FOREWORD

Manoj K Singh
Founding Partner

It is our immense pleasure to bring the August edition of our monthly newsletter "Indian Legal Impetus". The attribution of our readers has provided us the opportunity to enlighten the legal fraternity around the world. This newsletter is a window through which we try to provide a peek in to the latest legal happening in India to keep our readers updated.

The cover article of the current edition deals with the concept of minimum contact theory of trademark developed by the Courts for dealing with extra territorial Jurisdiction in cases where one of the party or both of them are operating beyond the jurisdiction of the Court.

From the patent section we deal with the effect of Product patents on the generic pharmaceutical sector of India and other developing nations.

Further the role of leniency program in detection of cartel cases is dealt in an article, which provides an insight on its use in India and other countries.

From the copyright section we provide the legal aspects protection of copyright in computer software in India.

The concept of Nominative fair use of trademark wherein the third party use of a registered trademark is not treated as infringement is dealt in another article in this edition. In addition to the same the concept of Trade dress in the trademark and its usage in India is dealt in another article.

In the Tax section the judgment of the Hon'ble Income Tax Appellate Tribunal (ITAT) of India is discussed, highlighting the deduction allowed on employee stock option plan (ESOP) under the head profits and gains of business.

The role played by the frugal innovation in a developing economy like India is discussed in an article on the concept of frugal innovation. Last but not the least we discuss the incremental pharmaceutical innovation and its impact on public health & Indian economy.

I hope that the latest edition of Indian Legal Impetus would help in satisfying the thirst of knowledge of the readers. The comments and queries on the concepts are welcome.

You may send your valuable suggestions, opinions, queries or comments to **newsletter@singhassociates.in**

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MINIMUM CONTACT THEORY

Himanshu Sharma & Ritiraj[1]

INTRODUCTION

In Personam Jurisdiction refers to the power which a court has over the defendant himself in contrast to the court's power over the defendant's interest in property (Quasi in rem) or power over the property itself (in rem)[2]. A court that lacks personal jurisdiction is without power to issue an in personam judgment i.e. judgment against the individual or corporation[3]. The Minimum Contact theory comes into picture when either or both of the parties seem to be from outside the Court's territorial jurisdiction. It is used as a method to establish the Court's jurisdiction over the parties to a case by determining their quality and intensity of their contact i.e. services or transactions with the Forum State[4]. In India, it has been incorporated by giving a liberal interpretation to Section 20(c) of the Code of Civil Procedure, to expand jurisdiction especially in cases of trademark infringement, passing off of trademarks, domain name infringements.

ORIGIN OF THE THEORY

In America, concept of personal jurisdiction and fairness and due process were not on the same page traditionally. Non-residents could be brought to court while they were in State, however fortuitous or brief presence it might be[5]. With the *International Shoe v. Washington*[6], modern jurisdictional analysis stepped in, imbibing Fair play and substantial justice in exercising of personal jurisdiction by courts. Incorporating the spirit of the Fourth and Fifteenth Amendments to the United States Constitution that talk about substantive due process and procedural due process, the core meaning of due process of law is to secure the principle of legality by ensuring that executive and judicial deprivations are grounded in valid legal authority[7]. In this case, a suit to recover payments due to the unemployment fund by a Corporation which did not even have an office or shop in the State was questioned on the basis of personal jurisdiction. Service of process upon one of the corporation's salesmen within the State, and notice being sent by registered mail to the corporation at its home office was challenged as not satisfying the requirements of due process[8]. The Supreme Court of Washington was of opinion that the regular and systematic solicitation of orders in the state by appellant's salesmen, resulting in a continuous flow of appellant's product into the state, was sufficient to constitute doing business in the state so as to make appellant amenable to suit in its courts.

Earlier the parties' presence within the territorial jurisdiction of a court was prerequisite to its rendition of a judgment personally binding him[9]. Later the position developed that due process required only that, in order to subject a defendant to a judgment in personam, if he be not present within the territory of the forum, **he have certain minimum contacts** with it such that the maintenance of the suit does not offend "traditional notions of fair play and substantial justice"[10]. It was held *supra*, that, to the extent that a corporation exercises the privilege of conducting activities within the State, it enjoys the benefits and protection of laws of the State and obligations arising out of these which require the Corporation to respond to a suit brought to enforce them can, in most instances, will be held binding on it. Hence, the Corporation is bound by its purposeful availment in that forum.

DEVELOPMENT OF THE THEORY IN THE INTERNATIONAL ARENA

Shoe (*Supra*) lay down that Courts could exercise general personal jurisdiction as well as specific personal jurisdiction, depending on the level of contact. If

1 IIIrd year student NLU Delhi
2 Black's Law Dictionary, (6th Ed.) p.790
3 India TV) Independent News Service Pvt. Limited V. India Broadcast Live LLC and Ors., (2007)ILR 2Delhi1231
4 Forum State is the State where the case has been instituted
5 Burnham v. Superior Court, 495 U.S. 604 (1990)
6 326 U.S. 310, 1945
7 www.law.nyu.edu/idcplg?IdcService, accessed on 21st July, 2013
8 http://supreme.justia.com/cases/federal/us/326/310/case.html, accessed on 20th of July, 2013
9 Pennoyer v. Neff, 95 U. S. 714, 95 U. S. 733, 1878
10 Milliken v. Meyer, 311 U. S. 457, 311 U. S. 463

contact is so continuous and substantial that the subject can be sued for anything within the State, it's the former, but if the contact is only sufficient for jurisdiction over claim arising from those contracts, it's the latter[11]. With the development of Internet and globalization of business, businesses spread worldwide had the risk of being sued anywhere, which mandated stricter norms in determining "Purposeful Availment", also known as Sliding Scale test[12]. The case of *Asahi Metal Industry Co. v. Superior Court*[13] questioned if the mere awareness that a product may reach a remote jurisdiction when put in the stream of commerce was sufficient to satisfy the requirement for minimum contacts under the Due Process Clause. The courts here and in *World-Wide Volkswagen Corp. v. Woodson*[14] held that a party must do more than intentionally put goods in the stream of commerce even if it expected its products to reach the forum state. Foresight alone wasn't enough to establish personal jurisdiction over the defendant Corporations here as neither party deliberately took steps to see their products in the forum markets[15]. The substantial connection with the forum state necessary for a finding of minimum contacts must come about by an action of the defendant purposefully directed toward the forum state[16]. Even after that, fair play and justice will have to be satisfied i.e. reasonableness of the party to be sued in that forum.

The cases of *Cybersell Inc v. Cybersell Inc and Ors*[17] *and Chloe v. Queen Bee of Beverly Hills, LLC*[18] gave a three step test to exercise personal jurisdiction in matters dicey in territorial jurisdiction.

1) The non resident defendant must do some act or consummate some transaction with the forum or perform some act by which he purposefully avails himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections of its laws.

2) The claim must be one that arises out of or results from the defendant's forum related activities.

3) Exercise of jurisdiction must be reasonable

But the case of *Panavision International LP*[19] brought out the loophole in application of existing rules of personal jurisdiction to conduct that took place in part in cyberspace - it was observed that simply registering someone else's trademark as a domain name and posting a website on the Internet is not sufficient to subject a party domiciled in one state to jurisdiction in another. Even a passive website cannot be the subject of a Court's personal jurisdiction, until it harms the other. The Minimum Contact Theory wasn't sufficient to determine such cases wherein the level of contact or interactivity of the domains couldn't be defined. This brought in the aspect of 'active intention of the party to establish contact with the forum state, economically benefit itself and harm the interests of the plaintiff by targeting the latter's market. It led to the development of Calder test[20] (effect test) i.e. exercising jurisdiction by objective territoriality.

In the case of *Burger King Corp v. Rudzewicz*[21], it was held that the court could exercise jurisdiction over a non-resident despite his physical absence, where an alleged injury arises out of or relates to actions by the Defendant himself that are "purposefully directed towards residents of the forum State". It was also held that "purposeful availment" would not result from "random" or "fortuitous" contacts by the defendant in the forum state, the plaintiff was required to show that such contacts resulted from the "actions by the defendant himself that created a substantial connection with the forum State" i.e. he must have engaged in "significant activities" within the forum state or have created "continuing obligations" between himself and residents of the forum state.

Summarizing the position in the US, to establish personal jurisdiction of the Court, even when a long-arm statute existed and Effects test proved, plaintiff would have to show that the defendant purposefully availed of jurisdiction of the forum state by "specifically targeting" customers within the forum state.

11 www.law.nyu.edu/idcplg?IdcService, accessed on 21st July, 2013
12 Zippo Mfg. Co. v. Zippo Dot Com, Inc. 952 F.Supp. 1119
13 480 U.S. 102 (1987)
14 444 U.S. 286 (1980)
15 http://supreme.justia.com/cases/federal/us/444/286/case.html, accessed on 21st of July, 2013
16 http://www.lacrosselaw.com/purposeful-availment-test-limited/, accessed on 21st of July, 2013.
17 Case No. 96-17087 D.C. No. CV-96-0089-EHC
18 616 F.3d 158 (2nd Cir. 2010)
19 141 F.3d 1316
20 Calder v. Jones 465 U.S. 783 (1984)
21 471 U.S. 462

In England, until the passive display is advertisement, it wouldn't be viewed as targeting. Countries like Australia and Canada are supported by their long-arm statute, which though decreases the importance of Minimum Contact theory, doesn't diminish the importance of due process requirements, including reasonability. Reasonableness of exercise of jurisdiction can be gauged by considering the following measures- the burden on the defendant of coming for a trial in that forum state, the interests of the forum State, the plaintiffs interest in obtaining relief, the interstate judicial system's interest in obtaining the most efficient resolution of controversies and the shared interest of the several States in furthering fundamental substantive social policies

USE IN INDIA

As the businesses in India are extending their horizons globally hence the use of Minimum Contact Theory was used to expand jurisdiction of Courts in cases trademark infringement through domain name and when some non-residents are involved. In the case of *(India TV) Independent News Service Pvt Limited Vs. India Broadcast Live LLC and Ors*[22] *and Banyan Tree Holding (P) Limited vs. A. Murali Krishna Reddy and Anr.*[23], the foreign precedents were rushed to provide the justification for exercising jurisdiction over the defendants. As jurisdiction in our courts is defined by territorial and pecuniary jurisdiction, a liberal interpretation of Section 20(c) of Code of Civil Procedure by the Courts allowed this.

In India TV case, the court established minimum contact of the defendant with the forum state to exercise jurisdiction. It was found out that the website could not only be accessed from but also subscribed to from Delhi and it was thus contended that the defendant was carrying on business with deliberative effort for profit or gain from India. As the plaintiff was a corporation based in India in the same field, its economic interests were being hampered. Hence, according to the Cybersell case, court held that defendant in this case had directed his activity toward the forum state i.e. Delhi and held defendant liable for passing off.

In Banyan Tree case, it was held that creating a site, was like placing a product into the stream of commerce, which may be felt nationwide or even worldwide but, without more, it was not an act purposefully directed towards the forum state". Purposeful Availment means that it has to be actively intentional[24]. The Courts in order to ensure that this method of exercising jurisdiction didn't violate the codified method of territorial jurisdiction, the Courts, in both these cases used Section 20(c) of the Code of Civil Procedure, i.e. the case can be instituted where the cause of action arises. Courts held that even if neither the plaintiff, nor the defendant were within the local jurisdiction of the Court where the case was instituted, but it was proved that the domains of the defendant were accessed by the people belonging to the plaintiff's market under the impression of the defendant being the plaintiff, because of similar trademarks or domain names, then cause of action will deemed to have arisen in that market and the case could be instituted there. Mere avoidance to restrict the access of their sites outside the defendant's local jurisdiction could not be an excuse if people would take services from it, thus harming the other similar Corporation.

