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EDITORIAL NOTE

Intellectual Property is the key driver to propel the economic growth of a nation. Hence, understanding IP gains utmost significance not only from a business point of view but also from a socio-economic perspective. We as nationals of any country should be vigilant in protecting and defending our IP rights. However, there are multiple issues and challenges that need discussions, and reforms. The IP Press Law Review (IPPLR) is an initiative of The IP Press to extend our objectives of spreading awareness on the issues concerning intellectual property rights and related laws. It aims to promote study and research in the field of intellectual property laws in the form of academic literature. This issue reflects some of the key concerns of the Intellectual property regime both under national and international parlance. It is envisioned to embody some of the most brainstorming insights that help readers to grasp the discourse around contemporary developments in the field of Intellectual Property Law. Throughout the year, the editorial board has reviewed the papers with multiple rounds of editing to ensure quality and standard.

This issue presents intriguing issues and challenges pertaining to intellectual property law in the national as well as the international regime. The first paper encapsulates the protection of personality rights under Intellectual property laws and briefly presents the status of multiple jurisdictions. The second paper discusses a pertinent issue of protection of fictional characters that have been a cause of concern in many disputes. The author discusses the theoretical framework and analyses various tests laid down by the judiciary.

The third paper explores religion as a subject and object of the trademark. The author determines the legality of the trademark of religious symbols for private companies and religious organisations. The fourth paper presents a policy discussion on the overlap between trademark and functionality doctrine. The fifth submission deals with the congruence of intellectual property assets in combination and corporate restructuring wherein the author states that IP has immense power to help businesses to grow and hence its valuation becomes an important aspect of commercialization of IP. The sixth paper demonstrates how open-ended section 57 of the Copyright Act, 1957 is which leads to ambiguity. The author asserts reforms in the current provision of moral rights. The seventh paper discusses the recent dissolution of the intellectual property appellate board in the backdrop of the Tribunal Reform Bill, 2021. The eighth paper discusses the relevance of IP Due diligence and suggests quarterly checks and steps carry out the due diligence process to combat the closing down of businesses and lifelong losses. The ninth paper presents analyses of the patent denials in the biotechnology sector and their impact on the industry. The tenth paper presents an interesting analysis of trademarkability of non-conventional trademarks due to hindrances of graphical representation and discusses multiple judgements of the European courts. The last two items present an analysis of two landmark cases, one Monsanto case and two, Phonpe v. Bharatpe trademark tussle.

Happy reading!

- 1 PROTECTION OF PERSONALITY AND IMAGE RIGHTS- A COMPARATIVE ANALYSIS**
Lucy Rana, Shilpi Sharan
- 12 ANALYSIS OF PROTECTION GIVEN TO FICTIONAL CHARACTERS AND ITS OWNERS IN COPYRIGHT LAW-**
Aishwarya Srivastava
- 33 TRIALS AND TRIBULATIONS OF TRADEMARKING RELIGION IN INDIA**
Pavitra Naidu
- 47 TRADEMARK ANALYSIS IN PERSPECTIVE OF THE FUNCTIONALITY DOCTRINE**
Konark Pratap Gupta
- 61 THE CONGRUENCE OF INTELLECTUAL PROPERTY ASSETS IN COMBINATION AND CORPORATE RESTRUCTURING-**
Shantanu Sharma, Prutha Bhavsar
- 73 MORAL RIGHTS AND ITS SHORTCOMINGS IN INDIA**
Vrishti Shami
- 81 JUSTIFYING THE DISSOLUTION OF THE INTELLECTUAL PROPERTY APPELLATE BOARD IN THE BACKDROP OF THE TRIBUNAL REFORM BILL, 2021**
Anirudha Sapre
- 97 IP DUE DILIGENCE: COMBATTING WINNER'S CURSE!-**
Harsha Aswani

IN THIS ISSUE

- 118 DENIAL OF PATENTS IN THE BIO-TECHNOLOGY SECTOR AND ITS CONSEQUENCES ON INDUSTRY DEVELOPMENT**
Aryan Shah
- 129 NON-CONVENTIONAL MARKS: GRAPHICAL REPRESENTATIONS AND CONTEMPORARY PROBLEMS**
Doyita Mukherjee
- 142 MONSANTO CO V. STAUFFER CHEMICAL CO: THE EXPERIMENTAL USE EXCEPTION**
Anusrita Ranjan
- 146 A CRITICAL NOTE ON THE DELHI HIGH COURT'S RULING IN THE PHONEPE VERSUS BHARATPE TRADEMARK TUSSE**
Ritwik Guha Mustafi

PROTECTION OF PERSONALITY AND IMAGE RIGHTS IN INDIA

Lucy Rana*, Shilpi Sharan**

ABSTRACT

“Whatever a man creates should not be taken by somebody else and exploited...”

Hugh Hansen¹

In general, protection of personality rights emerged worldwide as a province of Tort laws. Personality rights protection originated as an independent issue only in the 19th century. In India personality rights have primarily been protected under the laws of privacy and IPR laws and as rightly put in the words of Prof J Thomas McCarthy ‘The right of publicity is not a kind of trademark. It is not just a species of copyright. And it is not just another kind of privacy right. It is none of these things, although it bears some family resemblance to all three.’²

In the recent past, the precedents and judicial dictum have carved out and streamlined the law pertaining to protection of personality and celebrity rights in India. One of the categorical holding of the Hon’ble Delhi High Court has been that right of publicity has evolved from the right of privacy and can emerge from an individual’s personality like his name, personality trait, signature, voice and that any attempt effort to take away the right of publicity from the individuals would be in violation of Articles 19 and 21 of the Constitution of India³.

The present paper is an encapsulation of the laws and cases, which have evolved to determine and contour the law on protection of personality rights in India and present a comparative analysis of this right in other jurisdictions.

Keywords: Personality rights, copyrights, trademark, publicity, well-known trademark, image rights.

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¹ Professor of Law, Fordham University, 7 International Intellectual Property Law & Policy 36-1 (2002) Panel Discussion on Personality Rights.

²J. Thomas McCarthy, ‘The Spring 1995 Horace S. Manges Lecture: The Human Persona as Commercial Property: The Right of Publicity’ (1995) 19Colum.-VLA J.L.& Arts 121.

³ICC Development (International) ... vs Arvee Enterprises &Anr., 2003 (26) PTC 245 Del.

