costs.[57] Closely related to that is the idea of the patent thicket, where so many patents have been awarded within an industry that innovation is slowed by the uncertainty and costs of resolving and licensing the competing claims.[58]

This broad-ranging analysis of the economics of patents is brought to bear with the idea of "policy levers," applying the rules of patent law "with sensitivity to the characteristics of particular industries."[59] Such differential application of patent law already exists. The requirement that an invention be useful has little bite in software and mechanical inventions, where anything that works is sufficiently useful, but often proves an obstacle in biotechnology and chemistry, where a specific useful application must be shown.[60] Paying more attention to industry reality leads to some prescriptions. Experimental use, obviousness, remedies, and the written description requirement are all doctrines that offer considerable leverage to affect the role of patents in various industries, and already have such effect through case law, although very likely

52. *Id.* at 60-61.
53. *Id.* at 61.
54. *Id.* at 69-71.
55. *Id.* at 72-73 .
56. *Id.* at 73-75.
57. *Id.* at 75-77.
58. *Id.* at 77-78.
59. *Id.* at 108.
60. *Id.* at 110-12.

without the courts considering the secondary impact of their interpretation of the law.[61]

Presently, courts apply patent law differently in different industries. By taking an instrumental approach, courts could improve the patent system in ways that legislative reform would likely never achieve. In biotechnology, courts could reverse the present trend of case law, and apply a less strict written description standard coupled with a heightened obviousness requirement.[62] Biotechnology would then have fewer, broader patents - which would fit both the high-risk, high-cost nature of innovation in the field (a classic prospect theory sector), and reduce the anti-commons problem with such technologies as DNA, where machines can now discover genes (a form of invention that could then be deemed obvious) that could be necessary for future innovators.[63] Likewise, the utility and subject matter rules could be applied to prevent patenting of biological substances before their specific usefulness was proved, similarly reducing problems of anti-commons and patent thickets.

Patent law could likewise be judicially reformed in the information technology industries. Again reversing present law, courts could apply a more relaxed obviousness standard and raise the presently lax written description standard. This would fit the cumulative innovation nature of the field, because patents would be permitted for incremental innovations, but would be narrow, so as to reduce hazards of patent thickets. Both the changes, along with adjustment to injunctive and damage remedies, would also reduce the hazards of patent holdups.[64]

The industry-specific approach to patent law is already here, so courts might as well try to apply it in a way that furthers the goals of the patent system. The use of policy levers will not always be perfect, because many levers could have unanticipated results, and different judges may have different views of the most important policy in a case. But, it is better that courts should act with awareness of differences in industries and the effects of doctrine upon different types of innovation. Unlike legislative reform, the analysis of this book requires no act of Congress or even of the courts for adoption. Rather, its clear explanation of patent law and economics will inevitably become influential in patent law, as it spreads, like other innovations. The biggest challenge will come from the fact that industries are not static. Information technology gradually is becoming a part of every industry, so how to categorize

61. *Id.* at 112-30.
62. *Id.* at 142-55.
63. *Id*.
64. *Id.* at 160.

an invention may become increasingly tricky. In addition, research may show that some variation in patents is not due to technology, but to the practices in patent drafting within the industry, so even such disciplines as sociology and literary analysis may come to bear. But courts can use moderate, policy sensitive interpretation in lieu of formulating rigid interpretations of the patent statue.[65] If courts can handle the policy levers with sufficient skill (the book speaks of such fine adjustments as modulating and recalibrating patent law)[66], it is a consummation devoutly to be wished.

65. *See eBay Inc.* v. *MercExchange, L.L.C.,* 547 U.S. 388, 391 (2006) (rejecting Federal Circuit's rigid " rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances," in favor of flexible four-factor test); *MedImmune, Inc.* v. *Genentech, Inc.,* 549 U.S. 118 (2007) (rejecting Federal Circuit's strict requirement that a licensee breech license agreement in order to have jurisdiction for declaratory judgment action); *KSR Int'l Co.* v. *Teleflex Inc.*, 127 S.Ct. 1727 (2007) (rejecting Federal Circuit's rigid "teaching-suggestion-motivation" test for obviousness, in favor of more flexible approach).
66. *Supra n.* 64 at 102, 155.