CONCLUSION

Thus, from mere establishment of contact with the forum state, the theory gradually required deliberate direction from the defendant and harm to the plaintiff in order to be applicable in modern times. The difference in Indian use of this theory and International use is that here, it is restricted by territorial jurisdiction and cause of action needs to arise at the place where case is instituted. Whereas, international use of the theory shows how objective territorial application of jurisdiction without the restrictions of territorial application helps in extending jurisdiction of courts to a wide degree, thus serving the interests of justice in the society.

22 (2007)ILR 2Delhi1231
23 2010(42)PTC361(Del)
24 Ballard v. Savage 65 F.3d 1495 (1995)

Restriction of territorial jurisdiction being placed by codified laws, further expansion of personal jurisdiction beyond those lines require appropriate amendments in Section 19 and 20 of the Code of Civil Procedure to incorporate the Objective territoriality principle, i.e. the Effects test. This is so because judicial precedents of lower courts and foreign courts do not have binding authority on the Indian Courts and considering the growing involvement of non-residents in cases of trademark infringement, passing off and domain names owed to the ever-increasing horizon of globalization of businesses and internet connectivity, we need definitive law in this matter. Continued dependence on case laws and International law principles, without incorporation in domestic law will keep the law regarding this matter vulnerable to dismissal by the higher courts and leave unprotected the valid interests of the members of the society. ◆◆◆

THE TRICKLE-DOWN EFFECT OF PRODUCT PATENT IN INDIA AND ON THE DEVELOPING WORLD

Kailash Choudhary & Ritiraj [1]

The Indian Patent Regime has been instrumental for the development of the Indian Generic drugs industry, making possible the production and availability of essential drugs at affordable prices. Prior to the WTO and TRIPS the two distinct features of the Indian Patents Act, 1970, i.e. allowing only for process patent and not product patent by virtue of Section 5 of the Indian Patents Act, 1970, are the major factors for the growth of generic industry. The then act was prepared keeping in mind the socio-econimic condition of the country and was largely based on the recommendations of a report of a Ayyangar commission.

The growth of generic pharmaceutical industry due to the favorable patent regime not only had impact in India but also well beyond its borders. India is the main supplier of essential medicines for developing countries. As per the Annual Supply Report of UNICEF, India was the largest supplier country in 2012. UNICEF procured $558 million worth of services and supplies from India[2]. Further as per the reports of Campaign for Access to Essential Medicines, around 67 % of medicines exports from India go to developing countries, around 75-80% of all medicines distributed by the International Dispensary Association (IDA) to developing countries are manufactured in India. In Zimbabwe, 75% of tenders for medicines for all public sector health facilities come from Indian manufacturers. The state procurement agency in Lesotho, NDSO, states it buys nearly 95% of all ARVs from India[3]. This is the reason why India is known as the doctor without borders. But the recent change in the Patents Act, 1970 in order to harmonize it with the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement, may leave least developing nations and the developing ones in a big trouble, who were dependent on India's generic pharmaceutical industry.

The Patents Amendment Act, 2005, introduced "Product Patent" in India. The product patent was granted for the new product for a period of twenty years. Earlier due to absence of product patent, only process patents are granted for a new process of manufacturing an already known product or for manufacturing a new product. This has helped Indian pharmaceutical industry to develop generic versions of the new medical drugs without having fear of infringement of patent. This has also helped in achieving a key-objective of policy-makers in the developing world to ensure the availability of new medical treatments to save millions of lives by production of cheap generic versions of on-patent drugs. The introduction of product patents is considered as a major incentive for developing new medicines, especially for tropical diseases, not focused upon by the developed nations, it has a snowball effect on the Generic industries with only one saving clause.

THE CURRENT SITUATION

Earlier the Indian pharmaceutical industries by using the process of reverse engineering, various Indian pharmaceutical industries produced generic drugs on mass level of the on-patent drugs, enabling affordable access of these to under-developed and developing nations. The product patents regime means, that Indian generic drugs manufacturers can no longer manufacture drugs by reverse engineering till the time patent is in force. Due to the low per capita income the Indian people may not be able to afford the escalated costs of new entrant drugs developed by the Pharmaceutical giants. For e.g. "Shanvac", a recombinant DNA vaccine for Hepatitis B, indigenously developed by Shanta Biotech of India is being supplied to UNICEF for 50 cents per dose, whereas the same vaccine was being sold for US $ 15 per dose. Therefore, India should be either allowed to reverse engineer or should innovate in order to afford newer and better drugs.

1 IIIrd year student NLU Delhi

2 UNICEF Supply Annual Report 2012: http://www.unicef.org/supply/files/UNICEF_Supply_Annual_Report_2012_web.pdf

3 "Examples Of The Importance Of India As The "Pharmacy Of The Developing World"- Campaign for access to essential medicines (http://www.msfaccess.org/sites/default/files/MSF_assets/Access/Docs/ACCESS_briefing_PharmacyForDevelopingWorld_India_ENG_2007.pdf)

The generic drugs are as effective as the original branded/patents drug because the same active drug molecules was used, and are a lot cheaper than the original branded drugs. The generic drugs are cheaper because the manufacturers of the same don't have to go through the process of drug development, including clinical trials, multitude of test, marketing, promotion etc. Generic drug manufacturers actually cash on the benefit of the previous marketing efforts of the patentee. Almost all drugs produced by generic manufacturers have already been on the market and are well known to patients and providers. After the change in Patent Act, same is no longer be possible, and it threatens the supply of generic drugs to the heavily dependent countries along with the domestic market.

Among Indian industries, the average investment in R&D is only 0.7 per cent which is extremely low by world standards. The lack of R&D investment is largely because of the protectionism and a non-competitive market due to the high import duties imposed on imported drugs. The number of patent applications filed by Indian institutions is very less. Some prominent Indian applicants are Council of Scientific and Industrial Research and National Institute of Pharmaceutical Education and Research (NIPER) and Indian Council of Medical Research. Drug discovery research is still finding its feet in India. Though many companies are investing like Ranbaxy, Nicholas Piramal, Cipla, CadilaPharma and Lupin, however it will at least be a decade before a critical mass is in place and results start accruing. This would mean that most of the pharmaceutical product patents would be owned by MNCs. Almost all of India's drug market consists of second-and-third generation drugs no longer subject to patent protection. This shows that product innovation has not found its ground in India, and we are involved in the production of already existing medicines for diagnosed diseases.

The major pharmaceutical companies of developed nations mainly focus on either global scale diseases or those pertinent to their areas and did not paid attention to the tropical diseases like malaria, tuberculosis etc. these areas i.e. tropical diseases are generally avoided by the developed nations as the return is not very high from the developing nations or least developed nations. This is the main reason behind the introduction of product patent that might after-all encourage research and development in the field of tropical diseases. Product patents are a crucial factor in innovation, ensuring that investor companies will have the possibility of being rewarded for the major investments needed to develop new medicines and cures. This system provides a higher degree of assurance to developers to risk the capital necessary in the research and development process.

The only valid opposition to the product patent is the price of the patented drug. For this a study of system of pricing of the medicines and the patented drugs shows us that it can be made acceptable by using Article 7 of the TRIPS Agreement, according to it "the protection and enforcement of intellectual property rights should be in a manner conducive to the socio-economic welfare of the country, and the flexibilities of the agreement".

COSTING OF DRUGS

The march for product patent rose after declaration of $802 million as the cost incurred for drug development by the 2003 study conducted by Tufts Center for the Study of Drug Development[4]. Donald Light, professor of comparative health care at the University of Medicine and Dentistry of New Jersey, criticizing the study, says, that it's impossible to determine how far prices are truly rising because of increasing developmental costs, the industry keeps a tight grab on the cost and only part is disclosed at intervals and that to only economists having ties with the industry. Recognizing a trend of rising trial complexity is one thing, accurately estimating how that is affecting the cost of research and development quite another[5].

The patent protects the investment, including research, development, marketing, and promotion, by giving the company the exclusive right to sell the drug for patent

4 Journal of Health Economics, March edition, 2003.
5 ibid

term. As the patent reaches the near the expiration, generic manufacturers apply to the FDA (Food and Drug Authority) in the US and in India to make and sell the generic versions. As those generic manufacturers don't have to bear the same development costs, they can sell their product at substantial discounted rates. Once the generic drugs are approved due to competition in the market, price of the drug goes down. Today, almost half of all prescriptions are filled with generic drugs and India it is required by the Government to prescribe affordable generic drugs. The US$802-million figure was based on the research-and-development costs of 68 drugs of 10 companies. The data, however, were not made available to other researchers, and drug-industry watchdogs say this lack of transparency is typical. Warburton says it is in the best interests of drug companies, who often lobby governments to loosen price regulations and increase patent protection, to overstate costs and lacking transparency makes things even fishier.

Drug companies are sometimes accused of passing these big numbers on to the media to deflect public criticism about price gouging. Another criticism of studies that produce numbers in the billion-dollar range is that large portions of those estimates aren't out-of-pocket expenses. About half of the 10-figure price tag is an estimate of the profits a drug company might have made, over the course of bringing a product to market, if it had instead invested its capital elsewhere. Calculating forgone profits is, according to Prof. Light, a reasonable way for a company to determine if it should go ahead with a project. "What is not reasonable," he says, "is to then take that estimate, which is a calculation of investment, and claim it as a cost against society[6]." This represents the condition of double-pricing, i.e. the company is allowed to charge for the patent the other companies buy from it, on the justification that it spent that money on developing the product; again, the company recovers that capital invested in the development of the drug by adding Maximum Allowable Post-Manufacturing Expenses to the cost of the product.

The cost estimate of successful drug development also includes the cost of research that fails to net new products. About two-thirds of true research and development costs, Light says, are incurred in phase III trials, where the odds of success are about 3 in 5. Earlier trials are relatively inexpensive, and most compounds don't even make it to the trial stage. "It is business," says Prof. Light. "It's not unlike marketing the newest version of a cell phone[7]."

COMPULSORY LICENSING AS A TOOL TO COMBAT PRODUCT PATENTS

India fought hard against product patents on medicines, however lost that battle, but did score an important victory. It got inserted in the Agreement on TRIPs, a provision whereby member countries would retain the right to issue compulsory license to domestic firms for a patented medicine if the patent holder did not provide the medicine at an affordable price[8].

As compulsory licensing can be used only for drugs not available to people at affordable prices, with a company ready to manufacture it at cheap prices, it might not encourage generic industries to the extent as process patent did. Hence, using Article 7 of the TRIPS Agreement, country can make compulsory licensing flexible to provide for its domestic market and perform its responsibility of being the "pharmacy of the world". Considering the dependence of other nations on India's generic drug industry, India needs to provide sustainable and affordable access of drugs to them and its domestic market (considering their inefficiency in satisfying the market at the current rates of patented drugs). For the same, pricing of patented products has to be looked into, its anomalies removed and supported by flexible compulsory licensing.

CONCLUSION

High prices of the patented products are not the inventive for the innovation of new drugs. In order to

6 At http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2630351

7 At http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2630351/

8 At http://articles.economictimes.indiatimes.com/2012-05-30/news/31900229_1_patent-act-product-patent-patent-law

survive in the extremely competitive market companies need to innovate or improving the existing ones. Therefore high pricing in the name of further innovation does not hold the ground.

The economic condition of the India can be taken as a standard, if India cannot afford the drugs; nearly three forth of the countries will also not as they themselves dependant on the Indian generic industry. If drugs for cure of tropical diseases like tuberculosis, polio etc. are restricted to patented drugs, the very purpose of their innovation will be defeated, which is to protect people from those diseases. The majority of the people would not be able to afford them. Further new medicines for the cure of cancer or HIV can only extend life, if available, of the prospective millions of patients. These drugs could be just chemicals stored in the containers until and unless made available to the patients. ◆◆◆

LENIENCY PROGRAMMES IN THE DETECTION OF CARTELS: AN OVERVIEW OF THE APPROACH

Prakhar Chauhan

"People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."