1. INTRODUCTION

The recently concluded Tokyo Olympics 2021 was inarguably the most successful one for India in history, and will be forever etched in the history of Indian Sports as the nation won seven Medals in the Games. However, the aftermath of the Olympics has led to the emergence of a rather thought-provoking issue i.e. the *protection of personality and image rights in India*. It has been widely reported that the names and images of Indian athletes who won medals in the Summer Olympic Games have been used by several Indian entities, including several major brands, for advertising and marketing their products and services in media. In this regard, the use of the name and imagery of the gold medallist Neeraj Chopra and ace badminton player PV Sindhu appear to be the most prominent ones. Pursuant to such unauthorized use, the Advertising Standards Council of India (ASCI) had also placed its strong objections on brands using images of India's Olympics' medallists to promote their own products or services⁴. This whole saga has struck an intriguing deliberation on the concept of the protection of personality and image rights in India.

Perhaps the most high-profile infarction in this context was the news wherein Baseline Ventures, agency managing commercial contracts of PV Sindhu, had sent legal notices to over 20 companies, for making unauthorized use of her name/imagery in advertising.⁵

A. What are Personality and Image rights?

The 'right of publicity', commonly known as Personality rights, recognizes a person as a physical and spiritual moral being and guarantees his enjoyment of his own sense of existence.⁶ The right to personality and image saw its origin globally as a part of common law or classic natural law, with its notion of inalienable human rights, which included within its purview various laws relating to personality⁷. Hence, personality and image right is the right of an individual (which albeit seems more relevance amongst public figures or celebrities), to control the use and commercialization of

⁴Ratna Bhushan, 'ASCI slams brands using Olympics winners without approval' (*The Economics Times*, 05 Aug 2021) <<https://economictimes.indiatimes.com/industry/services/advertising/asci-slams-brands-using-olympics-winners-in-ads-without-approval/articleshow/85080169.cms> > accessed 20 August 2021.

⁵Meenakshi verma Ambwani, 'Baseline ventures sends legal notices to 20 firms for unauthorized use of PV Sindhu's image' (*Business Line, The Hindu*, 6 August 2021) <<https://www.thehindubusinessline.com/news/baseline-ventures-sends-legal-notice-to-20-firms-for-unauthorised-use-of-pv-sindhus-image/article35770116.ece> > accessed 21 August 2021.

⁶Christian von Bar, *The Common European Law of Torts*, vol2 (CH Beck 2000) 61.

⁷W A Joubert Grondslae van die persoonlikheidsreg (1953) at 130-1; 1 Neethling, JM Potgieter & PJ Visser Neethling's law of personality (2005) at 24.

their identity which is their personage in the form of voice, signature, likeness, appearance, silhouette, feature, face, expression, gesture, mannerism, distinctive character.

The essence of the right of publicity or personality rights was succinctly explained by the US Court of Appeals for the Second Circuit, in *Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.*⁸. Some noteworthy insights from US Court's observations in the case are:

1. Right in publicity value of one's photograph;
2. Prominent persons would feel deprived if they did not receive money for authorizing advertisements;
3. Such unauthorized publicity would usually yield them no money unless it could be made the subject of an exclusive grant;

B. Personality/ Image Rights and IPR

It is common knowledge that celebrities often permit or authorize use of their voice, skills, act or names for commercial and non-commercial purposes. However, such use comes under the scanner of Intellectual Property Laws (IPR) when the same is done without any due authorization of the concerned public figure or celebrity. Though the law pertaining to such violation of image rights have not been provided exclusive recognition under the Indian Laws, an indirect reference can be derived from the provisions of existing IPR laws in India.

Hence, personality rights can be protected under the IPR laws as the excerpts of protection of personality rights can be found in the Indian IP statutes, which have been discussed below in detail.

C. Copyright Act, 1957

The Indian Copyright Act does not define the word 'personalities' or 'celebrities'. However, the Hon'ble Delhi High Court in the case of *Titan Industries Ltd. vs M/S Ram kumar Jewellers* in 2012, defined the term 'celebrity' as a person who is famous or merely a person who many people talk about or know about.⁹

⁸*Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.* 02 F.2D 866 (2D CIR. 1953).

⁹*Titan Industries Ltd. v. M/S Ramkumar Jewellers* CS(OS) No.2662/2011.

i. Performers, rights of performers and exclusive right of performer under Indian Copyright Law

The Act defines the term ‘performer’ under Section 2(qq) as actor, singer, musician, dancer, acrobat, juggler, conjurer, snake charmer, a person delivering a lecture or any other person who makes a performance; Hence, a celebrity can aptly fall within the ambit of a ‘performer’ and shall be entitled to rights construed to a ‘performer’ under the Act.

ii. Exclusive right of performer under the Copyright Act

Additionally, Section 38 of Copyright Act defines “Performer’s right” and states that performer’s right shall be available for a period of 50 years from beginning of calendar year following the year in which the such performance was made. Further, Section 38A postulates a crucial right on performer’s exclusive right and prohibits anyone from making a sound recording or a visual recording of the performance, reproduction of performance in any material form, broadcasting or communicating the performance to the public without the express consent of the performer.

Apart from the previously mentioned exclusive right of a performer, the rights conferred on a personality can be derived from Sections 17, 39 and 52 of the Copyright Act.

iii. First owner of Copyright in Advertisements and protection of personality rights- The Tanishq Diamond case.

Interestingly, in the case of *Titan Industries Ltd. vs M/S Ramkumar Jewellers*¹⁰, the Hon’ble Delhi High Court had deliberated on personality rights and the provision under Section 17¹¹ of the Copyright Act, which states about determination of first owner of copyright. Herein, the Plaintiff sought to restrain infringement of copyright, misappropriation of personality rights and passing off. The case of the Plaintiff was that it had signed an Agreement for Services with the super star couple Amitabh Bachchan and Jaya Bachchan for advertisement of its brand Tanishq. However, the Plaintiff later discovered that the Defendant was making unauthorized use of the images of the said celebrities on hoardings to advertise their goods (jewellery).

The Court while restraining the Defendant from making use or misappropriating the rights of Tanishq and the star couple, observed that when identity of a celebrity is advertised without

¹⁰ibid.

¹¹Indian Copyright Act 1957, s 17.

authorization, then the celebrity's or famous personality's right to control when, where and how their identity is used should vest with the famous personality only. Hence, the right to control commercial use of human identity is the right to publicity.

The Court also noted in the case that "By virtue of Section 17(b) of the Copyright Act, 1957, the plaintiff is the first owner of the copyright in the said advertisement and this fact is substantiated by the endorsement agreements which clearly state that ownership of copyright is with the plaintiff."

