Singh & Associates
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MARCH 2013, VOL. VI, ISSUE III

INDIAN LEGAL IMPETUS

Intellectual Property

creations of the mind

For Meet and Greet During INTA

"Please visit us at booth: #426 at the International Trademark Association (INTA) 135 Annual Meeting & Conference, Dallas [May 4-8, 2013]"

FOREWORD

Manoj K Singh
Founding Partner

It gives us an immense pleasure to bring forth the March 2013 Edition of our monthly newsletter "Indian Legal Impetus", summarizing the latest changes in the legal arena.

India has recently signed the long awaited Madrid protocol giving life to Chapter IV A of Trademark Act, in the present issue an attempt has been made to highlight the changes especially with respect to process of filing International registration post signing of the protocol. Similarly, the Copyright Amendment Act has also been notified by Ministry of Human Resources and Development on 14th March 2013.

There is an article discussing the conflict between a trademark and domain name. What amounts to "Prior Publications" under Design Act is a long debated Issue, with a recent Judgment of Hon'ble court the issue seems to be settled, the arguments and the decision of the court has been discussed in the present edition . Similarly, a case study in the form of article has been done wherein the Issue of expired trademark registration is been dealt.

"Innovation" now a day's has become a serious topic of discussion, as courts have tried to give a different Interpretation to this word especially in case of patent of pharmaceutical products. The recent view of courts all across the globe including India shows that courts while deciding the dispute also take into consideration the social impact of such relief. An article has found a place in our newsletter discussing this issue whether these judgments can be said to be an end road for multinational companies interested in getting patent protection especially in India.

Central Board of Direct Taxes have introduced many circulars clarifying various issues in past two three months, especially giving a relief for software developers. An article highlighting the changes is worth reading in the present issue. Similarly, there are articles of the amendments made by Reserve Bank of India, Competition Commission of India with respect to Core Investment Companies and insurance business, Combination regulation respectively.

Can arbitrator be appointed at any stage? No is the answer given by Hon'ble Supreme Court of India in its latest judgment. There is an article covering this judgment. Lastly, is our newsbyte section with latest developments.

We sincerely hope that our esteemed readers find the information furnished through this newsletter useful. We welcome all suggestions, opinions, queries or comments from our readers. You can also send your valuable insights and thoughts at ***newsletter@singhassociates.in***.

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"Indian Legal Impetus"

Volume VI, Issue III

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TRADEMARK ISSUES IN DIGITAL ERA: AN OVERVIEW

Sugandha Nayak

With the globalization and commercialization of the Internet, Domain names have taken on a new connotation as business identifiers. When the internet was in its infancy, domain names were created to serve as useful mnemonic means of locating specific computer system on the Internet. Domain names are now highly visible in real space as well showing up on television com mercials, billboard, magazine ads, and even on the sides of buses etc. The basic structure of internet is Internet Protocol which is used for computer server communication in the numeric form and known as IP address in common parlance. Since these numeric IP addresses are not mesmeric, due to which it becomes tedious and difficult to remember such IP addresses. Introduction of domain names have played a great role in recollection and now considered as corporate asset. Thus, a domain name is an easy alternative for all numeric IP addresses and is known as the 'Domain Name System'.

Domain is a part of the Cyberspace which is a virtual world, which exists only in Computer memory. Cyberspace is a living organism; constantly changing as more people join the pioneers of this brave new world every moment. India has drastically moved in this direction and the laws in India towards these social changes have already been adopted.[1] The advent of trademark can be traced back to the beginning of the trade itself. Due to human endeavors the manufacturers have started differentiating their goods from others; the manufacturers started symbolizing their goods with marks and logos. Now in today's time where people have less time to scrutinize a product/ goods the trademark helps them to go for the best buy at cheaper rate by comparatively spending lesser time.[2] Thus in this era of information technology it becomes pertinent to address this issue of online infringement of trademark with utmost care and approach towards the correct solution and application of law for such protection.

TRADEMARK AND DOMAIN NAMES

A domain name is part of the address and location of a site on the internet. While trademark have been around for a long time, domain names are comparatively a recent phenomenon attracting public attention. Disputes over ownership of the domain names have arisen for a number of reasons. The domain name has been considered as akin to a trademark. Therefore those who own the mark for the no-internet business wish to use the same on the internet; it is seen as a valuable addition to the branding of goods or services as a whole. Trademark law is territorial whereas internet is global. Therefore, different business trading under the same mark in various parts of the world may have what they consider to be the same legitimate claim to a particular domain name, as no domain name can be identical therefore only business house can have a particular name.[3]

DOMAIN NAME ASSIGNMENT PROCEDURE

For the registration of domain name, a request is made to the organization having power to allocate the domain names. Before 1999 a company known as Network Solutions Inc. (NSI) was the only organization for the registration of the domain name under .com, .net, .org etc. To avoid arbitration between two parties who choose the same domain name, NSI decided to simplify the procedure by applying a first come, first serve arrangement with respect to allotment of such overlapping domain names. In this simple procedure introduced by NSI, there are no reasoning questions on applicant's right to adopt that particular domain name; rather they would simply allot the requested domain name if available with the organization.

Under this liberal policy, NSI created a procedure under which a third party can challenge the right of a domain name owner to use a particular domain name. If the challenge were successful, the domain names would be suspended. This policy only protected parties that had a nationally registered trademark identical to another party's domain name. An owner of unregistered trademark could not initiate an action under this policy, nor could an owner of a trademark that was confusingly similar (but not identical). Now the registrar of domain

1 *Mayuri Patel & Subhasis Saha, Trademark Issue in the era of internet, Journal of Intellectual Property Rights, Vol. 13 March 2008, pp118.*

2 *http://www.lawyersclubindia.com/articles/print_this_page.asp?article_id=2883 last retrieved on 02.04.2013*

3 *Ryder, Rodney, brands, Trademarks and advertising, Lexisnexis Butterworths, 2003.*

names are accredited by the Internet Corporation for Assigned Names and Numbers (ICANN), a non-profit corporation formed specifically to control Internet Domain name management and similar functions. NSI continues to assign domain names, but now they are just one many domain name registrar.

AVAILABLE REMEDIES

Initially the domain name disputes in United States were decided through Courts by applying three primary trademark laws.

- Firstly, claim in traditional trademark infringement, which requires that the alleged infringing use cause a likelihood of consumer confusion.
- Secondly the cause of action, which is to assertion that a domain name 'dilutes' the value of the mark.
- Finally the claim proved is unfair competition, where the trademark is not federally registered.

Due to the above lengthy process an alternative to court system was introduced commonly known as ICANN. It is an organization responsible to administer and manage the domain names. It also implemented the universal procedure known as Universal Dispute Resolution Procedure (UDRP) which will govern specific disputes related to the domain names. UDRP has been proved to be one of the most successful procedures which work as a model for arbitration proceeding with slight modifications. The most common disputes with are decided by the UDRP are cyber squatting and cyber piracy used by registrant of the domain name through illegal means.[4]

ICANN UNIFORM DOMAIN NAME DISPUTE RESOLUTION POLICY

In 1999, a new Uniform Domain Name Dispute Resolution Policy (UDNDRP) was promulgated by ICANN. It works under the close supervision by the U.S Department of Commerce. There is a great difference between the old NSI policy and the UDNDRP. The ICANN policy forbids registration of the domain name if:

i. The domain name is identical or confusingly similar to another's mark.
ii. The entity registering the domain name has no legitimate right to it.
iii. The domain name was registered and used in bad faith.

The disputes under ICANN rules are referred to one or three member administrative panel that decides the dispute promptly and publishes the decision. The administrative decision is final and binding on the registrar and registries subject to ICANN control, but it can be superseded by Court actions. The proceeding is fast and inexpensive, which can be conducted through e-mail with no personal appearances, and to require minimal production of documents. The policy permits the arbitrators to rule that the complaint was brought in bad faith to 'reverse hijack' the domain name or to harass the domain name holder. Relief for such conduct is confined to a declaration of abuse of the administrative proceeding.

In India, the domain name disputes are administered and managed by the Indian Domain Name Dispute Resolution Policy (commonly as .INDRP Registry). The INDRP has its own set of rules and policies under which the complaint is filed against the domain name infringement. The INDRP have their list of panel members to decide the complaints. The procedure is simple and rapid and inexpensive under the INDRP rules and policy which more or less works on the principles laid down the WIPO.

CONCLUSION

The network of computers called the internet, which had a modest beginning, has grown by leaps and bounds. The growth of the internet has been explosive; the number of internet has increased tremendously since its introduction. Due to which the crime rate is booming with double alacrity and thus to protect the interest of the millions of potential victims the protective laws have been made in the country and interestingly the redressal of complaint is quick and cheaper. The decision by the panel is always unbiased and the confidentiality level is high under such dispute resolution registry. It is the best way to solve the dispute within a less period of time without any hassle of litigation. This domain name dispute resolution has been proved to be the most excellent way of Alternative Dispute Resolution involving mediation and arbitration for domain name disputes. The issue concerning protection of domain names came up before the Supreme Court of India in the case of ***Satyam Infoway***

4 *http://cyber.law.harvard.edu/property00/domain/main.html last retrieved on 03.04.2013.*

Ltd. vs. Sifynet Solutions P. Ltd[5], was of the view that internet domain names are subject to the same legal norms applicable to other Intellectual Properties such as trademarks. It was further held by the Supreme Court of India that:

"The use of the same or similar domain name may lead to a diversion of users which could result from such user mistakenly accessing one domain name instead of another. This may occur in e-commerce with its rapid progress and instant (and theoretically limitless) accessibility to users and potential customers and particularly so in areas of specific overlap. Ordinary consumers/users seeking to locate the functions available less than one domain name may be confused if they accidentally arrived at a different but similar website which offers no such services. Such users could well conclude that the first domain name owner had misrepresented its goods and services through its promotional activities and the first domain owner would thereby lose their custom. It is apparent therefore that a domain name may have all the characteristics of a trade mark and could found an action for passing off."

◆◆◆

5 *(2004(28) PTC 566)*

INDIA BECOME SIGNATORY TO MADRID PROTOCOL

Himanshu Sharma

India has signed the Madrid Protocol on April 08, 2013 and has become the 90th member of the Madrid Protocol. The signing of Madrid Protocol by India is a significant step towards the introduction of Madrid System for the registration of Trademarks in India. The trademark Amendment Act, 2009 which is based upon the Madrid Protocol will come into force on 08/07/2013. The chain of events had started in 2007 wherein a new bill was introduced for the amendment of the Trade Marks law. At this important Juncture let us recap the important points which will be introduced once the new Trademark Amendment Act, 2009 will be notified by the government on 08/07/2013.

Changes introduced under new act are mainly related to the introduction of Madrid Protocol for international filing. This article mainly deals with the procedure under the Madrid system of Trade Marks registration.