Adam Smith

A cartel is a formal agreement among firms in an oligopolistic industry. Cartel members may agree on such matters as prices, total industry output, market shares, allocation of customers, allocation of territories, bid-rigging, establishment of common sales agencies and the and the division of profits or a combination of these[1]. Cartels are the cancers in the field of competition law, because of their similarity with the disease, by being not easily detectable and also involving a time consuming remedy. Detecting a cartel is a difficult job. These agreements between independent firms restrict competition in the market and are considered to be the most harmful anti-competitive practice. "By engaging in a cartel activity the firms can raise the prices, restrict output and are able to act collectively as if they were single monopolist. Thus profits increase, surplus income moves from the consumer to the producer, and there is a 'deadweight welfare loss' to society as a result[2]".

The three common components of a cartel are[3] –

- An agreement
- Between competitors
- To restrict competition

The report identifies four categories of activities which are considered as hard core activities[4]-

- Price fixing
- Output restrictions
- Market allocation
- Bid rigging

As per the OECD recommendation concerning effective action against hard core cartels, 1998 "hard core cartels are the most egregious violations of competition law".

It is for the detection of such Hard Core Cartels (HCC) that a leniency programme is used. A leniency programme attempts to regulate and detect cartels and offers an exemption or reduction in penalty which could be substantial, in lieu of cooperation from the informant. The enforcement authorities through a leniency programme can uncover and punish HCC without resorting to lengthy and costly court proceedings. However there are a lot of stages involved in this process which shall be discussed in detail in the context of India.

THE BENEFITS OF LENIENCY[5]

• Improved collection of intelligence and evidence- It has been observed that there can be three methods of obtaining evidence; either by direct force, threatening company staff with sanctions in case of non cooperation and leniency .It has advantages over the other two in many aspects. Firstly, it can be used to obtain all kinds of information and is not just confined to existing documents and records as it is in the first case. Secondly it saves a lot of time and resources as the second method but also does not suffer from the problem of reliability as it is in the second method, the applicants know that there is no reward for providing wrong information, on the other hand this would invite penalties and a disqualification from being considered for leniency.

• Increased difficulty of maintaining cartels- Maintaining a cartel is an enormous task; all the participants have to coordinate their behaviour on consistent and collusive strategies allowing the participants to increase their profits. A leniency programme can be very effective in

1 http://stats.oecd.org/glossary/detail.asp?ID=3157 (All the websites were visited between 4th June 2012 to 29th July 2012)

2 The Cartel Offence; Mark Furse And Susan Nash; Hart Publishing 2004; at page 11

3 Defining Hard Core Cartel Conduct: Effective Institutions, Effective Penalties: Report by the ICN Working Group on Cartels; available at: http://www.internationalcompetitionnetwork.org/uploads/library/doc346.pdf

4 Ibid

5 Leniency in Antitrust Enforcement: Theory and Practice: Wouter P. J. Wils; available at http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=456087

situations like these; it increases the payoff of cheating for the deviator thereby making it difficult for the cartel to sustain. The higher is the incentive offered; higher shall be the chances of cheating.

• Lower cost of adjudication- Leniency is a cost saving method, which does not involve the time taking court proceedings as the delinquent corporation would prefer not being held liable and getting an incentive in the form of a reduction or no penalty being imposed.

For a cartel to succeed the following six conditions must exist -

1) The relevant product market to be cartelized, must raise high entry barriers for newcomers, so that they cannot undermine the pricing decisions of the cartel.

2) The cartel members must produce a sufficiently large share of the product or service, that their decisions are not undermined by their existing rivals who are not the members of the cartel.

3) The agreement between the cartel members must entail the control on output that each member would produce, the output is an important variable[7].

4) The cartel must be able to detect cheating on the cartel by cartel members.

5) The cartel must be able to punish cheating effectively when it is detected.

6) The cartel in any case should not be detected.

Detection of cartels through leniency programmes bolsters cartel deterrence, by increasing the expected probability with which sanctions will be applied; the leniency programme has a destabilizing effect on potential cartels, as only the first leniency applicant shall be granted leniency; it facilitates the prosecution and investigation as the leniency applicants provide them, which otherwise might not be available; leniency programmes induce cooperating companies to provide useful information on the existence of other cartels, which can be investigated subsequently (Amnesty Plus)[8].

THE USE OF CONCEPT AROUND THE WORLD

The leniency programme adopted by any Competition Authority has some basic features on which the entire policy rests, it is necessary that the policy clearly sets out all the basic tenets in great detail. With its origin in the U.S.A[9], the leniency programme adopted worldwide has more or less the same structure throughout, given various reservations by countries taking into account their respective market structure. The E.U. another major competition authority has a setup of its own, which indeed is a diverse branch in practice when compared with the U.S.A but in essence follows the same principles.

It is also very important to assess essentials of an effective leniency programme as they form the very basis of the success or failure of any Leniency regime. A serious commitment to punish, coupled with rewards for being first-in-class to report, incentives, confidentiality and predictability regarding all the stages of the programme are the most essential ingredients of an effective leniency programme. For effective and far-reaching results the leniency programme should be lucrative enough to attract the erring entities to submit themselves to the agency coupled with a heavy fine which creates deterrence and sends a clear message of either cooperating or being subject to heavy.

The Article intends to give an overview of the essentials and importance of an effective Leniency Programme. The European Union's Leniency Notice of 2006 and its previous versions, Articles 101-109 of the Treaty on the Functioning of the European Union (TFEU) and most importantly Regulation 1/2003 which succeeded the Council Regulation No. 17/1962, are the very essence of the European Competition Regulatory Regime with the Directorate General of Competition overseeing the enforcement.

6 Federal Antitrust Policy: The Law of Competition and its Practice- Herbert Hovenkamp; Fourth Edn. Hornbook Series

7 The Lysine Cartel regulated the output, not the price.

8 Deterrence and Detection of cartels: Using all the tools and sanctions- Gregory J. Werden, Scott D Hammond and Belinda A. Barnett; The Antitrust Bulletin: Vol 56, No. 2/Summer 2011

9 Available at http://www.justice.gov/atr/public/speeches/206428.htm

The Sherman Act of 1890 and its subsequent amendment in the Clayton Act establish the founding principles of antitrust in the Country. The level of fines imposed before the Amnesty Programme in 1978 was low and therefore did not create much deterrence[10]. The fines now being imposed have gone up to $10,00,000 for individuals and a whopping $10,00,00,000 for corporations or an imprisonment for ten years or both as per the discretion of the court.

The Leniency Programme operated by the U.S. Department of Justice Antitrust Division, is the most effective tool in the history of criminal antitrust enforcement, and has been very successful tool in unearthing cartels and their prosecution. The adoption by over fifty countries of the U.S. model, in itself is a glaring example of the success of the model[11]. An important point which deserves to be mentioned is that it is the U.S. model which is reckoned with stringent criminal sanctions, which contrasts it from the E.U. Regime, which emphasizes on imposition of heavy fines.

LEGAL STATUS OF CONCEPT IN INDIA

The Indian scheme is governed by the Competition Commission of India (Lesser Penalty), Regulations 2009. The Competition Act 2002 (the Act), defines a cartel as-

> *"an association of producers, sellers, distributors and traders or service providers, who, by agreement among themselves, limit, control or attempt to control the production, distribution sale or price of, or, trade in goods or provision of services[12]".*

The definition provides the background to the prohibition of agreements which distort competition and are per se illegal within the ambit of section 3 of the Act. There is a specific and exhaustive list of such anti-competitive acts and the manner in which they affect competition within India, which states that enterprises or association of enterprises which includes cartels and they[13]-

• Directly or indirectly determine the purchase and sale prices

• Limit or control the production, supply, markets, technical development, investment or provision of services

• Share the market or source of production of provision of services by way of allocation of the relevant geographic market or the type of goods or services or even the customers

• Directly involved in bid-rigging or collusive bidding.

The existence of a leniency programme to tackle "pernicious practice of cartelization" has "still not been used so far"[14]. This statement was issued in the wake of the Commission slapping a whopping fine of Rs 6307 crores on 11 companies involved in the cement cartel. The CCI ensured confidentiality regarding the identity and the information provided in order to impart confidence in the prospective leniency applicants regarding its programme. The Commission published a guide to the Regulations setting out the purposes and the results which it seeks to achieve through it.

In Kingfisher Airlines v. Competition Commission of India[15] the Bombay High Court on an appeal by the petitioners, on the basis of an investigation conducted by the Commission on an allegation of sections 3 and 4 (transferred to the Commission by the MRTP Commission) found the petitioners' claim that the Commission is not empowered to investigate the case as the incidents took place before its existence, dismissed the appeal with heavy costs.

An improved "Marker System", an empowered Enforcement Agency i.e. The Competition Commission have been phenomenal in the enforcement of anti cartel mechanisms available within the body of the Act under sections 26, 27 and 46 have provided the Competition Commission with more teeth. However, the Lesser Penalty Regulation styled on the E.U. structure are yet to be full-fledgedly incorporated in the mainstream, which is evident from the fact that the Commission has the requisite resources to investigate cases and come up with a case against the delinquent company, but still the Chairman states that there has been no leniency applicant in a period of more than

10 Ibid
11 Immunity in Cartel Investigations: A U.S. perspective- Niall E. Lynch; available at
12 Section 2(c) Competition Act 2002 (Amendment Act 2007)
13 Section 3(3)
14 Be a cartel whistleblower and win: CCI; The Indian Express, New Delhi, Tuesday, July 24,2012
15 W.P. No 1785 of 2009 Bombay High Court; available at http://bombayhighcourt.nic.in/data/original/2010/WP180609310310.pdf

three years[16], which is a clear indicative that the Regulation still lacks the requisites to enforce its decisions and has not been successful in attracting leniency applicants despite a clear procedural structure and transparency being incorporated in it. This creates a serious question whether the Commission has sufficient tools for enforcement.

This is primarily because of the fact that the policy lacks certainty and transparency, (a detailed discussion of which is not possible within the structure of this Article). However, since the Regulation is still in its formative years it would be harsh to test it on the touchstone of well established regimes such as that of the U.S. and the E.U., but issues of transparency and certainty which are very essential for the functioning of any Leniency Policy should be addressed at the earliest.

Drawing inferences from the U.S. and E.U. experiences India should gradually evolve a policy which is specific to the system and caters the need of detecting, investigating and deterring cartel activities. The effect of increased leniency directly affects cheating, more leniency results in increased cheating, it was suggested that the first two effects work together to produce the Race to Courthouse Effect. This framework can then suggest a more conclusive design of an optimal policy of leniency[17]. Incorporation of a policy keeping in mind the effects of leniency and the purposes which it serves can prove to be an effective design ideal for any country to adopt and follow, keeping in mind its requirements.

The need of the hour for the Commission is the harmonization of the Regulation of 2009 with successful and established Leniency regimes. Harmonization will help in creating deterrence and a crackdown on cartels worldwide providing uniformity and homogeneity in the practices, which has been a great cause of concern for firms[18] worldwide. It will ultimately weed out shortcomings like certainty and transparency and attract more and more applications for leniency. ◆◆◆

16 Be a cartel whistleblower and win: CCI; The Indian Express, New Delhi, Tuesday, July 24,2012

17 Optimal Corporate Leniency Programs- Joseph E. Harrington Jr.; available at: http://www.econ2.jhu.edu/People/Harrington/amnesty11-05.pdf

18 International and Comparative Competition Law: Dabbah; Cambridge 2010 at pp 106-110

COPYRIGHT PROTECTION FOR COMPUTER SOFTWARE AN INDIAN PROSPECTIVE

Sugandha Nayak

In India the Copyright Act, 1957 grants protection to original expression and computer software is granted protection as a copyright unless it leads to a technical effect and is not a computer program per se. The computer software which has a technical effect is patentable under India Patent Act, 1970. As per centre for interest and society (CIS) the number of software patents granted in India is approx 200 from the year 1999 till September, 2010. Generally Computer software which does not have a technical effect is protected under copyright law. For a copyright protection, computer software needs to be original and sufficient effort and skill must be put into impart it originality. But a program which only generates multiplication tables or algorithms may not suffice the degree of effort required for protection. Apart from being original not copied from elsewhere, the work should be first published in India or if the work is published outside India the author on the date of publication or if the work is published outside India the author on the date of publication or if the author is dead at the time of his death should be a citizen of India[1].