While considering the aspect of misappropriation of 'right to publicity', the Court enumerated the two basic elements of 'validity' and 'identifiability' i.e. Plaintiff's enforceable right in identity or persona of a human being and that the Celebrity must be identifiable from Defendant's unauthorized use of right of publicity.

iv. Personality rights vests in an individual

In a case of 2003¹², the Hon'ble Delhi Court while dealing with a case involving right to publicity pointed out that the right has evolved from right of privacy and can be inhere only in an individual or in an individual's personality, for instance his name, personality trait, signature, voice, etc.

v. Commercialization of Personality's name/ image by Defendant

In an intriguing case of *Mr. Gautam Gambhir vs D.A.P & Co. & Anr*¹³, cricketer Gautam Gambhir claimed personality rights in his name when he found out that the Defendant was running restaurants with the tag line 'by Gautam Gambhir' while he had absolutely no connection with the said restaurants. The cricketer alleged that his 'Personality Rights' had been illegally violated by the Defendant.

However, the High Court of Delhi in view of evidence adduced in the case was of the view that the Plaintiff's name had not been commercialized by the Defendant. The Court was of the view that nothing had emerged on record to show that because of running of the restaurants by the Defendant with the tag line 'by Gautam Gambhir' any loss had been incurred to the Plaintiff in his field i.e. cricket.

¹²*ICC Development* (n 3).

¹³*Mr. Gautam Gambhir vs D.A.P & Co. & Anr* CS(COMM) 395/2017.

D. Trade Marks Act of 1999

The Indian trademark law does not specify any exclusive protection for personality or image rights. However, Section 2(m) pertinently includes the term “names” in its definition of what constitutes a “mark”¹⁴. Several Indian celebrities like, Baba Ramdev and the famous actress Kajol, have pursued the trademark route to prevent misappropriation of their names¹⁵.

i. Use of name or representation of a living person or recently deceased person

Section 14 of the Trade Mark Acts deals with the use of name or representation of a living person or a recently deceased person. The statutory provision under Section 14 restricts claims which falsely suggest a connection with any living person, or a person whose death took place within twenty years prior to date of application for the impugned trademark.

In case of *Makkal Tholai Thodarpu Kuzhumam Ltd. vs. Mrs. V. Muthulakshmi*¹⁶, the Hon’ble Madras High Court deliberated upon the right to privacy and related subject matter, regarding the notorious bandit Veerappan, who was gunned down by law enforcement in 2004. The Court observed that “The contention of the learned counsel for the respondent Mr. Manoharan that right to privacy continues and takes the new turn after the death of Veerappan, who died on 19.10.2004 is also baseless because even during the life time of Veerappan himself, the publications have been made admittedly and he has not taken any steps for the purpose of opposing. The same question of continuation of privacy after his death is not at all an acceptable argument.” However, the Court also protected the rights of the kin of the deceased while stating the revision petitioner cannot telecast about plaintiff’s personal life while telecasting the impugned serial and that the serial content should only be premised on publicly available records and information.

ii. Section 35 of Trademark Act and bonafide use of name

In the case of *Precious Jewels & Anr vs Varun Gems*¹⁷ the Plaintiff as well as the Defendant firms belong to the same family sharing a common surname – “Rakyan”. The plaintiff in the case

¹⁴“mark” includes a device, brand, heading, label, ticket, name, signature, word, letter, numeral, shape of goods, packaging or combination of colours or any combination thereof;

¹⁵Rasul Bailay, ‘Celebrities using trademark route to check name misuse’ (*Livemint*, 19 March 2010) <<https://www.livemint.com/Consumer/Dss3fISYwLqa0bQr53dhfL/Celebrities-using-trademark-route-to-check-name-misuse.html>> accessed 20 November 2021.

¹⁶*Makkal Tholai Thodarpu Kuzhumam Ltd. vs. Mrs. V. Muthulakshmi* CRP. (PD) No.3299 of 2007.

¹⁷*Precious Jewels & Anr vs Varun Gems* Civil Appeal no.7191 of 2014.

claimed that the defendants shall be restrained from doing their business in the trademark of their surname "RAKYAN".

However, the Supreme Court rejected the claims of the Plaintiff while referring to Section 35 of Trademark Act to hold that the provision permits anyone to do their business in their own name in a bona fide manner.

iii. Right of publicity extends beyond the traditional limits of false advertising laws. The World Intellectual Property Organizations (WIPO) in the *Barkha Dutt case*¹⁸ while noting the facets of personality and image rights was of the view that non-consented use of a famous person's name is not a bonafide use as it does not confer rights or legitimate interests on the unauthorized user. The WIPO also held in the case that the right to commercially use or exploit one's own name, vests with the person who has worked towards creation of that fame and such a person can legally restrict its unauthorized use by a third person.

iv. For character merchandising, character must gain some public recognition. The Bombay High Court while dealing with the issue of character merchandising in the case of *Star India P. Ltd., Vs. Leo Burnett (India) P. Ltd.*¹⁹, had held that the characters to be merchandized must have gained some public recognition independently of the original product i.e. recognition attained independently of the milieu/area in which the character appears.

v. Name is a well-known trademark under Trademark Act. While substantiating on the degree of fame acquired by a personality or personal name, the Delhi High Court in the case of *Arun Jaitley v. Network Solutions (P) Ltd.*²⁰, provided that a person can be restrained to use a popular or well-known personal names, when, it is satisfied that such name is a well-known trademark under the trademark law, and that the name can be used for commercial purposes. A similar view was also taken by the Court in the case of *Sourav Ganguly v Tata Tea Ltd.*²¹, wherein it was held that fame and popularity in the case were the Plaintiff's intellectual property.

¹⁸*Ms. Barkha Dutt v. easyticket, Kapavarapu, Vas* Case No.D2009-1247.

¹⁹*Star India P. Ltd., Vs. Leo Burnett (India) P. Ltd.* 2003 (2) Bom CR 655.

²⁰*Arun Jaitley v. Network Solutions (P) Ltd.* CS(OS) 1745/2009 & I.A. No. 11943/2009 & 17485/2010.

²¹*Sourav Ganguly v Tata Tea Ltd.* CS no. 361 of 1997.

Another intriguing case involving the entertainment industry is the case of *Sonu Nigam v. Mika Singh*²², wherein the Court restrained Mika Singh and OCP Music from in any manner publishing the impugned advertisement which violated the personality and image rights of the Bollywood singer Sonu Nigam.

E. The Emblems and Names (Prevention of Improper Use) Act, 1950

The Emblems and Names (Prevention of Improper Use) Act, 1950 restricts the improper use of certain names. In this context, it would be relevant to refer to the incident of Montblanc, wherein the company launched a series pen marking the 140th birth anniversary of Mahatma Gandhi, namely “Mahatma Gandhi Limited Edition 3000”. However, the Union Government objected to the launch of the pen series under Section 3 of the Act. Later, a petition was also filed seeking a ban on sale of the impugned pens in the country. Eventually, the company gave an undertaking before the Division Bench of the Kerala High Court that it would not sell its “Mahatma Gandhi Limited Edition 241” and “Mahatma Gandhi Limited Edition 3000” series pens till further orders by the Court.