INTRODUCTION OF MADRID PROTOCOL IN INDIA

Under the current Trade Mark Act of 1999, a person does not have an option of filing an international application; moreover he has to file different application if he wants to protect his trademarks in more than one country. The introduction of Madrid protocol gives an option to an applicant to go for an international application based upon the basic application or registration and to apply in different member countries in one single application. Let us analyze the provision introduced under the Trademarks Amendment Act, 2009.

A new chapter IVA is inserted with the title "Special provisions relating to protection of trade marks through international registration under the Madrid protocol". This new chapter is corresponding to the Article 3, *3bis, 3ter* and Article 4 of the Madrid Protocol.

The process for international registration provided under the amendment bill is simplified hereunder:

A person who is a citizen of, or is a domicile in or has a real and effective commercial establishment in a contracting state or a state who is a member of contracting organization can make an application for the registration of trademark in India under the new Amendment Act of 2009. A person who has applied for trademark in India or who is a registered proprietor of a trademark can go for international registration. In the application he has to designate the countries in which he wants protection resulting from the international application. With the introduction of Madrid Protocol a person can go in for the international registration by filing a single trademark application. He just needs to file an international application based on the parent application / registration and in that application he needs to give the name of the countries in which he wants to apply for the registration.

Registrar of the Indian Trademark Office before forwarding the international application within prescribed period to the International Bureau for Registration shall certify the particulars mentioned in the application relating to the basic application or the basic registration and also the application number or the registration number as the case may be. He will also indicate the date of international application. It is the duty of the registrar to forward the international application to the International Bureau of registration and to check and verify that all the information regarding the parent application / registration is correct.

If the basic registration is cancelled for some reasons, in the country of origin, during the first five years, the international registration automatically stands cancelled in all the designated countries. This also gives an advantage to a person to oppose the registration of a mark only in the country of origin and that person need not oppose it in all the designated countries. This possibility of challenging an international registration through a national registration is referred to as 'Central Attack' feature of the Agreement.

The Registrar shall have to provide all the information to the International Bureau regarding the registration, cancellation, withdrawal, assignment, and transmission etc of a trademark application/ registration which is subject to an international application, for the five years from the date of the international registration.

In cases where India is a designated state, the Registrar after receiving an advice from the International Bureau about any international registration, shall keep a record of the same in prescribed manner. The registrar has to

provide his opinion regarding the acceptance or refusal of application after giving an opportunity to the applicant of being herd within eighteen months from the date of international application and shall made the application published in the Trademark Journal. After the expiry of the period of opposition (four months as proposed in amended bill) the Registrar within eighteen months from the receipt of the advice shall notify the International Bureau about the extension of protection to India under international registration, if the Registrar failed to do so the protection in India shall deemed to be extended in India.

The time line set under the Madrid Protocol is very strict and need to be follow accordingly. The discretion of the Registrar under the present Act of 1999 has not been followed under the current amended bill.

CONCLUSION

The introduction of Madrid Protocol for international filing is necessary to bring Indian Trade Marks practice in common parlance to the international standard. Madrid Protocol will not only help the local applicant to have a cost effective registration outside India but it also provide a strict timeline to complete the process of registration. The Indian Trade Marks Office is in process of upgrading itself to match the international standards by providing a transparent atmosphere. The Introduction of the Madrid Protocol further strengthens Indian Trademark regime's march towards the excellence in Intellectual property rights registration.

WHAT AMOUNTS TO "PRIOR PUBLICATION" UNDER DESIGNS ACT, 2000

Kailash Choudhary

Recently the full bench of Delhi High Court on a reference[1] made in the case of Reckitt Benkiser India Ltd. v. Wyeth Ltd. decided as what amounts to 'prior publication' under the designs Act, 2000. More particularly reference was made to consider as to whether publication abroad by existence in the records of the Registrar of Design which is open for public inspection amounts to publication or not. Previously mere publication of design, specification, drawings or demonstrations by the foreign patent/design office was held not to constitute prior publication by the division bench of Delhi High Court in the case of Dabur India Ltd. Vs. Amit Jain & Anr.[2] and the Kolkata High Court in Gopal Glass Works Ltd. Vs. Assistant Controller of Patents & Designs[3]. In the present reference the above prior ruling was challenged for the reason that the said judgments were stated to have overlooked the provision of Section 44 of the Act which provides for reciprocal arrangements with convention countries.

In full bench of HC in order to address the above issue, outlined four major issues for consideration.

ISSUE 1: WHETHER A DESIGN REGISTERED ABROAD CAN BE A GROUND FOR CANCELLATION OF A DESIGN REGISTERED IN INDIA UNDER SECTION 19(1)(A) OF THE ACT?

On this issue the HC stated that on a literal interpretation of section 19(1)(a)[4] it is clear that only a design which is registered in India can cause cancellation of a design which is again registered in India. The design registered abroad cannot cause cancellation of design registered in India. In order to appreciate the issue the court referred to section 51A of the erstwhile Design Act, 1911 which is similar to section 19 of the present Act. The court compared both the sections and it is noted that the parliament has used the same language while drafting the section 19(1)(a) as was used under Section 51A(1) of the 1911 Act i.e. registration of design in India. However while drafting section 19(1)(b)[5] the parliament made a departure from the language of section 51A(2) of the 1911 Act, by including prior publication abroad as a ground for cancellation. Having said this court stated that the specific mandate of the legislature whereby no change has been made to the language of earlier provision. Therefore a registration of a design abroad cannot be a ground under section 19(1)(a) of the Act for cancellation of a design registered in India.

However, the design registered abroad, subject to its prior publication, under certain circumstances, can be a basis of cancellation of a design registered in India under section 19(1)(b).

ISSUE 2: EFFECT OF FAILING TO APPLY IN INDIA FOR REGISTRATION WITHIN SIX MONTHS OF MAKING OF AN APPLICATION ABROAD.

The court cautiously stated that if any person fails to apply in India for registration of design within six months, as stated in section 44[6], from making of an application abroad, loses his entitlement to priority on the basis of application made abroad. In such case the date of registration in India will be the date on which application is made in India and not the date of application made abroad in convention country.

Further the court stated that in case if any person other than the person who has applied for registration of design abroad, applies for registration of same design in India in the six months period (or till the foreign

1 *FAO(OS) 458/2009*

2 *2009 (39) PTC 104 (Del) (DB)*

3 *2006 (33) PTC 434 (Cal.)*

4 *Section 19. Cancellation of registration*
(1) Any person interested may present a petition for the cancellation of the registration of a design at any time after the registration of the design, to the Controller on any of the following grounds, namely:-
(a) that the design has been previously registered in India; or
(b) that it has been published in India or in any other country prior to the date of registration;

5 *Section 19. Cancellation of registration (1) Any person interested may present a petition for the cancellation of the registration of a design at any time after the registration of the design, to the Controller on any of the following grounds, namely:-*
(b) that it has been published in India or in any other country prior to the date of registration.

6 *Section 44. Reciprocal arrangement with the United Kingdom and other convention countries or group of countries of intergovernmental organisations-*

owner makes an application in India) then such Indian applicant will then get priority to the application of the owner of the foreign registered design made after the six months period of the date of application made in a convention country abroad. Thus the registration of foreign registered design after six months will be taken as subsequently registered in India to a design which is registered in India on an application being made in the interregnum six months period, and therefore, the foreign registered design cannot be a ground for cancellation of an Indian registered design under Section 19(1)(a). The owner of the design registered abroad and fails to apply in India, though would have appropriate entitlement in the convention country, however, in India the registration in a convention country abroad will have no effect of destroying the priority date of an application made for registration in India within the interregnum six months period. The court on the above situation stated that the foreign registered design owner in the convention country in which his design is registered may take necessary action in such foreign country on the basis of registration if the Indian registered owner of the design seeks to sell articles in that country in which the design is registered by the foreigner, however, in India, it will be the Indian registered owner who will be entitled to bring an action for infringement of the design under Section 22[7] of the Act. But this does not prevent the foreign owner to initiate infringement action under Section 22 of the Act on the ground of prior publication (19(1)(b) read with 4(b)).

ISSUE 3: MEANING OF PRIOR PUBLICATION UNDER SECTIONS 19(1)(B) READ WITH SECTION 4(B) AND;

ISSUE 4: WHETHER DOCUMENTS EXISTING IN THE RECORD OF REGISTRAR OF DESIGNS IN A CONVENTION COUNTRY ABROAD WHICH ARE OPEN TO PUBLIC INSPECTION RESULTS IN PRIOR PUBLICATION:

The court after looking at the provisions of section 4 (b)[8] stated that a design which is already disclosed by publication in India or abroad will not be registered. However the publication of the design should be 'in a tangible form or by use or in any other way'. Therefore mere publication will not be sufficient. The publication should be in a 'tangible form' or 'by use' or 'in any other way'. The court stated that with respect to expression 'by use' there is no doubt because use of the design would be translating the same into finished articles. However the other two expressions 'tangible form' or 'in any other way' are very much wider than the expression use. The court after discussing the Gopal Glass case extensively held that the expression 'tangible form' refers to a specific physical form or shape as applied to an article and not the mere ability to replicate, convert and give a physical shape to the design. The expression 'any other way' is wider in context and takes into its ambit a design which has been created though not still put to use or exists in tangible form but at the same time it is guided by the words "use" and "tangible form". Meaning thereby that the design should not be a factum on paper/ document alone, but further that the design on paper should be recognizable i.e. have the same impact in the public as a furnished article will appeal when judged solely by the eye. In other words, if the design is on paper then it must exist upon a piece of paper in such a way that the shape or other features of the article are made clear to the eye and the visual impact should be similar to when one see the design on a physical object i.e. an object in tangible form/in use.

The court on the issue of documents existing in the records of Registrar of Design which are publicly available amounts to publication held that what amounts to publication is a question of fact to be decided on a case to case basis. The test of prior publication would be satisfied only if the prior registered design is made public and has that much necessary clarity as applied to a specific article capable of judged by the visual appearance or the eye of the mind. Further the Court held that "unless and until there is complete clarity and understanding to the naked eye or the eye of the mind of the foreign registered design as found in the public record of the Registrar of design qua a specific article, it cannot be said that such public record will amount to prior publication". Therefore, mere existence of a design in the record of a Registrar of Design in a convention country does not in all cases amount to publication. What is publication is essentially a question of fact to be decided as per the evidence led in each case. ◆◆◆

7 *Section 22. Piracy of registered design*

8 *Section 4. Prohibition of registration of certain designs.- A design which-*
(a) is not new or original; or
(b) has been disclosed to the public anywhere in India or in any other country by publication in tangible Form or by use or in any other way prior to the filing date, or where applicable, the priority date of the application for registration;

INNOVATION GOING DOWN-TURN

Suchi Rai

Innovation has always been the main objective of Patent system. Patent system is to encourage innovation and eventually result in technological development. With the pharmaceutical industry going the generic way, the innovation in the industry seems to be going downturn.

Provisions like compulsory licensing and section 3 (d) of Patent Act, should not be considered as a hindrance for the Technology transfer which is beneficial for the country. As always the Patent system has to encourage innovation and Technology transfer by way of Patent grants.