In case of unpublished work[2], the author on the date of making of a work should be a citizen of India or domiciled in India. The Government accords the same protection to a foreign copyright author's work which is published in any other country which is a member of Berne Convention or UCC, as the protection provided to an author who is a citizen of India. In India, computer software does not form the subject matter of patent as it does not fulfill the requirement for an invention which is provided under the Indian Patent Act in conformity with the provision of TRIPs, Berne Convention, WIPO Copyright Treaty etc.

AUTHOR'S RIGHT

The Copyright Act protects the author's economic and moral rights in the copyrighted work as stated in section 14 and 57 respectively, including the rights in computer software/programmes. In the case of computer software/programmes, the copyrights owner is entitled to reproduce the work, issue copies of the work to the public make any cinematographic films or sound or adaptation of the work, apart from the right 'to sell or give on commercial rental or offer for sale or for commercial rental any copy of the computer software/ programmes. Such commercial rental does not apply in respect of computer software/programmes where the computer programme itself is not essential object of the rental. This provision on rental rights is in line with Article 11 of the TRIPS Agreement and was added in the Act in 1999. Even though the TRIPS Agreement does not specifically protects the moral rights, buy the same are protected under the Copyright Act, 1957[3].

COMPUTER PROGRAM- A LITERARY WORK

Section 2 (o) defines 'literary work' and includes computer programs, tables and compilations including computer databases. Section 13 provides the categories of work in which the copyright subsists which includes original literary work. The author of a work is the first owner of copyright in the work. However in case of employer-employee if a work is made in course of employment under a contract of service or apprenticeship, the employer shall be the first owner of the copyright in the above of any contract to the contrary[4]. These provisions of the copyright law are applicable mutatis mutandis to computer software/ programmes as well.

SOFTWARE CONTRACTS

Software contracts, like many other transactions, are governed by the common law principal as embodied in the Indian Contract Act[5]. Contract can be in the nature of sale or assignment/ license. If the computer software is considered as a 'good', the Sale of Goods Act, 1930 will have relevance in the formation and execution of the sale contract. Section 2(7) of the Sale of Goods Act, 1930

1 Section 13(2)(i) of the copyright Act, 1957.
2 Section 13(2)(ii) of the copyright Act, 1957.
3 Section 57 of the Copyright Act, 1957.
4 Section 17 of the Copyright Act, 1957. See B.N Piros v. state of Kerela, 2004 IPLR (April) 109.
5 V.T Thomas v. Malaya Manorama, AIR 1988 Ker 291.

defines 'good' as 'every kind of movable property other than actionable claims and money, and includes stock and shares, growing, crops grass…' This definition of goods includes all types of movable properties, whether tangible or intangible.

In *Tata Consultancy Services v. State of Andhra Pradesh*[6], the Supreme Court considered computer software is intellectual property, whether it is conveyed in diskettes, floppy, magnetic tapes or CD ROMs, whether canned (Shrink-wrapped) or uncanned (customized), whether it comes as part of computer or independently , whether it is branded or unbranded, tangible or intangible; is a commodity capable of being transmitted, transferred, delivered, stored , processed , etc. and therefore as a 'good' liable to sale tax. The court stated that, 'it would become goods provided it has the attributes thereof having regards to (a) its ability; (b) capable of being bought and sold; and (c) capable of being transmitted, transferred, delivered, stored and possessed. If a software whether customized or non-customized satisfies these attributes, the same would be goods.'

INFRINGEMENT OF COPYRIGHT AND LEGAL REMEDIES FOR THE COMPUTER SOFTWARE

Section 51 defines infringement of copyright and states that a person infringes copyright of another if he unauthorizedly commits any act which only the copyright folder has exclusive rights to do. Civil remedies to copyright infringement s are provided in chapter XII of Copyright Act, 1957 granting injunction and damages for copyright infringement and criminal liability provisions are provided in chapter XII of Copyright Act, 1957 wherein abetment of infringement is also unlawful and punishable with imprisonment of upto three years and a fine upto Rs. 2 Lacs[7]. A person who knowingly uses the infringing copies of Computer software commits a criminal offence punishable with imprisonment for not for not less than seven days extendable upto three years and a fine not less than Rs. 50,000/- which may extend to Rs. 2 Lacs. Section 62 of the Copyright Act, 1957 entitles a Plaintiff to file for a suit for injunction against infringements within District Court of the jurisdiction where Plaintiff resides or carries on business or works for gain. Infact, of late Indian Courts have accepted petitions against unknown Defendants or persons identifiable through their IP Addresses in internet law related litigation. Popularly known as John Doe order in the US Courts, India had adopted the principal of accepting petitions against unknown persons in defamation cases or Intellectual property infringements including cases relating to software piracy. This is a positive legal enforcement strategy adopted by Indian Courts to resolve internet related litigation where defendants cannot be identified at stage of filing of the position. ◆◆◆

6 Tata Consultancy Services v. State of Andhra Pradesh, 271 ITR 401 (2004)

7 Section 63 of the Copyright Acts, 1957
8 Section 63(B) of the Copyright Acts, 1957

NOMINATIVE FAIR USE OF A TRADEMARK

Himanshu Sharma

INTRODUCTION

A trademark is an exclusive property of the owner and any use without the permission of the owner by a third party is an infringement of the rights of the trademark owner. The nominative fair use is an exception to the right of exclusive use of the trademark under the Trademark Act, 1999. The Courts around the world has acknowledged the nominative fair use defense in the infringement cases. The Indian Courts have also acknowledged the defense of Nominative fair use in cases of Infringement which is specifically allowed under the Trademark Act, 1999.

In today competitive business environment there are certain cases where a mechanical device, which is an accessory to a final product, is required to be introduced in the market in way that the user should know that the device is to be used for the final branded product. Further there are certain services which are provided for the specific products and to introduce the services in the market it is required to use the brand of a third party product for which the service is provided. In these types of cases the registered trademark of a proprietor is used by third party in order identify the product of registered trademark's proprietor in which the product of the third party is to be used. For example a mechanic use the trademark of the Hero Company in order to identify that he specialized in repair of Hero company's vehicle.

ORIGIN OF THE DOCTRINE

The nominative use doctrine was first introduced in case of ***New Kids on the Block v. News America Publishing, Inc***[1] by the U.S. Court of Appeals for the Ninth Circuit. In this case the defendant has used the name of famous singer for a survey. The singer has filed a suit of infringement against the newspaper. The court had examined a "New Kids on the Block survey" performed by the defendant, and found that there was no way to ask people their opinion of the band without using its name.

Similarly, in case of ***Playboy Enterprises, Inc. v. Welles***[2], where Playboy Playmate Terri Welles used the trademark "Playmate of the Year" as metatags on her website was sued by the owner of the trademark for infringement. The court held that the defendant in order to identify that she has been given the title "Playmate of the Year" by the trademark holder has to use the trademark on her website.

In a recent decision ***The Century 21 Real Estate v. Lendingtree, Inc.***[3] the third circuit court in USA held that

"many factors traditionally considered in a likelihood of confusion analysis were irrelevant in cases of nominative fair use and that only four factors needed to be considered:

(i) degree of consumer care;

(ii) length of time defendant has used plaintiff's mark without evidence of actual confusion;

(iii) intent of the defendant in adopting the mark; and

(iv) evidence of actual confusion.

After weighing these factors it was then necessary to consider whether the defendant's use is nominative fair use, by examining:

(i) whether the "use of plaintiff's mark is necessary to describe both plaintiff's product or service and defendant's product or service," thus scrutinizing defendant's need to use plaintiff's mark to describe its own products;

(ii) whether defendant uses "only so much of the plaintiff's mark … as is necessary to describe plaintiff's products or services; " and

(iii) whether "defendant's conduct or language reflects the true and accurate relationship between plaintiff

1 971 F.2d 302 (9th Cir. 1992).
2 279 F.3d 796 (9th Cir. 2002).

3 425 F.3d 211 (3rd Cir. 2005)

and defendant's products or services," because the defendant may have a relationship with plaintiff that may be inaccurately portrayed by defendant's use of plaintiff's marks.

These are the important factors in order to consider a use of a registered trademark by a third party as a nominative fair use. The theory of the nominative fair use has to be used with the utmost precaution in order to differentiate the cases from the one where the registered trademark is used only to take unfair advantage of established reputation of the same.

INDIAN LEGAL SCENARIO

Under Section 30 (2)(d) of the Trademark Act, 1999 it is provided that a nominative fair use of a trademark by a third party is not an infringement of a registered trademark. Section 30 (2)(d) provides that:

> *"the use of a trade mark by a person in relation to goods adapted to form part of, or to be accessory to, other goods or services in relation to which the trade mark has been used without infringement of the right given by registration under this Act r might for the time being be so used, if the use of the trade mark is reasonably necessary in order to indicate that the goods or services are so adapted, and neither the purpose nor the effect of the use of the trade mark is to indicate, otherwise than in accordance with the fact, a connection in the course of trade between any person and the goods or services, as the case may be;"*

As per this section, a use will not be considered as infringement, if the use of the registered trademark is reasonably necessary in relation to genuine spare parts or accessories adapted to form part of the defendant good and neither the purpose nor the effect of the use of the mark is to cause any confusion as to trade origin. If a particular piece of machinery or some other manufacture or goods have become known with the consent of the proprietor under the name of the trademark of which the owner or maker of the goods is the proprietor, then it is not an infringement of the trademark so to describe the goods or the particular piece of machinery, no it is an offence so to describe the goods which are adopted to form part of or to be accessory to the other goods in respect of which the name has become recognized as the name of the particular proprietor's goods4.

In case of ***Consim Info Pvt. Ltd., represented by its Director and Chief Executive Officer Mr. Janakiraman Murugavel Vs. Google India Pvt. Ltd. and Ors***[5] while referring the cases of New Kids on the Block v. News Am. Publ'g Inc., 971 F.2d 302, 308 (9th Cir. 1992); Caims v. Franklin Mint Co. 292 F.3d 1139, 1153-55 (9th Cir. 2002) the Hon'ble High Court of Chennai held that:

"A use is considered to be a permitted nominative fair use, if it meets three requirements, viz.,

(i) the product or service in question must be one not readily identifiable without use of the trademark;

(ii) only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and

(iii) the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.

So in order to consider a use of a registered trademark by a third party to be a nominative fair use, the user has to established the fact that the his use of the registered trademark was necessary in order to identify his product. The nominative fair use defense is considered to be a fair use in cases where a trademark is used in order to refer a trademark owner or its goods or services for purposes of reporting in a news article, commentary on the Television or radio, in cases of a healthy criticism, and parody, as well as in cases of comparative advertising.

CONCLUSION

Even though it is very difficult to establish all the ingredient mention above by a user but the courts have to be very strict in order to allow the relief of nominative fair use. The trademark which is an identity of a business should not be allowed to be used by anybody and everybody. The labour, time, money and effort put in by the owner of the trademark in making the same distinctive should be given consideration while considering the relief of nominative fair use. ◆◆◆

4 Bismag Ltd v Amblins Ltd (1940) 57 RPC 209

5 (2010(6) CTC813)

TRADE DRESS : CONCEPT AND INDIAN PRACTICE

Rituraj Shrivastva

INTRODUCTION

Trade dress refers to features of the visual or sensual appearance of a product that may also include its packaging, shape, combination of colors which may be registered and protected from being used by competitors in relation to their business and services. The characteristic includes their shape (3 dimensional), packaging, color, graphic design of the product.