F. The Code of Self-Regulation in Advertising in India- ASCI

The Code released by the Advertising and Standards Council of India in 1985 throws light on the concept of celebrities as famous and well-known people from the fields of Entertainment and Sports and may also include other well-known personalities like Doctors, Authors, Activists, Educationists, etc.

Under Chapter 4, the Code postulates the following with reference to misappropriation and exploitation of names in advertisements:

“Advertisements shall not make unjustifiable use of the name or initials of any other firm, company or institution, nor take unfair advantage of the goodwill attached to the trademark or symbol of another firm or its product or the goodwill acquired by its advertising campaign.”

From the aforesaid, it is evident that though the law pertaining to protection of personality and image rights in India have not been specifically formulated, there are precedents and *obiter dictum* by the Indian Judiciary which have adequately contoured and streamlined the law.

²²*Sonu Nigam v. Mika Singh* CS 372/2013(Bombay High Court).

2. PROTECTION OF PERSONALITY RIGHTS IN OTHER COUNTRIES

A. United States

There is no federal Statute in the USA, that expressly discusses the question of rights of publicity, nor does any law provide any definition for this right. However, the *Unfair Competition Law* provides for protection with respect to false endorsements, associations and affiliations.

One of the first cases, where the US Courts recognized the right, was in *Haelan Labs., Inc. v. Topps Chewing Gum, Inc.*²³ in 1953, wherein the Court stated that “A man has a right in the publicity value of his photograph, i.e., the right to grant the exclusive privilege of publishing his picture, and that such a grant may validly be made in gross i.e., without an accompanying transfer of a business or of anything else. This right might be called right of publicity”

B. United Kingdom

In the United Kingdom, there is no specific statute which has been created for the purpose of dealing with personality rights alone. However, both statutory as well as common law prescribe for protection against non-consented use of celebrity image rights.

The action of passing-off under Torts Law arises when the image of a personality is used for the purpose of trade and generates goodwill. Laws such as Trademarks Act, 1994 and Data Protection Act, 1998 protect publicity rights.

In *Irvine v Talksport*²⁴, the Court of Appeal was confronted with the issue of a false endorsement case and held that the picture published by the Defendant radio station sent the wrong message of false endorsement by the claimant. Hence, the claimant succeeded in a passing off action for false endorsement.

The Data Protection Act prevents the misuse of personal information of an individual whether in form of computer resources or in paper form. In this context, Section 10 of the Act states that an individual has a right to prevent the processing of personal data where it would cause substantial

²³*Haelan* (n 8).

²⁴*Irvine v Talksport* [2003] EWCA Civ 423.

stress. The images and videos of a person constitute personal data, usage of which may amount to infringement of personal rights under the Act.

Further, the European Convention on Human Rights (ECHR) under Article 8 embodies the right to private life of a person with his family without any kind of interference on part of the Government. Article 10 provides the right to freedom and expression according to which a person can freely express his opinion.

C. Germany

Similar to the laws in the UK, Germany provides protection to image and personality rights in both Torts and other statutes such as Trademark Law, Copyright in works of Art and Photography Act, German Civil Code and Unfair Competition Law.

A case which substantiates the protection of personality rights in Germany is *Sihler-Jauch and Jauch v Germany*²⁵. In this case, a celebrity couple had requested the press to not publish or report about their wedding details. However, the German magazine *Bunte* published an article about the wedding along with the celebrities. While pronouncing its verdict, the Hamburg Court of Appeal and the ECHR were of the view that unauthorized publication of the couple's photographs were violative of their personality rights.

D. Canada

Similar to the position as enumerated in other countries, both law of torts and statutory laws cover the subject matter. The statutory laws have been passed in the Provinces of Canada such as Manitoba, New Foundland and Saskatchewan.

In case of *Joseph v Daniels*²⁶, the Court laid down the criteria of 'Identifiability' and held that the image of the personality shall be identifiable to the public at large. While substantiating upon the law, in *Gould Estate v Stoddart Publishing Co*²⁷ the Court held that "While Canada does not have a constitutional provision akin to the First Amendment which is applicable to the private law, no principled argument has been advanced to suggest that freedom of expression considerations

²⁵*Sihler-Jauch and Jauch v Germany* Applications 68273/10 and 34194/11.

²⁶*Joseph v Daniels* (1986) 11 CPR (3d) 544 (BCSC).

²⁷*Gould Estate v Stoddart Publishing Co* (1996) 74 CPR (3d) 206.

should not animate Canadian courts in identifying the public interest and placing limits on the tort of appropriation of personality. Indeed, freedom of expression would seem to be a compelling and reasonably coherent basis for defining the ‘obvious’ need for limits.”

The right to personality is recognized in Canada as a celebrity right. The legislation enacted for this purpose directly addresses the issue, unlike many other jurisdictions, including the ones discussed herein. In *Les Éditions Vice-Versa inc. and Gilbert Duclos v. Pascale Claude Aubry*²⁸, the Court made a reference to the Quebec law and observed that “.....right must include the ability to control the use made of one’s image, since the right to one’s image is based on the idea of individual autonomy, that is, on the control each person has over his or her identity.”

3. CONCLUSION

Undeniably, the issues of violation of personality rights have evolved in several jurisdictions in the past few decades. The Courts have majorly been confronted with issues pertaining to violation of personality rights on print and electronic media i.e. newspapers, magazines, televisions and radio stations. However, the cyber age and penetration of technology and the phenomenal use of social media platforms in the recent past has further augmented the whole issue of protection of personality rights and made it vulnerable.

²⁸*Les Éditions Vice-Versa inc. and Gilbert Duclos v. Pascale Claude Aubry* [1998] 1 S.C.R. 591.

ANALYSIS OF PROTECTION GIVEN TO FICTIONAL CHARACTERS AND ITS OWNERS IN COPYRIGHT LAW

Aishwarya Srivastava*

ABSTRACT

An unauthorized use of literary and artistic work by means of reproduction of the work amounts to infringement of Copyright law and hence the law provides protection from the same. These works are composed of several elements that can be illustrated as characters in a story and the protection of these characters under copyright law is still dubious. These characters are given certain names that are imaginary or made up and protection of these invented names under copyright law is not allowed, as the name would not classify as an original work of literature. However, these fictional characters are not just names in the story but they are the essence of the story and are much more than just names. These fictional characters are sketched persons and personalities that are defined in words by means of imagination and they can be distinguished from one another with their unique description of looks, manners and the way they speak and communicate themselves. The issue of protection to these fictional characters has been a cause of disagreement in many disputes. This paper presents the theoretical framework along with the analysis of case laws of different courts concerning the copyrightability of characters.