This article is aimed to provide insights for the provisions of compulsory licensing and Section 3 (d), so as to ensure that the same is not considered as a hindrance for Patent grants in India. Such provisions should not be resulting in being a barrier for the technology transfer and innovation in the country.

Section 3(d) of the Indian Patents Act restricts grant of patents for "incremental innovations", in many drugs unless it provides significant therapeutic advantages to existing molecules.

There have always been questions on existence of section 3(d) and the defining of term efficacy in that section, how is enhanced efficacy defined in the section. The dispute relates to India's IPR regime, which prevents patenting of known drugs, and linking the marketing approval of drugs with their patent status, among other issues.

[1]***Section 3(d)*** *says that the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant, is not patentable.*

Its Interpretation is something like this:

Mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance is not patentable. Which means different forms of a known substance must differ significantly in the properties with regards to efficacy.

1 *Indian Patents Act, 1970*

The examiner makes comparison with regards to properties or enhancement of efficacy between the known substance and the new form of known substance. In case the new form is further converted into another new form, the comparison is made between the already existing form and another new form but not between the base compound and another new form.

The efficacy need not be quantified in terms of numerical value to determine whether the product is efficacious because it is not possible to have a standard numerical value for efficacy for all products including pharmaceutical products.

MERE DISCOVERY OF NEW PROPERTY OF A KNOWN SUBSTANCE

[2]A mere discovery of a new property of known substance is not considered patentable. For instance, the paracetamol has antipyretic property. Further discovery of new property of paracetamol as analgesic can not be patented. Similarly, ethyl alcohol is used as solvent but further discovery of its new property as anti knocking, thereby making it usable as fuel, can not be considered patentable.

MERE DISCOVERY OF ANY NEW USE OF KNOWN SUBSTANCE

[3]A mere discovery of new property of known substance is not considered patentable. For instance, new use of Aspirin for treatment of the cardiovascular disease, which was earlier used for analgesic purpose, is not patentable. However, a new and alternative process for preparing Aspirin is patentable. Similarly, the new use of methyl alcohol as antifreeze in automobiles. The use of methanol as a solvent is known in the prior art. A new use has been claimed in this claim as antifreeze which is not allowable. Further, a new use of Chloroquine for Sarcoidosis (a fungal disease) and for Infectious mononucleosis (a viral disease) and for Diabetic neuritis (inflammation of nerves) is not patentable.

Mere use of a known process is not patentable unless such known process results in a new product or employs

2 *www.ipindia.nic.in*
3 *www.ipindia.nic.in*

at least one new reactant. Similarly mere use of known apparatus or machine for another purpose is also not considered patentable.

The term 'significant' cannot be used while interpreting the section because it is vague (the term varies with regard to the application) Therefore, in order for a new drug (in respect of which a patent is asked for) to have greater efficacy when compared to a known drug, the new drug must not be bio-equivalent to the patented drug i.e. the new drug must lie outside the defined range of bio-equivalency when compared to the existing drug.

The reason why Big Pharma dislikes Section 3(d) is that it makes it difficult to get patent rights for new (physical) forms or admixtures of previously known new chemical entities (NCEs) unless these seemingly trivial changes bring 'significant improvement in the efficacy' of the product in question. It is not that the Indian patent offices haven't granted patents for deserving incremental inventions that are of real therapeutic value to the patient-consumer.

[4]In regard to 'efficacy' in pharmaceutical products, the Madras High Court observed: *"going by the meaning for the word "efficacy" and "therapeutic" … …, what the patent applicant is expected to show is, how effective the new discovery made would be in healing a disease/ having a good effect on the body? In other words, the patent applicant is definitely aware as to what is the "therapeutic effect" of the drug for which he had already got a patent and what is the difference between the therapeutic effect of the patented drug and the drug in respect of which patent is asked for."*

[5]*"Due to the advanced technology in all fields of science, it is possible to show by giving necessary comparative details based on such science that the discovery of a new form of a known substance had resulted in the enhancement of the known efficacy of the original substance and the derivatives so derived will not be the same substance, since the properties of the derivatives differ significantly with regard to efficacy."*

Further even the provision of compulsory licensing should not become a barrier for technology transfer.

A compulsory license (CL) is a license granted by the Government to a third party to use the Patented invention so as to restrict the rights of the Patentee for the purpose of preventing the abuse/misuse of the rights by the Patent holder and to prevent the negative effect of such action on public health.

The predominant rationale behind the grant of a compulsory license is to ensure the below:

- The availability of the patented products in adequate amount.
- The commercial exploitation of patented invention in India and not merely importation into India.
- The products manufactured under the patent shall be available to the public at the reasonable prices.
- The patentees deriving a reasonable advantage from their patent rights.

[6]Section 84

As per section 84(1) of the Patents (Amendment) Act, 2005, an application for the grant of CL on patent can be made to the Controller at any time after the expiration of three years from the date of the grant, by any person interested on any of the following grounds:

(a) that the reasonable requirements of the public with respect to the patented invention have not been satisfied, or
(b) that the patented invention is not available to the public at a reasonably affordable price, or
(c) that the patented invention is not worked in the territory of India.

The pharmaceutical industry has to believe in innovation first rather than opting for making provisions like section 3 (d) and compulsory licensing a tool against big pharma giants for their Patent grants. Research and development should always be given prime importance, as Patent system has to encourage innovation and genuine novel inventions all the time.

CONCLUSION

India has always been a great market interest for international companies to invest and commercialize. Technology transfer is and will always be important for further technological research and development. Patents will always be granted for genuine innovations without any hindrances to come across. As nation believes in growth and technological development, research and development will always be given priority, provided it results in non-obvious inventions with technical advancement. ◆◆◆

4 *www.ipindia.nic.in*
5 *www.ipindia.nic.in*
6 Indian Patents Act, 1970

EXPIRED TRADEMARK REGISTRATION CAN BE RENEWED: A CASE SUMMARY ON UNION OF INDIA V. MALHOTRA BOOK DEPOT

Litigation Team

BACKGROUND

Trademark Law in India is passing through a remarkable and progressive phase. Recently Samsung has raised the issue of International Exhaustion of a trademark under Indian trademark law. Similarly, trademark registrations in India have also increased as India is becoming a preferred destination for commercial activities world over. Trademark registration in India is regulated by the Trademarks Act 1999 of India. A registered trademark is valid for a period of 10 years which can be renewed for another 10 years at a time. There may be cases where a trademark holder fails to renew its trademark on time. Renewal of an expired trademark is only option left in such cases. In India even if the mark has been expired, one can apply for its re-registration. If someone else applies for registration for expired trademark as per the prescribed procedure, owner of expired trademark can file objections at the registry, tribunal or appropriate forum.

In the recently decided matter of ***Union of India v. Malhotra Book Depot***[1] by the Delhi High Court on the restoration of the trademark of Malhotra Book Depot after 26 (twenty six) years of expiry; it was directed by the Hon'ble Court that the mark of the Respondents should be renewed. The brief of the case is as below:

UNION OF INDIA & ORS. V. MALHOTRA BOOK DEPOT[2]

FACTS OF THE CASE

The predecessors of the respondent, (which is stated to be a partnership firm of Mr. Satish Bala Malhotra, Ms. Monica Malhotra Khandari and Ms. Sonica Malhotra Kandhari) namely Shri Ashok Kumar Malhotra and late Shri Balbir Singh trading as M/s Malhotra Book Depot had applied for and were granted registration of the trademark 'MBD' in Class 16 for the goods "publications (printed) and books" vide Trademark Registration dated 23rd November, 1970. The said trademark was thereafter duly renewed from 23rd November 1977 to 23rd November, 1984. On the 1st April, 1992 the constitution of M/s Malhotra Book Depot was changed and a fresh partnership deed was executed between the new partners i.e. Shri Ashok Kumar Malhotra and Ms. Satish Bala Malhotra. On the demise of Shri Ashok Kumar Malhotra the constitution of the respondent M/s Malhotra Book Depot was again changed and a fresh partnership deed was executed between Ms. Satish Bala Malhotra, Ms. Monika Malhotra Kandhari and Ms. Sonica Malhotra Kandhari on 30th December, 2009. That in April, 2010 the respondent filed a suit for permanent injunction restraining infringement of the Trademark MBD and in connection with the said suit applied for certification for use in Legal Proceedings. However the application was returned by the Appellant No. 3 Registrar of Trademark as no records/details of the said trademark could be traced in the database of the Registrar in the consequent investigation by the respondent it was realized that the trademark had not been renewed after 23rd November, 1984.

CONTENTION OF THE REGISTRAR OF TRADEMARK (APPELLANTS)

i. That the renewal of the mark had become due on 23rd November, 1984 i.e. 26 years prior to the filing of the writ petition and the writ petition suffered from delay and latches.
ii. That the factum of removal of the Trademark was notified in the Trademark Journal No. 997 dated 16th November, 1990 for non-payment of the renewal fee.
iii. That such removal could not be without following the due process as per the provisions of law and the respondent was taking advantage of the facts that 26 years old records of dispatch of Notice in form O-3 would not be available with the Registrar.
iv. On receipt of complaint regarding non-receipt of Registration Certificate and non-issuance of the Form O-3 Notices, Public Notices dated 24th September, 2010 and 31st November, 2010 were issued advising the public at large to file the petition in the prescribed manner.

1 *MIPR 2013 (1) 246*
2 *Ibid.*

v. That the Respondent was also advised to file a petition in this regards vide letter from the Trademark Registry issued on 24th January, 2011.

The Counsel for the Appellant argued that removal of a trademark is an administrative act akin to removal of deadwood and any deficiency in such removal does not give any right for restoration of the trademark beyond the time prescribed thereof. Further it was said that the issuance of Notice in Form O-3 is not mandatory and cannot extend the duration for indefinite period.

REPLY OF THE RESPONDENT

- The Respondent did not receive any Notice in Form O-3 and sue to which the removal of the registered trademark without notification cannot be done by the Resgitry.
- If removal of the mark is wrong, its restoration cannot be denied; while providing for removal of the mark on non-payment of renewal fees at the expiry of the last registration uses the word 'may' and not 'shall', that it is for this reason only that the Registrar, inspite of the validity of the mark having expired in the year 1984 did not remove it till the year 1990, that if the mark not removed, its renewal can be applied for at any time. If the removal of the mark is wrongful, the limitation prescribed in section 25(4) of one year for applying for renewal thereof does not apply.
- On a plain reading of section 25, the inescapable conclusion is that though the period of registration was prescribed as seven years, renewable from time to time on application in the prescribed manner within the prescribed time but the removal of the mark from the register has been made subject to sending of a notice in the prescribed manner calling upon the registered proprietor to review the mark and permitted only upon the failure of the registered proprietor to do so and not merely on the failure of the registered proprietor to apply within the prescribed time.
- Rules for renewal and expiration of registration has been prescribed, according to which renewal of registration can be anytime within six months before expiration of the last registration. However the non-renewal has not been made automatic. If the renewal application is not made two months prior to expiration, the registrar is required to notify the same to the registered proprietor. The removal of the mark from the register can be done only after such notification.