OBJECTIVE

Trade dress protection is intended to protect consumers from packaging or appearance of products that are designed to imitate other products; to prevent a consumer from buying one product under the belief that it is another. For Ex. Apple Inc. recently secured the registration over the design of its flagship Apple Stores as trade dress.

ESSENTIALS OF TRADE DRESS

1. Anything that creates the overall look and feel of a brand in the marketplace could be a trade dress.

2. Consumer really believes that the trade dress is a source indicator of distinguishing the goods and services of one from those of others.

3. The configuration of shapes, designs, colors, or materials that make up the trade dress in question must not serve a utility or function outside of creating recognition in the consumer's mind.

4. The statutory requirement for the registration of trade dress is same as that of the registration is word/ logo mark.

SOURCE OF LEGISLATION

The concept of Trade dress has originated from the US legislation commonly known as **The Lanham Act**[1].

Under section 43(a) of the Lanham Act, a product's trade dress can be protected without formal registration with the PTO. In relevant part, section 43(a) states the following:

> "Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive [...] as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such an act."

In case of Wal-Mart Stores vs. Samara Bros. 529 U.S. 205, 120 S. Ct. 1339 (2000)[2], trade dress was defined as "a category that originally included only the packaging, or 'dressing,' of a product, but in recent years has been expanded by many courts of appeals to encompass the design of a product."

CONCEPT OF TRADE DRESS IN INDIA

The Indian law does not have a separate provision for the trade dress under its existing Trade mark legislation unlike the US law which recognizes the concept trade dress under Section 43(a) of the Lanham Act.

The new Trade Marks Act, 1999, which came into force in September 2003 is largely based on the English Trade mark Act, 1994 recognized the concept of trade dress on the lines of The Lanham Act. The amended Act of 1999 recognizes trade dress through the new definition of Trade mark also consists of the shape of goods, packaging or combination of colors or any combination

1 *http://itlaw.wikia.com/wiki/Section_43(a)_of_the_Lanham_Act*

2 *http://www.law.cornell.edu/supct/html/99-150.ZO.html*

thereof. Broadly speaking, Section 2 of the Trade Marks Act, 1999.

Defines the following as:

(m) "mark" includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colors or any combination thereof;

(q) "package" includes any case, box, container, covering, folder, receptacle, vessel, casket, bottle, wrapper, label, band, ticket, reel, frame, capsule, cap, lid, stopper an cork;

Hence the new definition of trade mark under Indian law comprises all the elements of the trade dress as under US law. The Indian courts have been recognizing the concept of trade dress even before 2003.

In ***Cadbury India Limited and Ors. Vs. Neeraj Food Products***[3], the Delhi High Court held the trademark "JAMES BOND" as physically and phonetically similar to the registered trademark "GEMS" of the Cadbury. The High Court further held the packaging of Neeraj food product to be similar to that of Cadbury and eventfully Neeraj Foods was restrained from using said trademarks as well as the packaging similar to that of Cadbury.

In another recent case of ***Gorbatschow Wodka v. John Distilleries***[4], the Plaintiff, Gorbatschow Wodka, filed an infringement action before the Bombay High Court alleging that the Defendant has invaded its intellectual property rights by adopting a deceptive variation of the shape of the bottles of the Plaintiff.

CONCLUSION

Trade dress can be secured for the shape of the bottle of the soft drinks, shape of the furniture, and now also the lay our or the design of a show room. Some of the famous trade dress is:- shape of coco cola bottle, front grill on the Rolls Royce. With growing competition trade dress provides a new forum to secure the untouched aspects of business of distinctiveness. ◆◆◆

3 http://www.indiankanoon.org/doc/652828/
4 http://indiankanoon.org/doc/792062/

DISCOUNT ON EMPLOYEE STOCK OPTION PLAN (ESOP) ALLOWABLE AS DEDUCTION IN COMPUTING THE INCOME UNDER THE HEAD PROFITS AND GAINS OF BUSINESS

Pradhumna Didwania

"Employees stock option" means the option given to the whole-time directors, officers or employees of a company, which gives such directors, officers or employees the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price[1]. In Employee Stock Option Plan (ESOP) employer offers its employees and/or Officers and/or Directors the option to purchase Stocks of the Company on a discounted rate. There is no specific provision in the Income Tax Act, 1961 which provides deduction on the discount given to the employees in ESOP. In order to decide the question that, whether discount on issue of Employee Stock Options is allowable as deduction in computing the income under the head profits and gains of business?, a special bench was constituted at Banglore by the Hon'ble President of the Income Tax Appellate Tribunal(ITAT) on a reference by Division Bench in the case of M/s.Biocon Limited vs The Dy. Commissioner of Income-tax (LTU), Bangalore [ITA No.368/B/2010 & Ors.(SB), decision pronounced on 18th July, 2013].

The Facts of the case were as follows:

➢ M/s. Biocon Limited is engaged in the manufacture of Enzymes and Pharmaceutical ingredients. It formulated ESOP 2000 and a trust was set up under the name and style of "Biocon India Limited Employees Welfare Trust" for giving effect to the ESOP

➢ For the assessment year 2003-2004 M/s Biocon Limited floated ESOP 2000 under which it granted option of shares with face value of INR10 at the same rate by claiming that the market price of such shares was INR 919, thereby claiming the total discount per option at INR 909.

➢ The difference between the alleged market price and the exercise price, at INR 909 per option totaling INR 6.52 crore was claimed as compensation to the employees to be spread over the vesting period of four years.

➢ A deduction of INR 3.38 crore was claimed for the assessment year 2003-2004 on the strength of the SEBI Guidelines.

➢ M/s Biocon Limited claimed that the employee stock option compensation expense of INR 3.38 crore was deductible u/s 37(1) of the Act as all the requisite conditions were satisfied.

➢ The Assessing Officer (AO) disallowed the said claim on the ground that there was no specific provision entitling the assessee to deduction u/s 37(1) in this regard.

➢ The learned CIT(A), vide the impugned order dated 13th November, 2009, upheld the disallowance of ESOP expenditure of INR 3.38 crore, which became the subject matter of the question before the special bench.

The Special Bench, observed that the question before it can be answered in the following three steps, viz.,

I. Whether any deduction of such discount is allowable?

II. If yes, then when and how much?

III. Subsequent adjustment to discount

I. WHETHER ANY DEDUCTION OF SUCH DISCOUNT IS ALLOWABLE?

The revenue contended that the discount under ESOP firstly is not an expenditure in itself, secondly, it is a short capital receipt or at the most a sort of capital expenditures and thirdly it is also a contingent liability.

On the question that whether discount under ESOP is expenditure the bench made the following observations?

➢ *When section 43(2) of the Act is read in conjunction with section 37(1), the meaning of the term `expenditure' turns out to be the same as is there in the*

Section 2(15A) of the Companies Act, 1956

aforequoted part of the definition under section 2(h) of the Expenditure Act, 1957, viz., not only `paying out' but also `incurring'. Coming back to our context, it is seen that by undertaking to issue shares at discounted premium, the company does not pay anything to its employees but incurs obligation of issuing shares at a discounted price on a future date in lieu of their services, which is nothing but an expenditure u/s 37(1) of the Act.

On the question that whether discount under ESOP a short capital receipt the bench made the following observations?

- *During the vesting period that the options granted to the employees vest with them. This period commences with the grant of option and terminates when the options so granted vest in the employees after serving the company for the agreed period. By granting the options, the company gets a sort of assurance from its employee for rendering uninterrupted services during the vesting period and as a quid pro quo it undertakes to compensate the employees with a certain amount given in the shape of discounted premium on the issue of shares.*

- *When a company undertakes to issue shares to its employees at a discounted premium on a future date, the primary object of this exercise is not to raise share capital but to earn profit by securing the consistent and concentrated efforts of its dedicated employees during the vesting period. Such discount is construed, both by the employees and company, as nothing but a part of package of remuneration. In other words, such discounted premium on shares is a substitute to giving direct incentive in cash for availing the services of the employees. There is no difference in two situations viz., one, when the company issues shares to public at market price and a part of the premium is given to the employees in lieu of their services and two, when the shares are directly issued to employees at a reduced rate. ……..It follows that the discount on premium under ESOP is simply one of the modes of compensating the employees for their services and is a part of their remuneration…….The sole object of issuing shares to employees at a discounted premium is to compensate them for the continuity of their services to the company. By no stretch of imagination, we can describe such discount as either a short capital receipt or a capital expenditure. It is nothing but the employees cost incurred by the company.*

On the question that whether discount under ESOP is a Contingent liability the bench made the following observations?

- *A liability definitely incurred by an assessee is deductible notwithstanding the fact that its quantification may take place in a later year. The mere fact that the quantification is not precisely possible at the time of incurring the liability would not make an ascertained liability a contingent.*

- *The factum of the employees becoming entitled to exercise options at the end of the vesting period and it is only then that the actual amount of discount would be determined, is akin to the quantification of the precise liability taking place at a future date, thereby not disturbing the otherwise liability which stood incurred at the end of the each year on availing the services.*

- *Normally it is provided in the schemes of ESOP that the vested options that lapse due to non-exercise and/ or unvested options that get cancelled due to resignation of the employees or otherwise, would be available for grant at a future date or would be available for being re-granted at a future date. If we consider it at micro level qua each individual employee, it may sound contingent, but if view it at macro level qua the group of employees as a whole, it loses the tag of `contingent' because such lapsing options are up for grabs to the other eligible employees. In any case, if some of the options remain unvested or are not exercised, the discount hitherto claimed as deduction is required to be reversed and offered for taxation in such later year. We, therefore, hold that the discount in relation to options vesting during the year cannot be held as a contingent liability.*

II. AS ESOP IS A DEDUCTIBLE EXPENDITURE U/S 37(1), THE NEXT QUESTION IS THAT `WHEN' AND FOR `HOW MUCH' AMOUNT SHOULD THE DEDUCTION BE GRANTED?

- *The deduction for an expense is allowable on incurring of liability and the same cannot be disturbed simply because of some difficulty in the proper quantification. A line of distinction needs to be drawn between a situation in which a liability is not incurred and a situation in which the liability is incurred but its quantification is not possible at the material time. Whereas in the first case, there cannot be any question*

of allowing deduction, in the second case, deduction has to be allowed for a sum determined on some rational basis representing the amount of liability incurred.

➢ *An employee becomes entitled to the shares at a discounted premium over the vesting period depending upon the length of service provided by him to the company. In all such schemes, it is at the end of the vesting period that option is exercisable albeit the proportionate right to option is acquired by rendering service at the end of each year.*

➢ *A company under the mercantile system can lawfully claim deduction for total discounted premium representing the employees cost over the vesting period at the rate at which there is vesting of options in the employees.*

➢ *Though the company becomes liable to issue shares at the time of the exercise of option, but it is in lieu of the employees compensation liability which it incurred over the vesting period by obtaining their services. From the above it is apparent that the company incurs liability to issue shares at the discounted premium only during the vesting period. The liability is neither incurred at the stage of the grant of options nor when such options are exercised.*

➢ *The liability to pay the discounted premium is incurred during the vesting period and the amount of such deduction is to be found out as per the terms of the ESOP scheme by considering the period and percentage of vesting during such period. We, therefore, agree with the conclusion drawn by the tribunal in SSI Ltd.'s case allowing deduction of the discounted premium during the years of vesting on a straight line basis, which coincides with our above reasoning.*

III. WHETHER ANY SUBSEQUENT ADJUSTMENT IS WARRANTED AT THE TIME OF EXERCISE OF OPTIONS, TO THE DEDUCTIONS EARLIER ALLOWED FOR THE AMOUNT OF DISCOUNT?