Book Review

Issues in Internet Law: Society, Technology, and the Law, 2008 Edition

[Issues in Internet Law: Society, Technology, & the Law] [Paperback]

Keith B. Darrell

Rodney D. Ryder

The text is a concise publication on the Internet and the laws governing it, written in a way that simplifies even complex legal issues. The 2009 edition has been well updated, with added terms for the glossary, as well as new cases and headings. The book has touched upon all the legal topics relating to the Internet, from chat rooms, emails, cyber crimes, spyware, phishing and social networks to domain name disputes. Advances in technology have always changed societies, and there has never been as far-reaching and profound an advance as the Internet. If you engage in a transaction online, was that online contract you clicked on really enforceable, even if you scrolled down and did not read it? Is receiving pornography in office e-mail from your co-workers sexual harassment? Can stalkers find your personal information online? What can you legally place on your website? And what is not allowed? Do you own your domain name? Can a public library censor your use of its Internet-linked computers? Who else can read your e-mail? Is it legal to gamble online? How "private" is your private information after you disclose it to a website? Is a student exercising his First Amendment rights when he creates a hate website on a public school's Internet server? Do other countries address these issues differently from the U.S.? Which country's laws apply on the Internet? These are just some of the issues addressed in this book.

Issues in Internet Law: Society, Technology, and the Law can be read by the common man to develop an awareness of issues in Internet Law and is also designed for use as a textbook.

Every topic of the book is well researched, and gives an overview of the topic in the first few pages along with some cases before coming to an exhaustive explanation on the topic. Anyone who uses the Internet would find this book useful, particularly those who blog, own a site or who are involved in frequent e-transactions. Although it deals with the complex legal issues surrounding the Internet, it is written in layman's terms and illustrated with

"ripped from the headlines" court cases.

This book in particular is for the common man, but lawyers and law students alike can benefit and obtain an insight into the world of Internet Laws. In relation to the structuring of the book, the summary, notes and quizzes at the end of each chapter are commendable and assist the readers in memorizing and understanding the topics better.

As the electronic world (of which the Internet forms an important part) is changing quite rapidly, it is difficult for lawmakers to catch up with the changing dimensions of the Internet. Books like Issues in Internet Law: Society, Technology, and the Law help bridge the gap between the existing law and the change. Further, the simplicity of language in the book is more helpful than legal jargon.

The Internet is like a giant snake slithering across every country – each nation focuses on the portion of the snake it sees and tries to apply its jurisprudence to that portion. Issues in Internet Law: Society, Technology, and the Law looks at the attempts of nations to overlay their laws upon the Internet. The 2009 edition of Issues in Internet Law: Society, Technology, and the Law has been updated with the latest cases and trends in Internet Law. To elaborate on the topics included, the following issues are addressed: privacy (invasion of privacy, public records, workplace privacy, employer & ISP monitoring, data retention & data breaches, e-mail & chat room privacy, web site privacy policies, behavioural marketing, privacy and children); free speech (defamation, SLAPPs, gripe sites, blogs & vlogs, obscenity & pornography, harassment & hate speech, prior restraint & repression), cybercrimes (spam, phishing, identity theft, spyware & malware, cyber-stalking); intellectual property (copyright, trademark, patent, trade secrets, creative commons, linking, framing, file-sharing, fair use, public domain, work-made-for-hire, VARA, linking & framing, domain name disputes, keyword advertising, right of publicity); web contracts, web accessibility; net neutrality; Internet interstate commerce; online reputation management; podcasts; and social networks.

Such a book would be immensely helpful if introduced in the curriculum of Indian schools. It would help young students obtain an insight into the dynamic jurisprudence of Internet law. With the number of India's Internet users increasing, it is imperative that schools adopt this book in a way which would help young students gain knowledge about the various issues involving the Internet.