THE JUDGMENT

The Division Bench in this matter was of the view that:

- A mark cannot be removed without following the due process as per the provisions of law and had been done without following the due process and had made presumptive statements and also in the Respondent's case the Form O-3 had not been issued as provided for in Rule 67.
- Under section 25 of the Trade and Merchandise Mark Act, 1958, the application for renewal of the registration could be made upon receipt of the Notice in the Form O-3.
- The Registrar could remove the Trademark from the Register and advertise the factum of removal in the Journal only after a Notice in Form O-3 has been issued.
- That the said removal of registered trademark cannot be done without prior notice to the registered proprietor in the prescribed form.
- Mere expiration of the registration by lapse of time and failure of the registered proprietor of the trademark to get the same renewed, by itself, does not lead to the conclusion that the same can be removed from the Register by the Registrar of Trademark without complying with the mandatory procedure prescribed in Section 25(3) of the Act read with Rule 67 of the Rules. Such removal without due procedure will itself be laconic and illegal.
- That the plea for the Registrar that the application for restoration and renewal of the mark was beyond the time prescribed in Section 25(4) and Rule 69 could not be accepted because the removal of the mark from the register was not in terms of Section 25(3) read with Rule 67 & 68.
- Since the mandatory Notice in Form O-3 had not been given prior to the removal of the mark, the application seeking its restoration and renewal could not be said to be barred by time.

It was also held by the Supreme Court in ***Sarla Goel v. Kishan Chand***,[3] emphasized importance of following *the statutory procedure step by step and held an earlier step to be a precondition for the next step and it being impermissible to straightway jump to the last step.* It was further held that the last step can come only after

3 (2009) 7 SCC 658

earlier step has been taken. When the act itself has prescribed the procedure for removal, it is not justified in holding the said procedure to be not mandatory or not binding on the Registrar to uphold the removal even if such procedure is not followed.[4] It is also a well settled principal of law, which states that rules framed under a statute cannot override the statute. Similarly the Constitutional Principles applicable to tangible property would apply to intangible intellectual property also and which bar a person from being deprived of his property save in the manner prescribed by law.

Neither the Act nor the rules prescribe any limitation for applying for restoration and renewal in a situation where the removal of the mark from the register is without issuing the notice in Form O-3. The Registrar would be entitled to take into consideration the relevant factors such as whether the same or a similar mark has in the interregnum being registered by any other person etc. Once it is held that for the Registrar to invoke the bar of limitation of one year for applying for renewal, the notice under Form O-3 is mandatory, the Registrar cannot be permitted to invoke the presumption of the removal having been done in the manner prescribed in law.

Similarly, the period of one year in Section 25(4) is also be read as commencing from the date of removal and not from the date of expiration of the last registration, where removal is not immediately after the expiration of the last registration. Else there would be no logic/ sense in Section 26 providing for deeming the mark on the register for the purposes of any application for registered proprietor of the same or similar mark. The registered proprietor has the right to seek restoration and renewal during the period of one year. The intention of the legislature was to vest the right of renewal only for period of one year from the date of expiration of last registration; the operations of Section 26 would also have been for one year from the date of expiration of the last registration of the trademark and not one year from the date of removal. It was also held that it would be redundant if the right of the registered proprietor to restoration and renewal of the mark extinguish on an expiry of one year from the expiration of the last registration and irrespective of whether the trademark is actually removed from the register immediately on such expiration or after considerable time. In all the removal without following the mandatory procedure prescribed thereof is bad in law. It was finally directed that the Registrar should restore/renew the mark after satisfying that the Respondent is the registered proprietor/successor of the registered proprietor of the trademark which has expired and that in the interregnum same/similar marks are not registered.

4 *Thakral Mechanical Works v. P.M Diesels, (2009) 2 SCC 786*

DIRECT TAX BENEFITS FOR EXPORT OF COMPUTER SOFTWARE

Pradhumna Didwania

IT Companies in India have been getting Direct Tax benefits on the profits derived from export of computer software, under Sections 10A, 10AA & 10B of the Income -tax Act, 1961, subject to fulfillment of the prescribed conditions. However, due to different interpretations of law and lack of clarity on issues such as, whether "On-Site" Development of Computer Software qualifies as an Export Activity for Tax Benefits, Income from deputation of manpower for such on-site work would be allowed for tax benefits etc. at times lead to denial of Tax Benefits and consequently Tax Disputes were raised.

In order to resolve the aforesaid issues, the Government of India, had constituted a Committee known as the Rangachary Committee. The Rangachary Committee submitted its report on "Taxation of Development Centers and IT Sector" on 14th September, 2012, making recommendations on the following issues:

a) Parameters to identify contract R&D services provider with insignificant risk;
b) Application of profit split method;
c) Conditions for eligibility to claim deduction under section 10A, 10AA & 10B of Income Tax Act 1961.

The Central Board of Direct Taxes (CBDT) after reviewing the report submitted by the Rangachary Committee and considering the various representations made by the Software Industry issued a clarification, vide Circular No. 1/2013 dated 17th January, 2013, on issues which were being raised by the software industry at the time of availing Tax benefits:

The following clarifications were issued by the CBDT –

1. **Whether "On-Site" Development of Computer Software Qualifies as an Export activity for Tax benefits under sections 10A, 10AA and 10B of The Income Tax Act, 1961**

   CBDT pointed out that, the earlier Circular No. 694 dated 23.11.1994 issued by it provided that a unit should not be denied tax-holiday under sections 10A or 10B on the ground that the computer software was prepared 'on-site', as long as it was a product of the unit, i.e., it is produced by the unit.

   CBDT clarified that the software developed abroad at a client's place would be eligible for benefits under the respective provisions, because it would amount to 'deemed export' and tax benefits would not be denied merely on this ground. However, since the benefits under these provisions could be availed of, only by the units or undertakings set up under specified schemes in India, it is necessary that there must exist a direct and intimate nexus or connection of development of software done abroad with the eligible units set up in India and such development of software should be pursuant to a contract between the client and the eligible unit.

2. **Whether receipts from deputation of Technical Manpower for such "On-Site" Software Development Abroad (Like Upgradation, Testing, Maintenance, Modification, Trouble-Shooting Etc.), at the Client's Place are Eligible for Deduction under sections 10A, 10AA and 10B of the Income Tax Act, 1961.**

   CBDT clarified that Explanation 3 to sections 10A and 10B and Explanation 2 to section 10AA clearly declares that profits and gains derived from 'services for development of software' outside India would also be deemed as profits derived from export. Therefore, profits earned as a result of deployment of technical manpower at the client's place abroad specifically for software development work pursuant to a contract between the client and the eligible unit should not be denied benefits under sections 10A, 10AA and 10B provided, such deputation of manpower is for the development of such software and all the prescribed conditions are fulfilled.

3. **Whether it is necessary to have separate Master Service Agreement (MSA) for each Work Contract and to what extent it is relevant.**

   As per the circular the general practice prevalent in the software development industry is that two types of agreement are entered between the Indian software developer and the foreign client. First is the Master Services Agreement (MSA) which is an initial general agreement between a foreign client and the Indian software developer setting out the broad and general terms and conditions of business under the umbrella of which specific and individual Statement of Works (SOW) (the second Agreement) are formed. The SOWs, in fact,

enumerate the specific scope and nature of the particular task or project that has to be rendered by a particular unit under the overall ambit of the MSA.

CBDT reframed the question as "**Whether more than one SOW can be executed under the ambit of a particular MSA and whether SOW should be given precedence over MSA**."

CBDT Clarified that the tax benefits under sections 10A, 10AA and 10B would not be denied merely on the ground that a separate and specific MSA does not exist for each SOW. The SOW would normally prevail over the MSA in determining the eligibility for tax benefits unless the Assessing Officer is able to establish that there has been splitting up or reconstruction of an existing business or non-fulfillment of any other prescribed condition.

4. **Whether Research and Development (R&D) activities pertaining to Software Development would be covered under the definition of "Computer Software" stipulated under Explanation 2 to Sections 10A and 10B.**
CBDT pointed out that the definition of "Computer Software" stipulated under Explanation 2 to sections 10A and 10B includes "any customized electronic data or any product or service of similar nature, as may be notified by the Board…..". CBDT further pointed out that it had already issued Notification No. 890(E) dated 26.09.2000 specifying such items and that the notification included Engineering and Design but did not specifically included Research and Development activities related to software development in respect of which clarification has been sought.

CBDT clarified that the services covered by the aforesaid Notification, in particular, the 'Engineering and Design' did have the in-built elements of Research and Development. However, for the sake of clarity, it was reiterated by CBDT that any Research and Development activity embedded in the 'Engineering and Design', would also be covered under the said Notification for the purpose of Explanation 2 to the above provisions.

5. **Whether Tax Benefits under Sections 10A, 10AA and 10B would continue to remain available in Case of a Slump-Sale of a Unit/Undertaking.**
CBDT pointed out that the vital factor in determining the above issue would be facts such as how a slump-sale is made and what is its nature. Also it is important to ensure that the slump sale would not result into any splitting or reconstruction of existing business and such factual issues required verification of facts. CBDT clarified that on the sole ground of change in ownership of an undertaking, the claim of exemption cannot be denied to an otherwise eligible undertaking and the tax holiday can be availed of for the unexpired period at the rates as applicable for the remaining years, subject to fulfillment of the prescribed conditions.

6. **Whether it is necessary to maintain Separate Books of Account for an Assessee in respect of its Eligible Units Claiming Tax Benefits under Sections 10A and 10B**
CBDT Clarified that since there is no requirement in law to maintain separate books of account, the same cannot be insisted upon. However, since the deductions under Sections 10A and 10B are available only to the eligible units, the Assessing Officer may call for such details or information pertaining to different units to verify the claim and quantum of exemption, if so required

7. **Whether Tax Benefits Under Section 10AA can be enjoyed by an eligible SEZ Unit consequent to its transfer to another SEZ.**
CBDT pointed out that the issue relates to cases where an eligible SEZ unit is shifted from one SEZ to another SEZ on account of commercial exigencies and the shifting is permissible under Instruction No.59 (F.No.C-4/2/2010-SEZ) issued by Department of Commerce (SEZ Division), provided approval from the Board of Approvals (BOA) has been obtained. CBDT further pointed out that doubts have been raised whether such shifting of an eligible unit would deprive the unit/undertaking of tax benefits, provided there is no splitting or reconstruction of an existing business. On this CBDT clarified that the tax holiday should not be denied merely on the ground of physical relocation of an eligible SEZ unit from one SEZ to another in accordance with Instruction No. 59 of Department of Commerce (referred to above) and if all the prescribed conditions are satisfied under the Income-tax Act, 1961. CBDT further clarified that the unit so relocated will be eligible to avail of the tax benefit for the unexpired period at the rates applicable to such years.

8. **Whether New Units/Undertakings set up in the same location where there is an existing eligible**

unit/undertaking would amount to expansion of the Existing Unit/Undertaking.