The Bench bifurcated, the question in two situations.

i. The options remain unvested or lapse at the end of the exercise period.

➢ *With regards to the first situation the Bench observed that the amount of discount claimed as deduction earlier in respect of unvested/lapsing options, has to be taxed as income on the happening of such events.*

ii. The options are exercised by the employees after putting in service during the vesting period.

With regards to the second situation the Bench observed that

➢ *ESOP discount, which is nothing but the reward for services, is a taxable perquisite to the employee at the time of exercise of option, and its valuation is to be done by considering the fair market value of the shares on the date on which the option is exercised.*

➢ *Since the remuneration to the employees under the ESOP is the amount of discount w.r.t. the market price of shares at the time of exercise of option, the employees cost in the hands of the company should also be w.r.t. the same base.*

➢ *Since actual amount of employees cost can be precisely determined only at the time of the exercise of option by the employees, the provisional amount of discount availed as deduction during the vesting period needs to be adjusted in the light of the actual discount on the basis of the market price of the shares at the time of exercise of options. It can be done by making suitable northwards or southwards adjustment at the time of exercise of option.*

On the aspect Taxation vis-à-vis Accountancy principles the Bench made the following observations

➢ *It has been noticed that broadly there are three stages having effect on the total income of the company in the life cycle of ESOP, viz., i) during the vesting period, ii) at the time of unvesting/lapse of options and iii) finally at the time of exercise of options.*

➢ *What is true for accounting purpose need not necessarily be true for taxation.*

➢ *Taxation principles are enshrined in the legislature. Power to legislate lies with the Parliament. Accounting standards or Guidance Note or Guidelines etc., by whatever name called, issued by any autonomous or even statutory bodies including the Institute of Chartered Accountants of India, or for that matter, the SEBI are meant only to prescribe the way in which the transactions should be recorded in books or reflected in the annual accounts. These guidelines do not have the force of an Act of Parliament. Since the subject*

matter of tax on income falls in the Union List as per Part XI of the Indian Constitution, it is only the Parliament which can legislate on its scope.

➢ *Under the head `Profits and gains of business or profession', there are sections granting deductions in respect of specific expenses or allowances. Similarly, there is section 37(1), which grants deduction for expenses not specifically set out in other sections, if the conditions stipulated in the section, are fulfilled. All other items of expenses, which fulfill the requisite conditions, gain deductibility under section 37(1). To put it in simple words, this section is a specific provision for granting deduction in respect of the unspecified or the general categories of expenses. Discount on ESOP is a general expense and hence covered by the specific provision of section 37.*

➢ *Accounting principles have absolutely no role to play in the matter of determination of total income under the Act…….. The essence of the matter is that taxation principles are to be followed. If an accounting principle is in conformity with the mandate of taxing principle and reference is made to such accounting principle while deciding the issue, it does not mean that the accounting principle has been followed. It simply means that the taxation principle has been followed and the accounting principle, which is in line with such taxation principle, has been simply taken note of.*

➢ *That the discount under ESOP is in the nature of employees cost and is hence deductible during the vesting period w.r.t. the market price of shares at the time of grant of options to the employees. The amount of discount claimed as deduction during the vesting period is required to be reversed in relation to the unvesting/lapsing options at the appropriate time. However, an adjustment to the income is called for at the time of exercise of option by the amount of difference in the amount of discount calculated with reference the market price at the time of grant of option and the market price at the time of exercise of option. No accounting principle can be determinative in the matter of computation of total income under the Act. The question before the special bench is thus answered in affirmative by holding that discount on issue of* Employee Stock Options is allowable as deduction in *computing the income under the head `Profits and gains of business or profession'.*

CONCLUSION

The Special Bench of ITAT has held that the discount on issue of ESOP will be allowable as deduction in computing the income under the head `Profits and gains of business or profession' as it forms a part of the remuneration given to the employees. The Bench also held that the deduction at the time of grant of options has to be made on the market value of the shares as the exact amount of discount which will be available as deduction can only be ascertained at the time of exercise of options, the difference arrived on discount should be suitably adjustment. Till the time the decision of Special bench is challenged by the Revenue Department or a contradictory judgment is passed by higher judicial forum, the issue on discount on issue of ESOP whether allowable as business expenditure is settled for once. ◆◆◆

ENTERING INTO THE FRUGAL INNOVATION SYSTEM - A STEP AHEAD BY INDIA

Aayush Sharma

In this modern era Intellectual Property Right (IPR) is gaining a lot of importance in the society of inventors, research oriented industries, multi-national companies (MNC) and small & medium enterprises (SME). It is interesting to note that the status of IPR in the country is now much advanced as compared to previous years. A Continuous effort by the Indian government in stimulating the policies of IPR has resulted in the enhancement of IPR. The Post-TRIPS era has given India a strong legal frame work which is a suitable requirement for technological progress and economical prosperity. It can be seen in the recent years that India has emerged as a focused market for path-breaking innovations. Today, most of the MNCs, research institutions and technology incubators are focusing on driving innovation for global and local markets. Over the past two decades around 750 R&D centers have been established by MNCs in India, employing over 400,000 professionals. This article emphasize on the frugal innovation/ engineering, its current status in India and steps to be taken by the government in the country.

INTRODUCTION- FRUGAL INNOVATION

What do a USD 35 tablet computer, a USD 800 electrocardiograph (ECG) and a USD 2500 car have in common? Well, they all come from India and are *Frugal Innovations!*

The term 'Frugal Innovation' has come from the direct English translation of a Hindi word '*Jugaad*' which basically stands for an spontaneous arrangement of a product thereby reducing the complexity and cost of production of goods for making affordable and economical and is mainly driven by lack of resources. Frugal Innovation or Frugal Engineering is widely exercised in India and other developing nations. The sweeping revolution for luxurious and unaffordable items provided the driving force to the local people of the developing nations to design and deliver such items that are not only cost effective but also raised the social capital.

Frugally innovated or engineered product does not mean that the product is second-grade. Instead, they are characterized by high affordability, robustness and mainly designed for volume-driven market. Usually the process of Frugal Innovation or Frugal Engineering involves removal of nonessential features of goods in order to sell it in developing countries. It is believed that a successful frugal product is low in cost, good in performance and can be made available at large scale.

FEW EXAMPLES OF DOING MORE WITH LESS

Frugal inventions are low in cost, high in demand, affordable in nature and made for particular area. Some best examples of frugal innovations include ***Aakash*** tablet, Indian government made this innovative product available to the every student of the country at the subsidized rates to access the digital world. Another innovative example comes from the R&D giant General Electric's (GE) ***Mac 400*** which is a portable ECG machine, remarkably reduced to its essential functions and capable of running on batteries. It is particularly designed to make it easier to carry out medical diagnoses in rural areas of the country.

Another example which is admired nationally is a cost effective car launched in 2008 by the Indian conglomerate Tata, ***Nano***, which was advertised as the world's cheapest car @ 2000 USD. The important attributes which made it a successful car for low income grade population were reduction in the usage of steel by substituting it with an aluminum engine, increasing space by moving the wheels to the edge of the chassis and relying on a modular design that enabled the car to be assembled from kits which had proved conclusively that you could do more with less.

These examples are some of the best frugal innovations developed in India and have the capacity to be marketed and sold on a large scale around the world.

Frugally innovated products extensively occur in every sector, one such sector is Biotechnology. Recently, an Indian biotech giant invented ***Hepatitis B vaccine*** which is much cheaper than the existing drugs, bringing down the price from $15 per injection to about 10 cents.

What is important, however, is not the individual product, its strengths and weaknesses, but the underlying principle: "the basic need or the purpose for which such products are invented i.e. the core function or core use of a product". In the above examples, the tablet was designed to enable processing documents and giving access to the internet, the ECG to make essential medical diagnoses possible and the car to safely drive people on the congested Indian roads. These frugally innovated products do not have non-essential features. They do not cater any special requests, but they do meet the basic needs of the people who use them.

STEPS TO BE TAKEN BY INDIA

A frugal innovation arises for some purpose related to a particular area or region. There has been a recent upward trend in the number of frugal type inventions in India and across the world. The reason for this recent upsurge is the benefit these innovations provide at an affordable cost to the people for whom the actual product was out of reach. It is considered that India is the right place for frugal innovation to take place. With a culture of inventive improvisation, the approach and skillset for frugal innovation are in plenty in India.

The Indian government needs to realize the importance of the frugal innovation in the development of living standard of the people and should take steps for the betterment of these inventors. Firstly, the government should bring policy for R&D sector which should have packages for development of research mechanism in the rural areas of the country. Secondly, government should establish the incubation centre for the research. A pool should be created by these centers wherein all the innovation collectively, held and arranged for a success innovation. Thirdly, government should frame such IPR policies which are flexible and relatively appropriate for frugal inventions. Fourthly, the government should promote the Intellectual Property laws in the remote areas of the country and there should be awareness of such laws among the rural inventors. Lastly, there should be proper channels through which the policies and the packages provided by the government should reach to the people for which the same are introduced around the country.

CONCLUSION

India is a developing economy full of frugal innovators. India has made remarkable progress and has made its presence felt in the field of intellectual property rights around the world. The rural areas and the SME's are the heart of the Indian economy where a remarkable development has taken place and they are the main taker of the frugal innovations due to its cost effectiveness.

Frugal innovations are all about creating advantages out of limitations. It is not only meant for making things cheaper, but better with more appropriate means and applications. Being a healthy means of innovation, this sector still needs national as well as global recognition. There is a need of proper mechanism for the development of this sector through proper channels wherein the contribution of this sector should be recognized and properly funded through various schemes. The network/ program like Honey bee network should be initiated in order to establish a network wherein proper facilities would be provided to the frugal inventors. ◆◆◆

PROSPERING THROUGH PIRACY!

Mrinalini Gupta

Bioprospecting is the discovery of biological and genetic resources present in nature for scientific research or commercial

Bioprospecting is the collection of biological resources, such as plants, animals or microorganisms from their ecological niche and analyzing it *in vitro* for the extraction of bioactive materials, such as active biochemicals or genetic materials for the purpose of developing a commercial product. However, when Bioprospecting is practiced without informing and taking free prior consent of the owners of the resources and without recompensing them - it is called ***biopiracy.***

APPROACHES TO BIOPROSPECTING

There are following three approaches to Bioprospecting for the discovery of active biomaterial:

i. ***Random testing:*** In this approach, a wide variety of specimens form the greatest diversity is sampled. This approach is not only expensive but also inefficient.

ii. ***Bio-rational approach:*** This is the second approach for drug discovery through Bioprospecting. In this approach specific specimen from the wide variety of biological resources is targeted based on their known biological characteristics. Hence this approach is more useful and efficient than the first approach.

iii. ***Ethnobiological approach:*** Unlike other methods this one is non-random and is base on the traditional knowledge of the indigenous people to direct the sample selection. This approach is more economical and focused.

LACK OF COMPENSATION OR BENEFIT SHARING

The benefits of the diverse biological resources available in developing countries have been reaped by the developed nations from centuries. The technologically advanced nations obtain some or the other kind of legal protection on the indigenous plants or biological material extracted thereof and then commercially exploit them without recompensing the countries from which they are taken. This uncompensated bioprospecting or lack of benefit sharing led to Biopiracy. This biological theft is an illegal collection by corporations who patent them for their own use.

As the intellectual property rights are granted to those who are first to invent (or isolate in case of biological material) and not to those who are first to discover or use, therefore, the indigenous communities who had been using it for a long time lose their traditional usage to commercial exploitation by the corporations who protect this knowledge through Intellectual Property Rights (IPR).