Keywords: Fictions, copyrights, graphical characters, fictional characters, infringement.

*Aishwarya Srivastava, Associate, AZB Partners.

1. INTRODUCTION

Only when a fictional character fits in every requirement for it to be protected under Copyright then would the question of its copyrightability stand essential. Some of the fictional characters for instance would be Mickey Mouse, Minions, Donald Duck, Sherlock Holmes, Jon Snow, Batman etc. These characters are now so famous that they are almost a part of our lives like a real person. These characters are available in various forms in the market. Their business expands to not only the shows in which they feature but to applications for mobile phones, games, soft toys, clothing lines, movies etc. Therefore, all these various platforms provide revenue to the owners of the characters from different means of businesses as many as possible. For instance, Disney who is the owner of Mickey Mouse, so as to protect it, also objected the painting of Mickey that was painted on the walls of a Hallandale, Florida day care centre.

The owners of these characters have crossed lengths protecting their creations in their capacity of being an artist because these characters are their figment of imaginations and ideas that are brought into expression. These expressions have unique qualities, attributes and characteristics that are created by the artist using his intellect, labour and idea and thus the protection to the outcome of the same should be granted to him. Such protection prevents misappropriation of the creation by third parties and provides the original creator the right to exploit it at first.

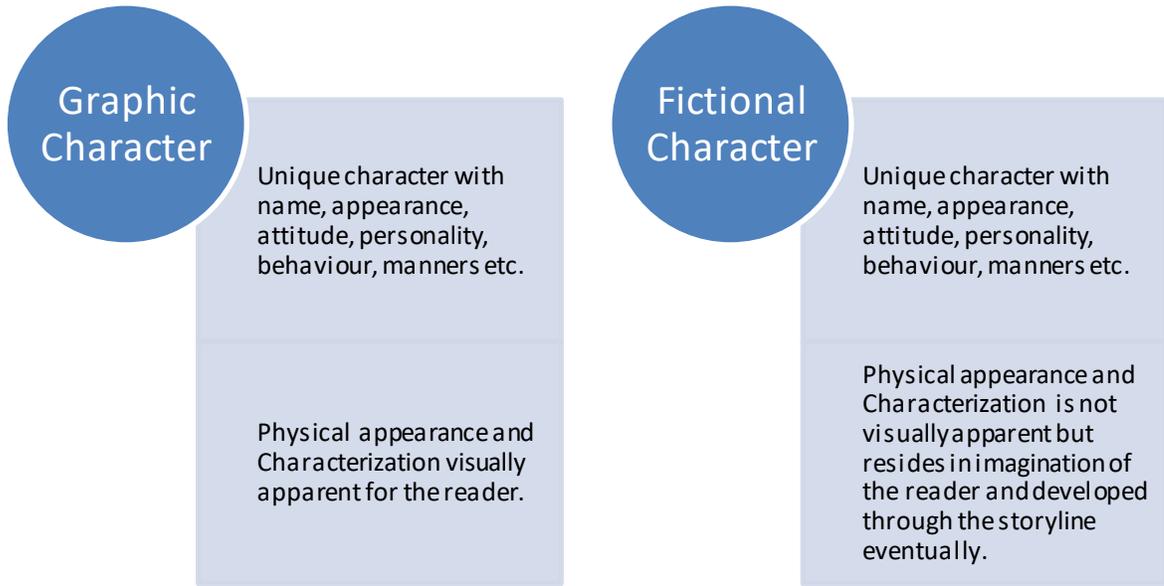
Likewise, the licensees and the advertisers to whom authorization has been granted by the owner of the character, have equal rights in protection of the character from the misappropriation of the character by third parties. Any such misappropriation would result in economic loss to the interested parties and this would restrict their legal rights to the character. Hence, the question of protection of intellectual property arises here with respect to characters.

Therefore it is important to examine the aspect that when a character would fall under the ambit of legal protection by the originator. This is the most imperative issue that floats in the current era as well. Another qualm that originates is with the respect to the characters that have already entered the public domain but has been at the same time used in a new work, which is separately copyrighted. Hence it must not be disregarded that not just protection under copyright law that can be taken recourse to but protection also under the trademark law and competition law can be proved to be pertinent in this context.

2. TYPES OF CHARACTERS

There are two types of characters:

1. Graphic Characters
2. Fictional Characters



The differentiation between the two types of characters is of pertinent nature because the level and kind of protection given to both these characters by the court is different in nature and such protection is provided in different levels. The protection involves certain tests that have been laid down by the court for resolving the copyright protection to be given to the character.

A. Graphic Character

These characters are portrayed by means of a cartoon or other form of representation in graphic mode. They are created in a manner that their physical appearance and the character that they are playing are perceptible to the people reading it. Such graphic characters would include characters like Superman or Mickey Mouse or Goofy or Minions, Donald Duck, or any other cartoon represented in the graphical mode.



These are cartoon characters named Minions. They fall under category of Graphic characters. Image source: See [here](#)

i. Copyright protection

Protection to graphic characters under Copyright law would not fall under the heading ‘artistic work’ as the artistic work would not cover the change in character’s personality and evolution of character through various episodes that the artist would create. Artistic work as defined under the Copyright Act, 1957 means:

- “(i) a painting, a sculpture, a drawing (including a diagram, map, chart or plan), an engraving or a photograph, whether or not any such work possess artistic quality;
- (ii) a work of architecture; and
- (iii) any other work of artistic craftsmanship”²⁹

Thus as per the above meaning of artistic work, it would include only drawings of the characters that would depict the expressions that the artist intends to portray. Anything that cannot be expressed by its depiction through drawings or any other visual expressions but can only be imagined by the mind of human would not be protected under copyright law. Henceforth the

²⁹ Indian Copyright Act 1957, s 2(c).

different temper, humour and persona that the character would play and hold would not fall under the category of ‘artistic work’ and thus would not be protected under Copyright Law.

There are various case laws that would show how the courts have been more cooperative and moderate while passing judgments that dealt with protection of graphic characters, which are more visually expressive under copyright law, in comparison to protection of fictional characters that are more based upon the perception of the human mind.