CBDT pointed out that, whether setting up of new unit/undertaking in a location (covered by sections 10A, 10AA or 10B), would amount to expansion of such already existing unit, where an eligible unit is already existing, is a matter of fact which requires examination and verification. CBDT clarified that setting up of such a fresh unit in itself would not make the unit ineligible for tax benefits, as long as the unit is set-up after obtaining necessary approvals from the competent authorities; it has not been formed by splitting or reconstruction of an existing business and fulfils all other conditions prescribed in the relevant provisions of law.

CONCLUSION

The clarifications issued by the CBDT have put to rest many of issues relating to export of Computer Software raised by the Software Industry. Such type of Circular always helps the Tax Authorities as well as the Assessee in deciding the correct amount of Taxable Profit and minimizing the dispute. Although tax benefits under Section 10A and Section 10B expired on 31st March, 2012, the clarification issued by the CBDT will assist in adjudicating the pending Tax disputes of the Software Industry.

LIBERAL DIMENSIONS OF SECTION 54 OF THE INCOME TAX ACT, 1961

Smeeksha Bhola

INTRODUCTION

There has been a phenomenon increase in trend of getting property developed by builders. More and more people are going in for getting their property developed by builders, for which consideration in form of a developed portion of the property (mostly in form of one or more floors) is paid to the builders.

A complication that arises in structuring such transaction is the taxation aspect of the capital gains arising on such transfer and development of property.

A recent judgment of Delhi high court in the case of CIT v. Gita Duggal[1] tries to clarify the applicability of levy of capital gains on such transaction.

FACTS

The taxpayer was the owner of a property comprising of basement, ground floor, first floor and second floor. The taxpayer entered into a development agreement with a builder in 2006, pursuant to which the builder demolished the property and constructed a new building comprising of three floors. In consideration of the development rights, the taxpayer received INR 40 million and two floors of the new building. Third floor was retained by the builder. In other words, the taxpayer sold his residential property to purchase two units of residential property in the same building.

ISSUE

whether the taxpayer should be given deduction under section 54 of the Act, in respect of different residential units in same building?

Before we discuss further, it would be worth discussing the provisions of section 54 of Income tax act of 1961.

SECTION 54 OF THE INCOME TAX ACT OF 1961

Section 54 provides exemption to capital gains arising from the transfer of a residential house property (being building or lands appurtenant thereto, the income of which is chargeable under the head "Income from house property")

In respect of the above section, following points should be noted:

1. Only an Individual or Hindu Undivided Family can claim exemption.
2. Under section 54 exemptions is available only if the capital asset which is transferred is a residential house property (i.e. building or land appurtenant thereto) whose income is taxable under the head "Income from house property". The exemption is available whether the residential house property is self occupied (in such a case income of house property is nil or negative) or let out.
3. The house property which is transferred should be a long term capital asset.
4. To claim the exemption the taxpayer will have to purchase a residential house property (old or new) or construct a residential house property (hereinafter referred to as "new residential property").

OBSERVATIONS AND DECISION OF HIGH COURT

1. The Hon'ble High Court, on elaborating the requirements of sections 54 and 54F of the Income tax act, 1961, observed that the Act required the taxpayer to construct a 'residential house'. The only requirement is construction of a residential unit and not the manner in which it is constructed. For convenience it can be constructed into several units, which according to need can be used conveniently and independently.
2. The only requirement to claim exemption under section 54F is that it should be constructed for residential purposes and not commercial.
3. The Hon'ble High court also observed that section 54F nowhere highlights/mentions that the house should be constructed in a particular manner.
4. The high court held that several independent units can constitute 'a residential house' and accordingly,

1 *CIT v. Gita Duggal (ITA 1237/2011, dated 21 February 2013, Assessment tear 2007-08)*

exemption under section 54 or 54F can be claimed by the taxpayer.

CONCLUSION

The above case very clearly explains and analyses the deduction under section 54 of the Income tax act, 1961, wherein a residential property is sold and sale proceeds earned are invested in another residential unit. There has been a step rise in owners of old house properties entering into development agreement with builders, entrusting the latter to carry out development of their property and making payment towards such development by giving rights of one or more floors to such builders. Such an arrangement mutually benefits both the owner and builder, the owner, with not enough funds to carry out improvement of its property gets newly constructed floors from builders and builder also earns his profit by selling off the floors retained by him in carrying out such construction.

The High court has very exhaustively explained the boundaries of section 54 of the Income tax act, 1961 and provided for an acceptable and welcome interpretation of the said section.

COMBINATION EXEMPTED FROM REPORTING UNDER COMBINATION REGULATIONS IN INDIA

Corporate Team

Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (Combination Regulations) came into force in India on 1st day of June, 2011. The Combinations Regulations were framed by Competition Commission of India (CCI), a statutory body established by the Government of India to keep a check on practices which have an adverse effect on the competitive market in India and to protect the interest of consumers and other market players in India. Combinations Regulations were framed pursuant to Section 6 Regulation of combinations of the Competition Act, 2002 in order lay down the procedural aspect with regards to reporting of Combination to the CCI and the manner in which Combinations will be governed by the CCI.

Section 5 of the Competition Act, 2002 defines Combination as *acquisition of one or more enterprises by one or more persons or merger or amalgamation of enterprises shall be a combination of such enterprises and persons or enterprises*. However all Amalgamations and Mergers are not covered in the definition of Section 5 under the Competition Act, 2002, only those Acquisitions and Mergers which cross the Specified Assets and Turnover Criteria are covered under Competition Act, 2002.

As per Section 6 of the Competition Act, 2002 any person or enterprise, who or which proposes to enter into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India have to report the same to CCI and have to take its prior approval before entering into merger or amalgamation or for execution of any agreement or other document for acquisition or acquiring of control as defined in clause a, b and c of Section 5 of the Competition Act, 2002. However, keeping in mind that all acts of acquisitions cannot be said to have an adverse effect on competition within the relevant market in India certain acts of Combinations are ***normally*** exempted from the reporting requirement by regulation 4 of the Combination Regulations.

CATEGORIES OF COMBINATIONS WHICH ARE EXEMPTED FROM REPORTING

The categories of combinations which are not likely to cause an appreciable adverse effect on competition in India are detailed in Schedule I of the Combination Regulations. The Categories are as follows:

- An acquisition of shares or voting rights, referred to in sub-clause (i) or sub-clause (ii) of clause (a) of section 5 of the Competition Act, 2002, in another enterprise solely as an investment or in the ordinary course of business in such a manner that the investment doesn't gives the acquirer more then (25%) twenty five per cent of total shares or voting rights of the another enterprise and such an acquisition should not lead to control of the enterprise whose shares or voting rights are being acquired.
- An acquisition of shares or voting rights, referred to in sub-clause (i) or sub-clause (ii) of clause (a) of section 5 of the Competition Act, 2002, where the acquirer, prior to acquisition, has fifty percent (50%) or more shares or voting rights in the enterprise whose shares or voting rights are being acquired, except in the cases where the transaction results in transfer from joint control to sole control.
- An acquisition of assets, referred to in sub- clause (i) or sub-clause (ii) of clause (a) of section 5 of the Competition Act, 2002, not directly related to the business activity of the party acquiring the asset or made solely as an investment or in the ordinary course of business, not leading to control of the enterprise whose assets are being acquired except where the assets being acquired represent substantial business operations in a particular location or for a particular product or service of the enterprise, of which assets are being acquired, irrespective of whether such assets are organized as a separate legal entity or not.
- An amended or renewed tender offer where a notice to the Commission has been filed by the party making the offer, prior to such amendment or renewal of the offer provided that the compliance with regulation 16 relating to intimation of any change is duly made

- An acquisition of stock –in-trade, raw materials, stores and spares in the ordinary course of business.
- An acquisition of shares or voting rights pursuant to a bonus issue or stock splits or consolidation of face value of shares or buy back of shares or subscription to rights issue of shares, not leading to acquisition of control.
- Any acquisition of shares or voting rights by a person acting as a securities underwriter or a registered stock broker of a stock exchange on behalf of its clients, in the ordinary course of its business and in the process of underwriting or stock broking, as the case may be.
- An acquisition of control or shares or voting rights or assets by one person or enterprise of another person or enterprise within the same group ;
- A merger or amalgamation involving a holding company and its subsidiary wholly owned by enterprises belonging to the same group and/or mergers or amalgamations involving subsidiaries wholly owned by enterprises belonging to the same group.
- An acquisition of current assets in the ordinary course of business
- A combination referred to in section 5 of the Act taking place entirely outside India with insignificant local nexus and effect on markets in India.

In order exempt further categories of Combinations from reporting requirement and approval from the Competition Commission of India, the Competition Commission of India vide Notification dated 4th April, 2013 released The Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Amendment Regulations, 2013 (No. 1 of 2013) to amend the Combinations Regulations, 2011.

THE AMENDMENTS MADE IN THE COMBINATION REGULATIONS ARE AS FOLLOWS

- A new Category have been added whereby any Company which is owning more then (25%) but less then (50%) of shares or voting rights in another enterprise of the enterprise can acquire, by itself or through its group, five per cent (5%) of the shares or voting rights of such enterprise in a financial year without giving any notice to CCI. However such acquisition shall not result in gross acquisition of more then five per cent in a financial year and the percentage of ownership should not cross more then 50%.

  At present, any acquisition which will increase the percentage or voting right above the limit of (25%) requires notice to be given to the CCI
- Two earlier Categories with regards to acquisition of stock –in-trade, raw materials, stores and spares in the ordinary course of business and acquisition of Current Assets in the ordinary course of business have been merged.
- An exception of *"enterprise jointly controlled by enterprises that are not part of the same group"* has been added in the earlier category of *"acquisition of control or shares or voting rights or assets by one person or enterprise of another person or enterprise within the same group"*.
- Existing Category of *"merger or amalgamation involving a holding company and its subsidiary wholly owned by enterprises belonging to the same group and/or mergers or amalgamations involving subsidiaries wholly owned by enterprises belonging to the same group."* has been omitted and a new category has been added which can be read as follows:

A merger or amalgamation of two enterprises where one of the enterprises has more than fifty per cent (50%) shares or voting rights of the other enterprise, and/or merger or amalgamation of enterprises in which more than fifty per cent (50%) shares or voting rights in each of such enterprises are held by enterprise(s) within the same group:

The Amendment will into force from the date of their publication in the Official Gazette

CONCLUSION

The Mergers and Acquisitions will be fast tracked once the Amendments in the Combination Regulations come into effect. The Amendments will provide relief to the Corporate Sector especially in those cases of Mergers and Acquisitions where one of the enterprises holds more then 50 % stake in another enterprise. Also the exemption from reporting requirement, for acquiring a stake of less then 5% in a financial year in another enterprise will reduce the compliance burden on the Companies. Such a move by the Competition Commission of India is a welcome step keeping in view the present business scenario.