Biopiracy is the commercial use of indigenous plants or their biological materials, such as genetic cell lines, by a technologically advanced countries or organizations without recompensing the people or nations in whose territory the materials were originally discovered

The myriad complex problems associated with Bioprospecting, such as increased incidences of Biopiracy in disguise of Bioprospecting and control of IPR over traditional knowledge, set in motion regulation of Bioprospecting.

REGULATION OF BIOPROSPECTING

In recent years Biopiracy has tainted Bioprospecting so much so that it now needs to be regulated. Over the ages, the civilization has gained numerous therapeutic chemicals, cosmetics, agricultural and industrial products through Bioprospecting. Bioprospecting still continues to provide beneficial products to the humans but with an express objective of commercialization of the product. Lack of compensation or benefit sharing for access to biodiversity has raised certain important objections to Bioprospecting.

Keeping in mind that Bioprospecting plays a very important role in the preservation of biodiversity, bioprospectors cannot be outrightly forbidden from free access to bioprospect the biologically diverse ecosystem. Consequently, in 1992, the Convention on Biological Diversity (CBD) was signed by 150 nations to address the international Bioprospecting issue. In addition to this, a parallel approach embodied in the

International Cooperative Biodiversity Groups (ICBG) was formulated in the same year.

The CBD and ICBG took initiatives to eliminate unregulated Bioprospecting globally. The compensated Bioprospecting basically involves taking prior consent from the host country, sharing the benefits and more importantly recognizing and protecting the rights of the indigenous knowledge holders.

CONVENTION ON BIOLOGICAL DIVERSITY (CBD)

The CBD was signed at the United Nations Conference on Environment and Development in Brazil in 1992. The Convention was opened for signature at the Earth Summit in Rio de Janeiro on June 5, 1992 and entered into force on December 29, 1993. This was first of its kind as prior to this no formal globally recognized guidelines existed to compensate the source countries for use of their biodiversity through bioprospecting by foreign countries. It is legally binding on the member countries.

The Convention has following three main objectives:

- the conservation of biological diversity,

- the sustainable use of its components, and

- the fair and equitable sharing of the benefits arising out of the utilization of genetic resources.

The Convention also covers the widely growing field of biotechnology through its *Cartagena Protocol* on biosafety and access to genetic resources and the fair and equitable sharing of benefits arising from their utilization through *Nagoya Protocol*.

CARTAGENA PROTOCOL

The *Cartagena Protocol on Biosafety* of the CBD, also known as the Biosafety Protocol, was adopted in January 2000 and entered into force on September 11, 2004. The Biosafety Protocol intends to safe guard the biological diversity from the risks likely to be posed by modified living organisms resulting from modern biotechnology.

The Biosafety Protocol unambiguously mentions that any product made using modern day technologies must be based on the precautionary principles and must allow developing nations to balance public health against economic benefits.

NAGOYA PROTOCOL

The *Nagoya Protocol on access to genetic resources and the fair and equitable sharing of benefits arising from their utilization to the CBD* is a supplementary agreement to CBD. The Protocol was adopted on October 29, 2010 in Nagoya, Aichi Province, Japan.

This protocol lays down a transparent legal framework for effective implementation of one of the three objectives of the CBD, i.e. the conservation of biological diversity, the sustainable use of its components, and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources.

INTERNATIONAL COOPERATIVE BIODIVERSITY GROUPS (ICBG)

The International Cooperative Biodiversity Groups (ICBG) program initiated in 1992 is a collaborative effort of the National Institutes of Health (NIH), the National Science Foundation (NSF), and the U.S. Agency for International Development (USAID). The ICBG Program addresses the interdependent issues of drug discovery, biodiversity conservation, and sustainable economic. It promotes collaborative research between American universities and research institutions in countries that harbour unique genetic resources in the form of biodiversity - the practice known as bioprospecting[1].

Following are the three main objectives of ICBG program:

• improving human health through discovery of new pharmaceutical, agricultural, and veterinary products for treating diseases of importance in both developed and developing countries;

• conserving biodiversity through the understanding and valuation of diverse biological organisms and the progress of local capacity to manage these resources;

1 http://pdf.usaid.gov/pdf_docs/PDABM318.pdf

• promoting sustainable economic activity in less-developed counties by sharing benefits of drug discovery and conservation research processes and products.

TRADITIONAL KNOWLEDGE DATABASE

In the year 2001 the Government of India launched a repository of about 1200 formulations of various systems of Indian medicine, such as Ayurveda, Unani and Siddha known as Traditional Knowledge Digital Library (TKDL). This database was created in response to the increasing incidences of Biopiracy and growing awareness of Bioprospecting.

The frequent incidences of biopiracy, for example in the case of turmeric, neem and basmati rice, instigated Indian Government to translate and publish the ancient manuscripts containing old remedies in electronic form. These texts have been recorded from Sanskrit, Urdu, Persian and Arabic and made available to patent offices in languages such as English, German, French, Japanese and Spanish.

To protect the Indian heritage and traditional knowledge from biopiracy the library has also signed agreements with leading international patent offices such as European Patent Office (EPO), United Kingdom Trademark & Patent Office (UKPTO) and the United States Patent and Trademark Office.

CONCLUSION

Bioprospecting is the discovery of biological and genetic resources present in nature for scientific research or commercial development. With the help of indigenous people of the source nation it is likely that a researcher can more efficiently and economically find the biological material of significance. However, continued uncompensated bioprospecting led to biopiracy. The fear of indigenous knowledge and local biodiversity being patented by bioprospecting firms became contentious by the year 1992.

Keeping in mind that Bioprospecting plays a very important role in the preservation of biodiversity, bioprospectors cannot be outrightly forbidden from free access to bioprospect the biologically diverse ecosystem. Consequently, in 1992, the Convention on Biological Diversity (CBD) was signed by 150 nations to address the international Bioprospecting issue. In addition to this, a parallel approach embodied in the International Cooperative Biodiversity Groups (ICBG) was formulated in the same year. The CBD and ICBG took initiatives to eliminate unregulated Bioprospecting globally. ◆◆◆

11 1986 AIR 180, 1985 SCR Supl. (2) 51
12 MANU/DE/0360/2013
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INCREMENTAL PHARMACEUTICAL INNOVATIONS: IMPACT ON PUBLIC HEALTH & ECONOMY

Priyanka Rastogi

Recently the Supreme Court of India rejected Novartis's appeal for Glivec patent protection stating that an "incremental innovation" is not protected under Section 3 (d) of Indian Patent Act, 1970 (hereinafter "the Act"). This judgment has compelled the pharmaceutical companies to rethink their move towards research and development (R&D) and to obtain patents in India. Our patent regime does not encourage or support the patenting of incremental innovations. Incremental Pharmaceutical Innovations (hereinafter "IPIs") have been stayed behind the economic growth and success of Indian pharmaceutical companies. Generally IPIs results in enhancement of the safety, efficiency of existing drugs and thus improving the quality of life of patients. Indefinite expression of section 3(d) of the Act limits the patentability of incremental innovation. Hence, amendment in section 3(d) of the Act is the need of the hour in order to bring some transparency in the patent regulation relating to pharmaceutical innovations. A patent system that generates spur to the incremental innovations can lead to cost decline and boost up the access to medicines by motivating the investment into domestic pharmaceutical research.

SECTION 3(D) AND INCREMENTAL PHARMACEUTICAL INNOVATION

Under Section 3(d) of the Act, incremental pharmaceutical innovations—including new forms of known pharmaceutical substances—are not patentable unless they result in significantly enhanced "efficacy" of the active substance. The new invention must fulfill the patentability criteria i.e. novelty, inventive step and industrial applicability, in order to get a patent in India. Most of the incremental innovations satisfy the patentability criteria but still be unable to get patent because of the enhanced efficacy criteria set out by section 3(d). Thus majority of the IPIs are excluded by reducing the scope of patentability to only new forms of known substances and their derivatives which differ significantly in properties with respect to efficacy. The works "efficacy" and "significantly" used in section 3(d) are neither defined in the Act nor anywhere else in the guidelines to that effect. Therefore the manufactures/ inventors does not have any resource for knowing the required standard for patentability of the incremental innovation. More over pharmaceutical companies find it very hard to provide clinical data to demonstrate the therapeutic efficacy of the new form or new use of the drugs in the preliminary stages of drug development. It is obvious that present regime under section 3(d) is not favorable to incremental pharmaceutical innovation. Inconsistency in the wording of section 3(d) has to be resolved by including new use of a new form as patentable subject matter.

Section 3(d) is limiting the eligibility of incremental pharmaceutical innovations and resulting in discouragement in R&D for new routes of dose administration, new dosage forms, and other innovations that would result in the development of drug products that are well-suited to the needs of Indian patients.

DISTINCTION BETWEEN RADICAL AND INCREMENTAL PHARMACEUTICAL INNOVATION

Pharmaceutical innovations are of two types Radical and Incremental innovation. The former represents a separate new class of drugs which are having a novel mode of action, the latter also represents new drugs but in an already existing class, which have a similar mechanism as the first ones, however the incremental innovations differ in features such as, therapeutic profile, metabolism, adverse effects, dosing schedules, delivery systems, etc. While radical innovations are uniformly protected in all patent regimes, incremental innovation is generally regarded not worthy of protection because of the prevailing notion that they represent nothing more than the copies of existing molecules.

IPIs involve discovery of new forms and uses of known chemical compounds or substances, which results in to the safer, more effective and more useful drugs that are better suited to particular patient profiles and result in to improve patient compliance and greater overall well-being. Thousands of smaller incremental innovations set the basis upon which "blockbuster" drugs are

originated. Discovery of penicillin is a good illustration of a radical pharmaceutical innovation that gave birth to potent new cure for bacterial diseases and instigated a new field of pharmaceutical research on antibiotics.

US National Research Council has recognized that the cumulative effect of numerous minor incremental innovations can sometimes be more transformative and have more economic impact than a few radical innovations or technological break through[1].

IMPORTANCE OF PROTECTING INCREMENTAL INNOVATION

1. Clinical value of Incremental Pharmaceutical Innovation (IPI)

A study conducted in 2007 of the medicines on the WHO's Essential Drug List, found that over 60% of the drugs on the list reflect incremental Improvements of older drugs[2]. Incremental pharmaceutical innovation has the following clinical values:

• *Increased effectiveness, extended usefulness, and greater selectivity* over prior known drug products;

• Breakthrough drugs normally have side-effects and other restrictions, which are replaced by more effective incrementally improved versions;

• Eradication or reduction of a treatment-limiting drug reaction;

• Evidence of safety and effectiveness for a new patient subpopulation.

• Increased effectiveness often is the result of incremental advances in dose delivery systems and dosage forms, such as transdermal delivery and extended release formulations, which can optimize the rate of absorption of a molecule and thereby maximize its therapeutic effect, while reducing toxicity and side-effects[3].

• More convenient dosing schedules which improve patient compliance.

2. Public Health & Socio-Economic implications: Improving quality life of Patients

The incremental pharmaceuticals innovations do have some prominent positive implications on the public health and our socio-economic conditions. Some of them are as below:

• IPIs increases the numbers of different drugs in a specific class, thereby increases the price competition among those drugs and ultimately leading to drug price reduction. Thus this will make the drugs accessible to each and every section of the society.

• Reduction in the overall cost of healthcare by improving the quality and selection of drugs available to the patients.

• Boost the completion in the pharmaceutical industry leading to more research and development and new and better products to the consumers;

• Increases revenue from incremental innovation which can be used to support the research & development of "blockbuster drugs"

• New formulations and drug delivery systems specially developed which are specifically suited to Indian climate. For instance, use of microspheres for the controlled release of vaccines which make them resistant to extreme heat conditions could greatly help people living in remote areas of India where there is no refrigeration[4].

• Mashelkar Committee has also suggested that discouragement of incremental innovation could dissuade both Indian and foreign investors from investing in India[5].