In the leading case of *Hill v Whalen Mortell*³⁰, it was held by the court that the lead characters Nutt and Giff were clear imitation of the characters that plaintiff owned namely Mutt and Jeff. Consequently, it was decided by the Court that the production house of that theatre committed copyright infringement by copying the cartoons that were owned by the Plaintiff as the characters Nutt and Giff were exact carbon copy of the original characters Mutt and Jeff and such direct association between the characters was identified by all. Thus it can be summarized from this case that such interlinking between the cartoon characters that a normal audience is able to identify is not accepted under the law and is regarded as infringement of copyright as this is an unauthorized use of one’s intellectual creation.

In another case that took place in the year 1940, *Detective Comics v Bruns Publication*³¹, a character called ‘Wonderman’ was created by the defendants which was strikingly similar to the existing well known cartoon called ‘Superman’.



Image Source: See [here](#).

³⁰*Hill v Whalen Mortell* 220 F 359 (S D NY, 1914).

³¹*Detective Comics v Bruns Publication* 111 F 2d 432 (2d Cir, 1940).

All the attributes of Wonderman were similar to that of Superman, whether it was about his physical strength and appearance or about his emotional and sensitive side, Wonderman resembled Superman in most ways and the problem was that Superman was already a well-known cartoon character existing before Wonderman was created. Therefore, in this case it was decided by the court that the defendant had reproduced more than just the general nature and design from the ‘Superman’ and has also used without any authorization of the complainant, the details in pictures of the cartoon character and the literature too. Thus, this hindered the protection that was so granted to the Complainant’s copyrighted character. Hence, the plea of providing protection to general ideas etc. of a character was rejected by the Court. It said that the protection could be granted only when the features of the character is depicted in full volume and that the character must be converted into an expression rather than being just an idea. Copyright protection is not granted on ideas solely and therefore expression of the character in sufficient details was required. Only the theory of a man with supernatural powers of that of a superhuman would not suffice the requirements of a copyright protection. However, if this theory is compiled with unique details and features like they have defined for ‘Superman’ then that theory would be said to have been given an expression. Thus, it was concluded that any person can develop any cartoon character with supernatural powers and it would be protected under copyright law but the condition remains same that the character should not be a pure copy of an existing character like Superman. It should be a new expression of an old idea of a character with superhuman powers. This case lays down very important points for distinguishing between idea and expression and copyrightability of graphical characters having different expression.

Another significant case was that of *Walt Disney v Air Pirates*³². In this case, the complaining party argued that the defendants have depicted the Disney characters in an inappropriate setting. The Court applied the 2-step test to identify that whether there is an infringement of copyright or not.

³²*Walt Disney Productions v Air Pirates* 581 F. 2d 751 (9th Cir, 1978), cert. denied; 439U.S. 1132 (1979).

ii. Test to identify graphic character's copyright infringement

The two- step test involved the following steps:

- i) Visual Similarities
- ii) Similar Personalities

That is, in this test, firstly it would be observed that whether both the characters are visually similar or not. If yes, then there is an infringement in the first step itself. However, if the characters are not visually similar then the next step would be to compare and analyse the personalities of the respective cartoon characters. If both the personalities are similar then that would amount to infringement and if not then that wouldn't amount to unauthorized use of copyright. This second step is done with the 'Character delineation' test. The Judge Learned Hand in the judgment of the case *Nichols v Universal Pictures* developed this test³³. "The Character delineation test means whether the particular character is sufficiently and distinctively delineated so that it warrants. Protection. Judge Hand states that 'It follows that the less developed the characters, the less they can be copyrighted; that is the penalty an author must bear for making them too indistinct.'" ³⁴In the former case, the defendants were found guilty and hence were held liable for infringement of copyright.

Both the latest two cases discussed above divulge into the fashion of the courts that they have been following. They disclose that only when a graphic character has its own individuality and a specific personality, which is unique and never seen before, then can a copyright protection be granted to such graphical characters. However, they must be sufficiently developed and must not be similar to any other existing characters. They must be so unique that when audience looks at the character, they must be able to recall the original unique character, which is this one and not any other character. This is an essential requirement that needs to be fulfilled for an expression, which has developed from an idea to be granted a copyright protection. Without fulfilment of this imperative attribute, a graphic character would not be recognized as new and copyrightable and would not be granted any copyright protection thereof.

³³*Nichols v Universal Pictures corp* 45F2d 119 (2d Cir 1930), cert denied, 282 US, 902 (1931).

³⁴Sourav Kanti De Biswas, 'Copyrightability of Characters' (2003) 9 Journal of Intellectual Property Rights 150.

“A graphic character is considered to be much more easily perceivable and more apparent for the reader. Hence, the courts have been more inclined to grant protection to them than to pure fictional characters.”³⁵Hence, it can be said that the only way of providing protection to graphic characters would be by making their presentation distinctive and exclusive. Without the specific quality in the graphic characters, their expression would not stand valid and the idea would be considered merely an idea without any legal protection.

In India, there has been only one case that identified a cartoon character to be protected under the Copyright Act, 1957. The case is *Malayala Manorama v VT Thomas*³⁶. In this case, Mr. Thomas created a cartoon character for this Magazine. After Mr. Thomas quit the magazine, the magazine continued to use the cartoons and thus Mr. Thomas filed a suit for infringement of copyright. The court decided the case in favour of Mr. Thomas and it permitted him to continue his work. His work included sketching the characters in Toms Boban and Millan despite of the fact that he was no more employed there. Mr. Thomas got protection over the copyright of the characters and his drawings and the publishing house was not allowed to impose their copyright over the same. The reasoning given by the High Court was that as the characters were created by Mr. Thomas before he joined the magazine and he has been working on the characters from before itself, thus it is he who would hold copyright over the character and he would have the right to exploit his copyright and not the magazine. There were no efforts inputted by the publishing house in creation of the character therefore they would not be getting any copyright over the character. The right of the magazine would only extend to the work that has been done by Mr. Thomas during the course of his employment as during the employment, he has been working in the capacity of an employee and the work was being published on the work of the defendant.

The court drew a distinction between the drawing that was made by using the cartoon character and the cartoon character independently and concluded that the drawings that were made by using the cartoon character, copyright of those designs would stay with the publishing house under the ambit of artistic work however with regards to the character solely, then copyright over just the character would lie with Mr. Thomas. Hence the publishing house was not allowed to use character for the new episodes after the termination of employment of Mr. Thomas. The publishing house

³⁵ *ibid.*

³⁶ *Malayala Manorama v VT Thomas* AIR 1989 Ker 49.

was denied the right to create new episodes with the help of different employees by using the same character.

The Court approved for copyrightability over the graphic characters but it did not mention the circumstances under which such copyright may be given to the characters. The details of the reason and other details that must be kept in mind or that must be present for a copyright to be given to a graphic character were not given by the court.