INVESTMENT IN INSURANCE BUSINESS BY CORE INVESTMENT COMPANIES (CICs)

Corporate Team

Core Investment Company (CIC) is a type of Non-Banking Financial Company (NBFC) which holds investment in the form of shares, bonds, debentures, debt or loans in group companies but doesn't trade into them and it also does not carry out any financial activity subject to a few exceptions. The criteria laid down by the Reserve Bank of India for indentifying a NBFC as a CIC are as follows:

- The CIC should hold not less then 90% of its assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group companies out of which not less than 60% of its net assets should be investment made in equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies.
- The CIC should not trade in the investment made in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment.
- The CIC should not carry out any other financial activity referred to in Section 45I(c) and 45I(f) of the Reserve Bank of India Act, 1934 like financing, whether by way of making loans or advances or otherwise, letting or delivering of any goods to a hirer under a hire- purchase agreement, the acquisition of shares, stock, bonds, debentures or securities issued by a Government or local authority or other marketable securities of a like nature; which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending Tiny manner etc., except for
  a. investment in
     i. bank deposits,
     ii. money market instruments, including money market mutual funds
     iii. government securities, and
     iv. bonds or debentures issued by group companies, granting of loans to group companies and issuing guarantees on behalf of group companies
  b. granting of loans to group companies; and
  c. issuing guarantees on behalf of group companies

SYSTEMICALLY IMPORTANT CORE INVESTMENT COMPANY

Core Investment Company (CIC) which have substantial value of Assets are called as Systemically Important Core Investment Company (CIC-ND-SI). A CIC which fulfills the following conditions is termed as a Systemically Important Core Investment Company[1]:

i. Having total assets of not less than Rs.100 crore, either individually or in aggregate along with other Core Investment Companies in the Group; and
ii. Raises or holds public funds;

Where,
"Companies in the Group", shall mean an arrangement involving two or more entities related to each other through any of the following relationships : Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), Common brand name, and investment in equity shares of 20% and above.

"Public funds" shall include funds raised either directly or indirectly through public deposits, Commercial Papers, debentures, inter-corporate deposits and bank finance but excludes funds raised by issue of instruments which are compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue.

"Total assets" means the total of all assets appearing on the assets side of the balance sheet.

1 Notification No. DNBS.PD.CC.No.274/03.02.089/2011-12 dated May 11, 2012 issued by RBI

SOME OF THE IMPORTANT RULES AND REGULATIONS FOR SYSTEMICALLY IMPORTANT CORE INVESTMENT COMPANY ARE AS FOLLOWS[2]

REGISTRATION

Every Systemically Important Core Investment Company (CIC-ND-SI) has to apply to the Reserve Bank of India for grant of Certificate of Registration

CAPITAL REQUIREMENTS

Adjusted Net Worth of a CIC-ND-SI shall at no point of time be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items as on the date of the last audited balance sheet as at the end of the financial year.

LEVERAGE RATIO

The outside liabilities of a CIC-ND-SI shall at no point of time exceed 2.5 times its Adjusted Net Worth as on the date of the last audited balance sheet as at the end of the financial year.

SUBMISSION OF ANNUAL STATUTORY AUDITORS CERTIFICATE

Every CIC-ND-SI shall submit an annual certificate from its statutory auditors regarding compliance with the requirements of these directions within a period of one month from the date of finalisation of the balance-sheet.

EXEMPTIONS

The Reserve Bank of India may, if it considers it necessary for avoiding any hardship for any other just and sufficient reason, grant extension of time to comply with or exempt any CIC-ND-SI from all or any of the provisions of these Directions either generally or for any specified period, subject to such conditions as the Reserve Bank of India may impose.

INVESTMENT IN INSURANCE BUSINESS

In order to regulate investment in Insurance Business by NBFCs, Reserve Bank of India had already issued guidelines for them however CICs although being a type of NBFCs were not specifically covered in the aforesaid guidelines. Considering the fact that Core Investment Companies (CICs) are having a unique business model and they were as such not covered in the earlier guidelines for NBFCs, a separate set of guidelines was issued by RBI vide Circular No. RBI/2012-13/466 - DNBS (PD) CC.No.322/03.10.001/2012-13 dated 1st April, 2013 for entry of CICs into Insurance Business. The guidelines were as follows:

1. **Eligibility Criteria**
   A Core Investment Company (CIC) registered with RBI will be allowed to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards, upon satisfying the below mentioned eligibility criteria as per the latest available audited balance sheet of the CIC.
   a. A considerable value of owned funds should be there i.e. it should have not owned funds of than Rs. 500 crore.
   b. The level of non- performing assets should be very low i.e. it should exceed more than 1% of the total advances given by the Company.
   c. There should be registered profits i.e. the CIC should have registered net profit continuously for three consecutive years.
   d. Subsidiaries of the CIC, if any should have shown satisfactory performance
   e. All the applicable regulations including CIC Directions, 2011 should be complied by CIC. Thus Systemically Important Core Investment Company (CIC-ND-SI) shall maintain adjusted net worth which shall be not less than 30% of aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items.
2. **Insurance Business cannot be carried out by CIC Departmentally**
   CIC will not be allowed to conduct the Insurance business departmentally. Also, an NBFC (within the group of CIC/ outside the group of CIC) not normally be allowed to join an insurance company on risk participation basis and hence should not provide direct or indirect financial support to the insurance venture
3. **Investment Limits**
   Within the group, CICs may be permitted to invest up to 100% of the equity of the insurance company either on a solo basis or in joint venture with other

2 Notification No. DNBS (PD) CC.No. 206 /03.10.001/2010-11 dated January 05, 2011 issued by RBI

non-financial entities in the group. This would ensure that only the CIC either on a solo basis or in a joint venture with the group company is exposed to insurance risk and the NBFC within the group is ring-fenced from such risk. Also the maximum equity contribution by a CIC in a Joint Venture will be approved by insurance Regulatory and Development Authority (IRDA)

4. **Foreign Contribution**
   Where 26 percent of the equity has been contributed by a foreign partner after the approval of IRDA/Foreign Investment Promotion Board, more than one CIC may be allowed to participate in the equity of the insurance joint venture. However such CIC's will also have to fulfill the eligibility criteria as they would be assuming Insurance Risk.

5. **Approval from RBI**
   CICs which want to enter into Insurance Business as investors or on risk participation basis will have to take prior approval from the Reserve Bank of India. The permission will be granted by the Reserve Bank of India on case to case basis after considering all the relevant factors. However, it has to be ensured that risks involved in insurance business do not get transferred to the CIC

6. **Rules and regulations laid down by the IRDA/ Central Government will also have to be followed**
   A promoter CIC which holds equity in an insurance company or does an investment in insurance business will also have to comply with any rules and regulations as laid down by the IRDA/Central Government including compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time

7. **Exemption from Approval of RBI**
   CICs which are exempted from registration with the Reserve Bank of India in terms of the Core Investment Companies(Reserve Bank) Directions, 2011 will be exempted from prior approval of RBI provided that the CIC have fulfilled all the necessary conditions of exemption.

8. **Restrictions**
   CICs will not be allowed to enter into the business of insurance as insurance agents.

CONCLUSION

The Guidelines issued by the RBI with respect to investment in Insurance Business by Core Investment Companies (CICs) has provided clarity on the subject. Although CICs have been denied to carry on the business of insurance agents no ceiling is stipulated for CICs for their investment in an insurance joint venture. With the implementation of this Circular, CIC's which meet the eligibility criteria will be able to go ahead with their plans for investment in an insurance joint venture in a smooth manner subject to compliance of rules and regulations laid down by Central Government/ Insurance Regulatory and Development Authority (IRDA). ◆◆◆

ARBITRATION – APPOINTMENT OF ARBITRATOR

Rohit K. Gupta

Civil Appeal No. 2673 of 2013 (*Arising out of SLP(C) No. 24686 of 2007*)

Bench of Hon'ble S.C. comprising R.M. Lodha, J. Chelameswar and Madan B. Lokur, JJ.

The Hon'ble Apex Court vide its Judgment dated 22.03.2013 in the matter titled as "Deep Trading Company Vs. Indian Oil Corporation and Others" has held that right to appointment of Arbitrator is forfeited if the same is not exercised in accordance with the procedure agreed upon by the parties.

The questions, which were considered and decided by Hon'ble Supreme Court in present appeal by special leave are:

a) whether respondent No. 1 has forfeited its right to appoint the arbitrator having not done so after the demand was made and till the appellant had moved the court under Section 11(6) (a) of Arbitration & Conciliation Act 1996 and,
b) if the answer is in the affirmative, whether the appointment of the arbitrator by respondent No. 1 in the course of the proceedings under Section 11(6) is of any legal consequence and
c) The Chief Justice of the High Court ought to have exercised the jurisdiction and appointed an arbitrator?

The brief facts, which lead the filing of subject SLP are as under:

On 01.11.1998, an agreement for kerosene/LDO dealership was entered into between the first respondent – Indian Oil Corporation (for short, "the Corporation") and the appellant – Deep Trading Company (for short, "the dealer") for the retail sales supply of kerosene and light diesel oil. In the course of dealership agreement allegedly some violations were committed by the dealer. Following the show-cause notice dated 04.03.2004; the Corporation on 12.03.2004 suspended the sales and supplies of all the products to the dealer with immediate effect. Aggrieved by the action of the Corporation, the dealer filed a petition under Section 9 of the Arbitration and Conciliation Act, 1996 (for short, "1996 Act") before the District Judge, Etawah seeking an order of injunction against the Corporation from stopping the supply of Kerosene/LDO. On 25.03.2004, the District Judge, Etawah passed a restraint order against the Corporation. The Corporation challenged the order of the District Judge before the Allahabad High Court however the Allahabad High Court refused to grant any interim relief to the Corporation. On 09.08.2004, the dealer made a demand to the Corporation by a written notice to refer the disputes between the parties to the arbitrator under the terms of the agreement. In the demand notice, it was also stated by the dealer that if the Corporation fails to appoint the arbitrator, the dealer may be constrained to approach the court under Section 11 of the 1996 Act.

The Corporation challenged the order of the Allahabad High Court in the special leave petition before this Court but that was dismissed on 06.12.2004. On or about 06.12.2004, the dealer moved the Chief Justice of the Allahabad High Court under Section 11(6) for the appointment of an arbitrator as the Corporation had failed to act under the agreement. While the said proceedings were pending, on 28.12.2004, the Corporation appointed Shri B. Parihar, Senior Manager, (LPG Engineering) of its U.P. State Office as the sole arbitrator.

The Allahabad High Court found no reason to appoint the arbitrator, as sought by the dealer, since the arbitrator had already been appointed by the Corporation and vide Order dated.12.2007 dismissed the application of dealer filed under Section 11(6).