1 http://www.nap.edu/openbook.php?record_id=9528&page=10
2 J. Cohen et al., The role of follow-on drugs and indications on the WHO Essential 12 Drug List, 31 JOURNAL OF CLINICAL PHARMACY AND THERAPEUTICS 6,(2006)
3 See 20 Albert Wertheimer & Thomas Santella, "Pharmacoevolution: the advantages of incremental innovation," IPN Working Papers on Intellectual Property, Innovation and Health, International Policy Network (2005), at 8.
4 http://www.nujslawreview.org/pdf/articles/2009_4/meghna-banerjee.pdf
5 Report of the Technical Expert Group on Patent Law Issues, March, 2009, available at www.ipindia.nic.in/RevisedReport_March2009.doc

CONCLUSION

Incremental pharmaceutical innovation provides great support to the pharma companies to boost up research and development of the new drugs by offering opportunities to make profits by advancing the existing drugs. Consequently, elimination of incremental innovations from patent protection would cut the encouragement to modify the existing drugs and finally would affect the financial sources for new drug discovery. Incremental innovations also serve to enhance the safety and efficiency of existing drugs thereby improving the quality of life of patients. Indefinite wording of section 3(d) makes the patentability requirements for incremental innovation highly uncertain. Section 3(d) also acts as a disincentive for Indian pharmaceutical companies, who might otherwise capitalize on the economic opportunities presented by incremental pharmaceutical innovations in India and abroad. ◆◆◆

NEWSBYTES

1. THE INDIAN GENSING 'ASHWAGANDHA,' GETS US PATENT FOR VACCINE ADJUVANT

The project of extracting a new vaccine adjuvant from 'Ashwagandha'(*Withania somnifera*), a medicinal plant used in Ayurveda as an immunity enhancer, was sponsored by the Department of Science and Technology and was jointly executed by the researchers from Pune based Serum Institute of India (SII) and University of Pune's Inter-disciplinary School of Health Sciences (ISHS).

The researchers already received a patent on this in India in 2007, but the US patent was granted on August 6, 2013.

The adjuvant extracted from Ashwagandha is believed to improve vaccine efficacy. Further, the adjuvant showed properties where it could be useful in new vaccine development such as the pentavalent vaccine targeting meningitis, or those against dengue, pneumococcal diseases, polio, diphtheria, tetanus and hepatitis and also holds promise against HIV, tuberculosis and malaria.

The researchers have clarified that unlike earlier instances where companies tried to patent turmeric, for example, the patent here was in an area not claimed by Ayurveda.

2. FEEDBACK ON IPO'S DRAFT GUIDELINES FOR COMPUTER RELATED INVENTIONS

The feedback recently received by the Indian Patent Office (IPO) on its draft guidelines for Computer Related Inventions mainly revolve around the following issues

• **Section 3(k):** the interpretation of Section 3(k) of the draft guidelines have been viewed as unduly 'restrictive', especially with regard to the meaning of 'computer programs *per se*'. Comments have also highlighted the lack of examples of patentable computer programs.

• **Hardware innovations:** the feedback suggests the need for the guidelines to particularly explain the level of technical contribution of the hardware for it to be patentable. Requests were also made for illustrations to explain to what extent the characteristics of hardware should be specifically disclosed.

• **Business methods:** the exclusion of this subject matter from patentability have been appreciated in the comments, however requests have been made for an explanation that would help determine whether the claimed invention is a business method or not.

• **TRIPs obligation:** the comments have also raised some concerns regarding India's international trade obligations, including Article 27 of the TRIPs. It was argued that allowing for a restrictive approach to computer programs would amount to 'discrimination in the field of technology'.

3. WIPO HAS ANNOUNCED SPECIAL SERVICES FOR THE USERS OF MADRID SYSTEM

World Intellectual Property Organization (WIPO) has recently announced following new special services for the users of the Madrid System.

- issuance of a certified copy of a certificate of an international registration and of a certificate of its renewal which can be obtained on payment of a fee of 50 Swiss francs per certified copy;

- expedited establishment of a certified extract from the International Register. Here the WIPO will provide the simple or detailed certified extract within five working days, once a request for expedited establishment is received for a fee of 100 Swiss francs per extract;

- legalization of a certified extract from the International Register essentially required to be produced in any non-Contracting parties to the Madrid System. This legalization can be obtained by payment of a fee of 75 Swiss francs per extract.

These special services can be requested by the users of the Madrid System by emailing a detailed communication along with the international registration number to which the request relates to the address madrid.records@wipo.int.

4. GI REGISTRY TO INCLUDE KAIPAD RICE OF KERALA, NAGPUR ORANGES AND THE DHARMAVARAM SARIS OF ANDHRA PRADESH

In order to combat the manufacture and sale of fake products the Kaipad rice of Kerala, Nagpur oranges

and the Dharmavaram Saris of Andhra Pradesh have recently received clearance for inclusion in the Geographical Indications (GI) registry in the country. After the four month period for objections provided by the registry, these GI's will be notified in the Register.

5. ROCHE NOT TO PURSUE BREAST CANCER DRUG 'HERCEPTIN' PATENT IN INDIA

The Swiss pharmaceutical giant 'Roche Holding AG' has decided not to pursue the patent no. 205534 granted in India for breast cancer drug Herceptin which was otherwise valid till 2019.

As per the Indian Patent Office the 15th year Annuity for the maintenance of the patent was due on 03.05.2013, however the same was not paid on time due to which the patent ceased on 03.05.2013. Though the company still had time till 03.11.2013 to pay the fee and claim its patent, provided a requested for an extension of time was made in Form-4 before 03.05.2013. Assuming that this provision does not exist for this company anymore, the Patentee still has an option to file an application under Section 60 of the Patents Act, 1970 for "restoration of a lapsed patent".

As reported by the Economic Times (*VYA RAJAGOPAL, ET Bureau Aug 16, 2013, 03.26AM IST*) Roche let the patent for Herceptin lapse in May this year, however, it will continue to enforce all other patents in India and remains committed to working with the Indian government.

6. ALOYS WOBBEN'S ANOTHER PATENT REVOKED BY IPAB IN A PETITION OF ENERCON INDIA

Enercon (India) Ltd, a joint venture between Enercon GmBH and the Mehra Group, filed a petition for revocation of Patent granted to Aloys Wobben for a wind power installation and process for the operation of the same.

The order issued by the Intellectual Property Appellate Board (IPAB) on August 8, this year, said that the claims as originally filed cannot be accepted as they are partially anticipated and the claimed invention is found to be obvious.

This is the fourth patent of Aloys Wobben revoked by the IPAB since the beginning of June this year.

7. AJANTA PHARMA LTD. SUCCEEDED IN REVOKING TWO COMPOSITION PATENTS OF ALLERGAN INC.

Ajanta Pharma Ltd. filed a revocation application against Allergan's patents viz. IN 212695 and IN 219504 granted by the Kolkata Patent Office in December 2007 and May 2008 respectively. Both the patents were on drugs to cure Ocular Hypertension (Glaucoma) and were applied for a revocation on the grounds of obviousness, not an invention, not patentable, insufficiency and non-compliance of Section 8 of the Indian Patents (Amendment) Act, 2005.

It was held by the IPAB that the application was not time barred. The right to revoke patent any time after the grant of patent under Section 64 of the Act cannot be extinguished by applying limitation of three years under Article 137 of the Limitation Act.

The IPAB rightly revoked both these patents on grounds of Obviousness and Breach of Section 8 of Indian Patents (Amendment) Act, 2005, as put forward by Ajanta Pharma Ltd. ◆◆◆

DEPARTMENT OF INDUSTRIAL POLICY AND PROMOTION (DIPP) REVIEWS THE POLICY ON FOREIGN DIRECT INVESTMENT (FDI)-CAPS AND APPROVAL ROUTES IN VARIOUS SECTORS

The Department of Industrial Policy and Promotion (DIPP) issued Press Note No. 6 (2013 Series) on 22nd August, 2013 vide which it made changes in the policy on Foreign Direct Investment (FDI)-Caps and approval routes in various sectors, as contained in paragraph 6.2 of 'Circular 1 of 2013-Consolidated FDI Policy'. The earlier and revised position in the FDI Cap and Approval route is given as under:

1.0. Tea sector including tea plantations (paragraph 6.2.2):

Earlier Position for FDI Cap was 100% and the Entry Route was through Government Approval

As per Revised Position there is no Change in FDI Cap and Entry Route

Note: Besides the above, FDI is not allowed in any other plantation sector/activity.

1.1. Petroleum and Natural Gas (paragraph 6.2.4.2):

Earlier Position for FDI Cap was 49% and the Entry Route was through Government Approval

As per Revised Position there is no Change in FDI Cap, however now the Entry Route is through Automatic Approval

1.2. Defence (paragraph 6.2.6):

Earlier Position for FDI Cap was 26% and the Entry Route was through Government Approval

As per Revised Position there is no Change in FDI Cap, however now the Entry Route up to 26% is through Government Approval and for above 26% approval from Cabinet Committee on Security (CCS) on case to case basis, which ensure access to modern and 'state-of-art' technology in the country.

1.3. Courier Services (paragraph 6.2.10):

Earlier Position for FDI Cap was 100% and the Entry Route was through Government Approval

As per Revised Position there is no Change in FDI Cap, however now the Entry Route is through Automatic Approval

1.4. Telecom Services As per Revised Position the definition of Telecom Services (paragraph 6.2.15) has been revised and the FDI Cap is kept at 100% under which up to 49% will be through Automatic Route and above 49% through Government Approval subject to observance of licensing and security conditions by licensee as well as investors as notified by the Department of Telecommunications (DoT) from time to time.

1.5. As per Revised Position **Test Marketing** (paragraph 6.2.16.3) has been deleted

1.6. Single-brand product retail trading (paragraph 6.2.16.4):

Earlier Position for FDI Cap was 100% and the Entry Route was through Government Approval

As per Revised Position there is no Change in FDI Cap and now the Entry Route up to 49% is through Automatic Approval and above 49% is through Government Approval.

1.7. Asset Reconstruction companies (paragraph 6.2.17.1):

Earlier Position for FDI Cap was 74% of paid-up capital of ARC (FDI+FII) and the Entry Route was through Government Approval (For FDI)

As per Revised Position the FDI Cap is upto 100% of paid-up capital of ARC (FDI+FII) and the entry route up to 49% is through Automatic Approval and above 49% is through Government Approval

1.8. Commodity Exchanges (paragraph 6.2.17.4.2):

Earlier Position for FDI Cap was 49% (FDI & FII) [Investment by Registered FII under Portfolio Investment Scheme (PIS) will be limited to 23%

and Investment under FDI Scheme limited to 26%] and the Entry Route was through Government Approval (For FDI)

As per Revised Position the FDI Cap there is no change in the FDI Cap, however now the now entry route is through Automatic Approval

1.9. Credit Information companies (paragraph 6.2.17.5.1):

Earlier Position for FDI Cap was 49% (FDI + FII) and the Entry Route was through Government Approval (for FDI)

As per Revised Position the FDI Cap is 74% (FDI + FII) and the entry route is through Automatic Approval

1.10. Infrastructure Company in the Securities Market (paragraph 6.2.17.6.1):

Earlier Position for FDI Cap was 49% (FDI & FII) [FDI limit of 26 per cent and an FII limit of 23 per cent of the paid-up capital] and the Entry Route was through Government Approval (for FDI)

As per Revised Position there is no change in FDI Cap however now the entry route is through Automatic Approval

1.11. Power Exchanges (paragraph 6.2.19.1):

Earlier Position for FDI Cap was 49% (26% FDI +23% FII) and the Entry Route was through Government Approval (for FDI)

As per Revised Position there is no change in FDI Cap however now the entry route is through Automatic Approval

2.0. The above changes were made effective from the date of the Press Note i.e. 22nd August, 2013. ◆◆◆

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