After all that is said above, it can be inferred that on application of the Nichols test in the current scenario, the characters ‘Boban and Molly’ would have got protection under copyright but at that time the Court did not directly provide copyright protection to these graphic characters as with time the awareness spread and it was understood that all these graphic characters that are created and published are being recognized and read by a lot of readers due to their pictorial and literary description that is distinctive in nature. The distinctive nature of the characters make them unique to be caught and identified by the readers and viewers and hence could have been granted legal protection under copyright. Even the attribute of these characters being so well-known and effective that viewers were able to identify them out of the lot and hence it can be said that they affected the humans and left their imprints on the mind of the viewers and as the graphic characters ‘Boban and Molly’ were adequately descriptive and defined, they were enough to be granted a copyright protection.

B. Fictional Character

These characters are depicted through words. They are created in a manner that their physical appearance and the character that they are playing is perceptible to the people who are reading it. By reading it refers here that fictional characters are depicted through the several pages of a book and they cannot be described in a single paragraph and no reader can perceive a fictional character by reading a single paragraph or a single line. These fictional characters are also termed as literary characters and these would include characters like Jon Snow, James Bond, and Harry Potter etc. who are first portrayed in the form of words in a book rather than by a graphical representation.

1. Harry Potter

"Harry had always been small and skinny for his age...Harry had a thin face, knobbly knees, black hair, and bright green eyes."



Description of Harry Potter in the book by the author J.K. Rowling.

Image source: See [here](#)

Characters represented through words are trickier to depict and falls on the notion of imagination of a person whereas such is not in the case of a graphical character that is already pictorially depicted and hence copyright protection to these pictorial representations is easier than in comparison to the literary characters and hence the question of copyrightability of these characters still stand dubious. Thus, it can be said, "Since images are more identifiable than literary descriptions, pictorial characters are more easily protected independent of their original context."³⁷

i. Copyright Protection

The protection of literary work under copyright is legal but the question still remains that whether the character that has been used in a literature before, is it allowed protection only under that

³⁷Davidow Lawrence L, 'Copyright protection for fictional characters: a trademark- based approach to replace Nichols' (1984) 8Colum.-VLA J.L.& Arts 513,544.

particular work or whether its scope outreaches the boundaries of work and the character is protected separately too. This situation has still not been clarified and the uncertainty is still there.

If we for an instance grant protection to a literary character then it would create certain hurdles and dilemmas because in such situation of protected fictional character, any other original literary work that is legal and protected under copyright cannot use the fictional character of another some other author, in their storyline as this would amount to infringement of copyright of that particular fictional character. However, this particular fictional character is not pictorial or its expression is not visible but imagined and a creation of mind that is derived from reading the particular lines. Hence, the question remains unanswered as to what a literary character or a fictional character that is protected under copyright law, comprise of. Several commentators have asked this question and they have expressed a variety of their opinions and suggestions to explain the constituents of a copyrighted fictional character or a literary character. Among the many commentators, it was stated by Mr. David B Feldman that “A fictional character has three identifiable and legally significant components:

- Its name,
- Its physical or visual appearance and,
- Its physical attributes and personality traits or Characterization.”³⁸

“While the concept of what would be required for a character to be protected in its own right developed, the standard against which the concept was to be measured varied.”³⁹

To clear the confusion further, an example may be used. Taking any literary character such as “James Bond” for instance, there may come a time when people would not remember the storyline or the plot that has been provided in the story but the character of the story would remain unforgettable. This is because when a character is described in full detail then such personality tends to stay in the imagination of the reader. This very essence of ‘staying in the mind of the reader’ of the fictional character brings out its actual value. This is the value of the particular literature and talent of the author that needs to be protected. The authors must get their fictional characters protected for the value their characters possess and when there is a chance that of such

³⁸ Feldman David B, ‘Finding a Home for Fictional Characters: A proposal for Change in Copyright Protection’ (1930) 78 CLR687.

³⁹Biswas (n 6).

characters being used by other creative artists in books, or television series or movies or documentaries or paintings or doodles or any other platform of expression then the protection of such fictional characters under copyright law becomes even more imperative in nature. If not protected then there are chances that the original author of the character may lose out on the revenue that would be gained from the business of the character on various platforms and hence by properly controlling and protecting the fictional character, the profits and revenues generated from it may increase in favour of the creator of the character or the publisher of the character.

“For protection of fictional characters, there are three means of legal bodies that in consonance to each other provide protection to fictional characters. These different bodies are Copyright, Trademark and unfair competition. They overlap each other and thus the courts has been deliberating upon union of these three distinct bodies and thus form a new body that would be an outcome of the three and would purely work for the protection of literary character or fictional characters. But the issue still remains as even this theory of convergence of three legal bodies exists, but as far as fictional characters are concerned, they wouldn’t be that expressive as graphic characters are and this theory applies better to the graphic characters.”⁴⁰

ii. Test to identify fictional character’s copyright infringement

Like graphic characters, fictional characters also involve a twofold test to identify any infringement of the copyright and also to identify fictional character on whole. These tests lay down the requirements for a fictional or a literary character to fall under the ambit of protection of copyright. The standard against which the concept was measured has varied and hence through several case laws the same would be illustrated.

Following are the two tests that are involved:

1. The Distinct Delineation Standard Test
2. The Story Being Told Test

⁴⁰ Michael Todd Helfand, ‘When Mickey Mouse Is as Strong as Superman: The Convergence of Intellectual Property Laws to protect fictional literary and pictorial characters’ (1992) 44 Stan.L.Rev. 623.

a. The Distinct Delineation Standard Test

This test evolved in the case of *Nichols v Universal Pictures*⁴¹ is applicable in identifying the copyrightability of fictional characters as well. This test is also termed as the Character Delineation Test and this test requires that the character must be well developed and described with clear traits that makes it unique and identifiable. In this case, Nichols was the plaintiff who alleged that the defendant, who is the Universal, has copied the characters from her play and has used similar characters in their film. The dilemma that arose was about protection of fictional character and the judges were perplexed about making fictional characters protected under their original work that is the expression. However, the ideas were out in open and there was no penalty to be imposed upon the usage of the idea of the characters.

The characters can be supernatural in their attribute but the features, and personality trait and their emotional being, their appearance and everything that makes them appear unique to the reader should not be copied, as that would not fall under the ambit of public domain. Hence the character must have a distinct delineation for it to get protected under the law. It was explained by the Judge Learned Hand that the more distinctively a character is portrayed that is, more details used in depicting a character, more distinctive the character would be and hence protection would be possible to be given to the character. Whereas if the character is less identifiable and has not been described in full lengths and breadths then such characters are less distinctive and do not require much protection.