The Hon'ble Apex Court has duly considered clause 29 of agreement dated 01.11.1998 agreed upon by the parties along with relevant provisions of Statute and precedents. Clause 29 of agreement between the parties reads as under:

"29. Any dispute or difference of any nature whatsoever or regarding any right, liability, act, omission on account of any of the parties here to arising out or in relation to this Agreement shall be referred to the sole arbitration of the Director (Marketing) of the Corporation, or of some Officer of the Corporation who may be nominated by the Director (Marketing). It is known to the parties to the Agreement that the arbitrator so appointed is a share holder and employee of the Corporation. In the event of the arbitrator to whom the matter is originally referred being transferred or vacating his office or being unable to act for any reason, the Director (Marketing) as aforesaid at the time of such transfer, vacation of office or inability to act, shall designate another person to act as arbitrator in accordance with the terms of the Agreement. Such person shall be entitled to

proceed with the reference from the point at which it was left by his predecessor. It is also a term of this contract that no person other than the Director (Marketing) or a person nominated by such Director (Marketing) of the Corporation as aforesaid shall act as arbitrator hereunder. The award of the arbitrator so appointed shall be final conclusive and binding on all parties, to the Agreement, subject to the provisions of the Arbitration and Conciliation Act, 1996 or any statutory modification of or reenactment thereof and the rules made thereunder and for the time being in force shall apply to the arbitration proceeding under this clause. The award shall be made in writing within six months after entering upon the reference or within such extended time not exceeding further four months as the sole arbitrator shall by writing under his own hands appoint."

Sub-sections (1), (2), (6) and (8) of Section 11 of Arbitration and Conciliation Act 1996 are relevant and reads as under:

"11. Appointment of arbitrators.—

(1) A person of any nationality may be an arbitrator, unless otherwise agreed by the parties.

(2) Subject to sub-section (6), the parties are free to agree on a procedure for appointing the arbitrator or arbitrators.

(3) to (5) xxx xxx xxx

(6) Where, under an appointment procedure agreed upon by the parties,-

(a) a party fails to act as required under that procedure; or

(b) the parties, or the two appointed arbitrators, fail to reach an agreement expected of them under that procedure; or

(c) a person, including an institution, fails to perform any function entrusted to him or it under that procedure, a party may request the Chief Justice or any person or institution designated by him to take the necessary measure, unless the agreement on the appointment procedure provides other means for securing the appointment.

(7) xxx xxx xxx

(8) The Chief Justice or the person or institution designated by him, in appointing an arbitrator, shall have due regard to-

(a) any qualifications required of the arbitrator by the agreement of the parties; and

(b) other considerations as are likely to secure the appointment of an independent and impartial arbitrator.

(9) to (12) xxx xxx xxx".

The three basic facts are not in dispute, namely, (i) on 09.08.2004, the dealer called upon the Corporation by a written notice to appoint an arbitrator in accordance with the terms of Clause 29 of the agreement; (ii) the dealer made an application under Section 11(6) for appointment of the arbitrator on 06.12.2004; and (iii) the Corporation appointed the sole arbitrator on 28.12.2004 after the application under Section 11(6) was already made by the dealer.

The Hon'ble Court amongst the various judgments placed before it has relied and agreed upon with legal position settled by Hon'ble Supreme Court in matter of *"Datar Switchgears Ltd. v. Tata Finance Ltd. and Another: [(2000) 8 SCC 151]"*, wherein this Court considered the scheme of Section 11, noted the distinguishing features between Section 11(5) and Section 11(6) and then considered the question whether in a case falling under Section 11(6), the opposite party cannot appoint an arbitrator after the expiry of thirty days from the date of demand. This Court held that in cases arising under Section 11(6), if the opposite party has not made an appointment within thirty days of the demand, the right to make appointment is not forfeited but continues, but such an appointment has to be made before the first party makes application under Section 11 seeking appointment of an arbitrator. If no appointment has been made by the opposite party till application under Section 11(6) has been made, the right of the opposite party to make appointment ceases and is forfeited.

Hon'ble Supreme Court has accordingly held that the Corporation has failed to act as required under the procedure agreed upon by the parties in Clause 29 and despite the demand by the dealer to appoint the arbitrator; the Corporation did not make appointment until the application was made under Section 11(6). Thus, the Corporation has forfeited its right of appointment of an arbitrator. In this view of the matter, the Chief Justice ought to have exercised his jurisdiction under Section 11(6) in the matter for appointment of an arbitrator appropriately. The appointment of the arbitrator by the Corporation during the pendency of proceedings under Section 11(6) was of no consequence.

Civil Appeal has been accordingly, allowed and Arbitration Case No. 107 of 2004, M/s. Deep Trading Company v. M/s. Indian Oil Corporation and others, is restored to the file of the High Court of Judicature at Allahabad for fresh consideration by the Chief Justice or the designate Judge, as the case may be, in accordance with law and in light of the observations made above.

DEFINTION OF FACTORY- A CRITICAL ANALYSIS

Sanjana Bakshi[1]

According to the *Black Law' Dictionary*, Factory is a term that includes all buildings and premises wherein, or within the close or curtilage of which, steam, water, or any mechanical power is used to move or work any machinery employed in preparing, manufacturing, or finishing cotton, wool, hair, silk, flax, hemp, jute, or tow

According to Section 2(m) of *Indian Factories Act*, Factory means "any premises including the precincts thereof

i. *Whereon ten or more workers are working, or were working on any day of the preceding 12 months and in any part of which is manufacturing process is being carried on with the aid of power as is ordinarily so carried on; or*
ii. *Whereon twenty or more workers are working or were working on any of the preceding 12 months and in any part of which a manufacturing process is being carried on without the aid of power pr is ordinarily so carried on.*

A factory shall not include a mine subject to the operation of the Mines Act 1952 or a mobile unit belonging to the armed forces of the Union, a railway running shed or hotel, restaurant or eating places.

It can be inferred from above that the following ingredients are mandatory to constitute a premises as "Factory", which are as follows:-

i. If a premises is using power or working without the aid of power the number of workers required to constitute a factory differ as follows
   a) With the aid of power- 10 or more workers
   b) Without the aid of power- 20 or more workers
ii. A manufacturing process should be carried on
iii. Work should be carried on in precincts.

The term "*Precincts*" in *Oxford Dictionary* is defined as follows

i. the area within the walls or perceived boundaries of a particular building or place
ii. area in a town designated for specific or restricted use, especially one which is closed to traffic

Therefore from the general meaning of the term "precincts" it means any closed area surrounded by walls or boundaries. Though the expression used above "premises including precincts" means "both premises with and premises without precincts. Where premises is a building it would included a precincts also, but where the premises are lands they would not have precincts. Thus both buildings and lands are covered by the above expression. It was held in State of Bombay vs. Ardeshir Hormosji Bhiwandiwala[2] that lands in which the process of manufacturing salt is carried on is a factory.

In order that any premises may be held as a factory the following conditions must be fulfilled:-

i. a manufacturing process must be carried on in any part of the premises of the establishment
ii. where the manufacturing process is carried on with the aid of power ten or more workers must be working, where the manufacturing process is carried on without the aid of power twenty or more workers must be working in that establishment. But the mere fact that the power is used in the premises is not sufficient but power must be used in the aid of manufacturing process[3]

There was a slate quarry extending over a large open space of about 300 acres. The work was carried on in the open air, shed was the only building. In the quarry more than 50 persons were employed for splitting the rock into slates and shaping them for sale. It was held that the quarry was not a factory for, if a place in which a manufacturing process is being carried on in open spaces it cannot constitute a factory.[4] In *Pragnarain Vs Crown*[5] it was held that *factory means premises wherein anything is done towards the making or finishing of an article up to the stage when it is ready to be sold or in a suitable condition to be put in the market.*

Factory is a premise where a manufacturing process is carried on. No, manufacturing process is held to take place either in the sub-stations or in the Zonal Stations of the Delhi Electric Supply Undertaking because the workmen employed therein gave no part in the

1 *Legal Intern*

2 *(1956) I L.L.J 26*
3 *New Taj Mahal Café Ltd, Mangalore Vs Inspector if Factories, Mangalore,(1950) I L.L.J 273*
4 *Kent Vs Astelt, (1819) LR 5 QB 19*
5 *AIR 1928 Lah 78*

manufacturing process.[6] A gas main belonging to a gas company and situated about 400 yards out of the factory was held to be belonging to the precincts of the factory.[7]

In *Ardeshir V State of Bombay*[8] it was held that the word "premises" is a generic term meaning open land or land with buildings or buildings alone. The expression "premises including precincts" does not necessarily mean that premises must always have precincts. Even building need not gave any precincts. The word 'including'; is not a term restricting the meaning to the word "premises" but it is a term which enlarges its scope. *The use of the word including therefore does not indicate that the worked "premises" must be restricted to main building and be not taken to cover open land as well.* Though some provisions of the Act are not applicable to salt works where the process of converting seawater into salt is carried on in the open. There is nothing in the Act which makes it uniformly compulsory for every occupier of a factory to comply with every requirement of the Act. An occupier is to comply wit such provisions of the Act which apply to the factory he is working. *Hence the salt works would come within the meaning of the word "premises" used in the definition in Section 2(m).*

It is pertinent to mention here with the exception of the law laid down in the Judgment of the *Hon'ble High Court of Gujarat* decided in 06.02.1973 in *Simon Carves India Limited and Anr. Vs. The State of Gujarat*[9] that the work incidental, ancillary and in connection with the main activity of the company where 10 or more workers are working with the aid of power, the same may not fall under the provisions of the Factories Act, 1948. The Hon'ble Judge stated that "*In order that the provisions of the Act are attracted it has to be shown that a manufacturing process with the aid of power was being carried on by engaging 10 or more workers in a fixed place as and by way of the main and predominant function of the company. If the company temporarily for the purpose of execution of the contract for construction carries on such manufacturing process at site temporarily provided by the owner for whom they are doing the job, it cannot be said that they are running a factory within the meaning of the Act. If a too literal construction is put on the term 'factory' as contended by the learned Advocate for the opponent, the same would not be in consonance with the object and purpose of the Act.*"

In *Dr P.S.S Sundar Rao G.S Vs Inspector of Factories Vellore*[10] the question whether a laundry attached to the Christian Medical College and Hospital Vellore is a factory within the meaning of this Act. The Madras High Court held that the laundry run by the Hospital cannot be separated from the main institution. In order to ensure high degree of hygienic standard the Hospital is having its own laundry for washing linen used in the Hospital. Therefore, laundry is only subsidiary, minor or incidental establishment of the Hospital which is not a factory. One department of the Hospital established for the efficient functioning of the Hospital cannot therefore be disjoined from the main institution and termed as a factory. The paramount or the primary character of the main institution alone has to be taken into consideration and when the main institution is not a factory; a department thereof cannot become so even though a manufacturing process is carried on there.

Another necessity for premises to be regarded as a Factory is that a "*Manufacturing Process*" should be conducted within the premises. The Factory Act according to Section 2(k) defines manufacturing means any process for-

i. *Making, altering, repairing, ornamenting, finishing, packing, oiling, washing, cleaning, breaking up, demolishing, or otherwise treating or adapting any article or substance with a view to its use sale, transport, delivery or disposal, or*
ii. *Pumping oil, water, sewage or any other substance; or*
iii. *Generating, transforming or transmitting power; or*
iv. *Composing types for printing, printing by letter press, lithography, photogravure or other similar process or book binding; or*
v. *Constructing, reconstructing, repairing, refitting, finishing or breaking up ships or vessels; or*
vi. *Preserving or storing any article in cold storage.*

It was held in *State Of Bomaby Vs Ali Saheb Kashim Tamboli*[11] that bidi making is a manufacturing process. The process of transforming and transmitting electrical energy are manufacturing process. Manufacturing process is carried on in sub-section of Electricity Board within the meaning of section 2(k) (iii) though there is no transmission of electrical energy. In *Ardeshir Vs Bombay State* salt was manufactured from sea water by

6 *Workmen, Delhi Electric Supply Undertaking Vs Management, AIR 1973 SC 365*
7 *Dolores Gas and Coal Co Ltd Case, (1950) 2 KB 878*
8 *AIR 1962 SC 29*
9 *1980CriLJ283*
10 *1984 II L.L.J. 237(Mad)*
11 *1995 II L.L.J 182*

applying different processes which shows that it is due to human agency aided by natural forces, that salt is extracted from sea water. The process carried out in the salt worked comes within the definition of 'manufacturing process' in section 2(k) inasmuch as salt can be said to have been manufactured from sea water by the process of treatment and adaptation of sea water into salt.

In *Gujrat Electricity Board vs state of Gujrat and Anr*[12], the court had to determine whether the conversion of high voltage into low voltage and distribution of electricity amounts to manufacturing process. It was held that these activities are not covered by the expression 'manufacturing process" as envisaged under Section 2(k) of the Factories Act because these activities do not involve generation of power. Therefore any sub-station engaged in conversion or distribution of electricity is not a factory.

If a manufacturing process is not carried on within the premises it cannot be regarded as a factory. Therefore concluding that to regard an establishment or premises as a factory it should fulfill certain conditions as mentioned above and mainly manufacturing process should be carried on.

12 *1984 II L.L.J 370(Guj)*

NEWSBYTE

LIMITS FOR FOREIGN INVESTMENT IN INDIA BY SEBI REGISTERED FIIS IN GOVERNMENT SECURITIES AND CORPORATE DEBT SIMPLIFIED

The limits for Foreign investment in India by SEBI registered Foreign Institutional Investors [FIIs] in government securities and corporate debt was issued by the Reserve Bank of India [RBI] vide A.P.(DIR Series) Circular No.80 dated January 24, 2013. However in the aforesaid circular there were also some sub limits which were required to be complied with. In order to simplify the existing limits, RBI vides Circular No. RBI/2012-13/465 - A.P. (DIR Series) Circular No.94 dated 1st April, 2013 merged the existing debt limits into two broad categories as under.

1. **Government Debt limit:** Government securities of USD 25 billion by merging the existing sub-limits under Government securities [(a)USD 10 billion for investment by FIIs in Government securities including Treasury Bills and (b) USD 15 billion for investment In Government dated securities by FIIs and long term investors]; and
2. **Corporate Debt Limit:** Corporate debt of USD 51 billion by merging the existing sub-limits of Corporate debt [(a) USD 1 billion for Qualified Foreign Investors (QFIs), (b) USD 25 billon for investment by FIIs and long term investors in non-infrastructure sector and (c) USD 25 billion for investment by FIIs/QFIs/long term investors in infrastructure sector
3. **The revised Position is as follows:**

Instrument/s	Limit	Eligible Investor	Remarks
Government securities including Treasury Bills	USD 25 billion	FIIs, QFIs and Long terms investors registered with SEBI – Sovereign Wealth Funds (SWFs), Multilateral Agencies, Pension/ Insurance/ Endowment Funds, Foreign Central Banks.	Eligible Investors may invest in Treasury Bills only upto USD 5.5 billion within the limit of USD 25 billion.
Eligible instruments as referred to in Schedule 5 of Notification No. FEMA 20 /2000-RB dated 3rd May 2000.	USD 51 billion	FIIs, QFIs, Long terms investors registered with SEBI - SWFs, Multilateral Agencies, Pension/ Insurance/ Endowment Funds, Foreign Central Banks .	Eligible Investors may invest in Commercial Papers only upto USD 3.5 billion within the limit of USD 51 billion.

4. The Non-Resident Indians were not subject to any limit for investment in Government Securities as well as corporate debt. They will continue to be regulated as per extant guidelines.

CBDT ISSUED CIRCULAR ON CONDITIONS RELEVANT TO IDENTIFY DEVELOPMENT CENTERS ENGAGED IN CONTRACT R&D SERVICES WITH INSIGNIFICANT RISK

CBDT vide Circular No. 03/2013 dated 26th March, 2013 issued clarification with regards to condition that are required to be cumulatively complied with in order to treat a development centre in India as a contract R&D service provider with insignificant risk.

As per the circular the clarification was issued as there was divergence of views amongst the field officers and taxpayers regarding the functional profile of development centers engaged in contract R&D services for the purposes of transfer pricing audit. The circular also said that moreover, while at times taxpayers have been insisting that they are contract R&D service providers with insignificant risk, the TPOs are treating them as full or significant risk-bearing entities and making transfer pricing adjustments accordingly.

The conditions that are required to be cumulatively be complied with are as follows:

1. Foreign principal performs most of the economically significant functions involved in research or product development cycle whereas Indian development centre would largely be involved in economically insignificant functions;
2. The principal provides funds/ capital and other economically significant assets including intangibles for research or product development

and Indian development centre would not use any other economically significant assets including intangibles in research or product development;

3. Indian development centre works under direct supervision of foreign principal who not only has capability to control or supervise but also actually controls or supervises research or product development through its strategic decisions to perform core functions as well as monitor activities on regular basis;
4. Indian development centre does not assume or has no economically significant realized risks. If a contract shows the principal to be controlling the risk but conduct shows that Indian development centre is doing so, then the contractual terms are not the final determinant of actual activities. In the case of foreign principal being located in a country/ territory widely perceived as a low or no tax jurisdiction, it will be presumed that the foreign principal is not controlling the risk. However, the Indian development centre may rebut this presumption to the satisfaction of the revenue authorities; and
5. Indian development centre has no ownership right (legal or economic) on outcome of research which vests with foreign principal, and that it shall be evident from conduct of the parties.

   The satisfaction of all the above mentioned conditions should be borne out by the conduct of the parties and not merely by the contractual terms.

CBDT ISSUED CIRCULAR ON POINTS TO BE KEPT IN MIND WHILE SELECTING PROFIT SPLIT METHOD AS THE MOST APPROPRIATE METHOD.

The Central Board of Direct Taxes (CBDT) vide Circular No.2/2013 dated 26th March, 2013 clarified the following points which should be kept in mind before selecting Profit Split Method (PSM) as the most appropriate method:

1. Since there is no correlation between cost incurred on R&D activities and return on an intangible developed through R&D activities, the use of transfer pricing methods [*like Transactional Net Margin Method*] that seek to estimate the value of intangible based on cost of intangible development [*R&D cost*] plus a return, is generally discouraged.
2. Rule 10B (1)(d) of Income Tax Rules 1962 (the Rules) provides that profit split method (PSM) may be applicable mainly in international transactions involving transfer of unique intangibles or in multiple international transactions which are so interrelated that they cannot be evaluated separately for the purpose of determining the arm's length price of any one transaction. The PSM determines appropriate return on intangibles on the basis of relative contributions made by each associated enterprise.
3. Selection and application of PSM will depend upon following factors as prescribed under Rule 1OC(2) of the Rules:
   - the nature and class of the international transaction;
   - the class or classes of associated enterprises entering into the transaction and the functions performed by them taking into account assets employed or to be employed and risks assumed by such enterprise;
   - the availability, coverage and reliability of data necessary for application of the method;
   - the degree of comparability existing between the international transaction and the uncontrolled transaction and between the enterprise entering into such transactions;
   - the extent to which reliable and accurate adjustments can be made to account for differences, if any, between the international transaction and the comparable uncontrolled transaction or between the enterprise entering into such transactions;
   - the nature, extent and reliability of assumptions required to be made in application of a method.
4. It is evident from the above that Rule 10C (2) of the Rules stipulates availability, coverage and reliability of data necessary for the application of the method as one of the several factors in selection of most appropriate method. Accordingly, in a case, where the Transfer Pricing Officer (TPO) is of view that PSM cannot be applied to determine the arm's length price of international transactions involving intangibles due to non-availability of information and reliable data required for application of the method, he must record reasons for non-applicability of PSM before considering TNMM or comparable uncontrolled price method (CUP) as most appropriate method depending upon facts and circumstances of the case.

5. Application of Profit Split Method requires information mainly about the taxpayer and associated enterprises. Section 92D of the Income-tax Act, 1961 provides for maintenance of relevant information and documents by the taxpayer as prescribed under Rule 10D of the Rules. Therefore, there should be good and sufficient reason for non-availability of such information with the taxpayer.
6. Depending upon facts and circumstances of the case, TPO may consider TNMM or CUP method as appropriate method by selecting comparables engaged in development of intangibles in same line of business and make upward adjustments taking into account transfer of intangibles without additional remuneration, location savings and location specific advantages.

AMENDMENT TO COPYRIGHT RULES

The Ministry of Human Resource and Development, Government of India, has notified the Copyright Rules, 2013 on 14th March, 2013. The highlights of Copyright Rules, 2013 are as below:

1. Importation of infringing copies and technological protection measures.
2. Registration of Copyright Societies and Performer's Right Societies;
3. Storage of transient or incidental copies of woks;
4. Making or adapting the work by organisations working for the benefit of persons with disabilities;
5. Compulsory licences for works withheld from public, unpublished and published works, for benefit of disabled;
6. Statutory licence for cover versions and broadcasting of literary and musical works and sound recording;

Apart from the above mentioned changes the fees structure of the Copyright has also comprehensively amended, for example minimum fee for licences has been raised to Rs 2000 from Rs 200, and maximum has been raised to Rs 40,000 from Rs. 400. For registration of copyright, the minimum fee has been raised to Rs 500 from Rs 50 and, the maximum fee has been raised to Rs. 5000 from Rs. 600. The new fee structure provided under the Second Schedule to the Rules is applicable from 14th March 2013. The draft rules were posted on the website seeking comments from all stakeholders and experts. The Ministry also held a meeting with various stakeholders and copyright experts on October 8, 2012 to seek their suggestions on the draft rules.

DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP) RELEASES CONSOLIDATED FDI POLICY FOR 2013

The Department of Industrial Policy and Promotion (DIPP) on 5th April, 2013 released the Consolidated FDI Policy (effective from 5th April, 2013) vide Circular No. 1 of 2013. DIPP frames the Consolidated FDI policy and it is the nodal agency for FDI related matters. In the Consolidated FDI policy all the related polices are complied into single document and it acts as a single reference point for investors and regulators. This is the sixth edition of the consolidated FDI policy which has incorporated the changes made in the regulations over the past one year. The present consolidation subsumes and supersedes all Press Notes/Press Releases/ Clarifications/ Circulars issued by DIPP, which were in force as on 4th April, 2013 and reflects the FDI Policy as on 5th April, 2013.

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