Hence, it can be said that all depends upon the way of expression of the character. In the above-mentioned case, the Judge held that the characters were not very similar. The ideas behind the characters were same but their expressions were different and this made their distinct delineation equal to the character, which has not been defined before. The character is only said to be copied when they are taken directly from a fully developed work and such authorization is not legal in nature.

In another judgment of “*Anderson v Stallone*”⁴², the use of ‘character delineation’ test has been made to prove protection to the fictional characters. There is a story based on the character of ‘Rocky’ that has been written by the appellant. This character has already made an appearance

⁴¹*Nichols v Universal Pictures Corp* 45 F 2d 119 (2d Cir. 1930), Cert denied, 282 US 902 (1931).

⁴²*Anderson v Stallone* 11 USP 1 2d 1161(C.D. Calif, 1989).

before in the movie series ‘Rocky’ so there already exist a character called ‘Rocky’. The appellant went to Sylvester Stallone and he tried selling his story to him which had this character ‘Rocky’ in it. Mr. Stallone is famous for his work in the original ‘Rocky’ movie series and thus when he was offered by the appellant to work in ‘Rocky IV’ then there was a full issue that arose with respect to infringement of copyright of the character ‘Rocky’ by the appellant. The appellant denied all the allegations on the ground that the character Rocky is not copyrightable and hence he cannot be said to have infringed any law.

The judgment ruled out by the court favoured the plaintiff instead of the defendant on the ground that the in the movie ‘Rocky’, the characters whether physical or emotional, they all were plotted with incredible specifications therefore, the character was fully descriptive and would fall under the realm of delineation of the character. The Court also stated “this court has no difficulty ruling as a matter of law that the Rocky characters are delineated so extensively that they are protected from bodily appropriation when taken as a group and transposed into a sequel by another author.”⁴³

Recalling the views of one of the commentators who said “A literary character can be said to have a distinctive personality, and thus to be protectable, when it has been delineated to the point at which its behavior is relatively predictable so that when placed in a new plot situation, it will react in ways that are at once distinctive and unsurprising.”⁴⁴

Therefore as far as this test is concerned, it can be concluded that a fictional character should be delineated that is it should be well described, well developed and should be identifiable to the viewers. These are some important requirements for a fictional character to get a copyright protection. However, sometimes providing a full description which is unique, detailed, describes the personality, attitude and as the story unfolds it gets even clearer, is tough because ‘word portraits’ depends upon how the viewer envisions it in his brain and hence some courts are not able to differentiate between fictional characters due to which protection to these characters also gets affected.

⁴³ibid.

⁴⁴Helfand (n 12) 128.

b. Another test is the Story Being Told Test.

It is the second test and it replaced the ‘Distinctively Delineated Character Test’. This test came from the case *Warner Brothers v. Columbia Broadcasting System*.⁴⁵ The rights to the characters of the book were given by the author of ‘The Maltese Falcon, Mr. Dashiell Hammett, to the Warner Brothers. Thereafter, CBS also gained rights from Mr. Hammett and not just rights but also exclusive rights to Detective Sam Spade’s character which was quite famous during that time. Eventually CBS was sued by Warner Brothers for using the character but the court decided after observing that the character Detective Sam Spade was not the lead character of the story and neither did he carry the storyline forward and hence the Court gave its judgment in favor of CBS allowing them to use the character and such usage would not amount to infringement of copyright of Warner.

The Court held that “no character is protectable under the copyright law unless the character is extremely well-delineated as to constitute ‘the story being told’ rather than merely being a ‘chess man in the game of telling the story’”.⁴⁶ Thus, it can be inferred from the judgment that the court requires that the protection would be given to the character around whom the story would spin and who is the main essence of the story and without whom the story would not stand what it does at the moment. The character should be crucial and should move the story forward and the story should move around him. Then only such characters that are literary or fictional in nature would be given copyright protection.

There are some other cases too that were decided under this test. *Universal City Studios v Kamar Industries*⁴⁷. In this case, the character ET was granted protection under copyright because the plaintiff’s movies’ lead role was that of ET’s and the whole story of the movie revolved around the character ET. The character was detailed and specific and was identifiable enough to be granted copyright protection for.

In other case of *Warner Bros v Film Ventures International*⁴⁸, the famous movie Exorcist was involved. There was a character ‘Regan’ in the movie that was the reason of the suit. The court

⁴⁵*Warner Bros Pictures Inc v Columbia Broadcasting Sys Inc* 216 F 2d 945, 104 US P Q 103 (9th Cir. 1954), cert. denied, 348 US 971, 99 L Ed 756, 75 S.Ct. 532 (1955). Also known as SamSpade Case.

⁴⁶*ibid* at 950, 104 US P Q at 107.

⁴⁷*Universal City Studios v Kamar Indus* 1982 Copyright LDecisions (CCH) 25,452 (SD Tex. 1982).

⁴⁸*Warner Bros v Film Ventures International* 403 F Supp. 522, 525, 189, US PQ 591, 593 (C.D. Cal. 1975).

denied copyright protection to the character 'Regan' as the movie did not absolutely revolve around it and neither did the character take the storyline of the movie forward.

However, this test's decision was not widely accepted by all the courts as there is some issue with discrepancy and therefore the Ninth Circuit has also stepped back from using the 'story being told' test in determining copyright infringement in their cases. The main problem with this test is that it only focuses on the story without any plot and it envisions that the character in question is the one that composes of all the work in the film. That is, without the character, the film would have no meaning. This rule excludes all the other characters that may not be playing the lead role but are equally creative and the creator has put in equal efforts in describing them. However, on application of this test, the side characters lose their protection to copyright because of the fact that the story does not revolve around them. Hence, there is a need to dilute the standard of this test.

In the case of *Air Pirates*, the court gave its judgment in favour of the plaintiff and held that the decision given in the "Sam Spade"⁴⁹ case was "based on the recognition that 'It is difficult to delineate distinctively a literary character...put another way...many literary characters may embody little more than an unprotected idea.' Therefore, it appears that even if the 'story being told standard' is not met, the character can be copyrighted, provided it is sufficiently developed and finely drawn so as to cross the line from 'idea' to 'expression'."⁵⁰

Now arises the idea-expression dichotomy which refers to the question that when does an idea really become an expression? We have explained above that an idea and an expression are two different categories where a person cannot get a copyright over an idea but they can get copyright over an expression of that idea. Literary characters usually are expressions of these ideas, as they would have certain physical qualities, certain conceptual details about how they talk, think and feel and some distinctiveness that would make them appear different from the rest of the characters. A literary character is developed through words and can be seen visually through imagination by reading those words. Hence, when an idea is covered with a mixture of all the above attributes and qualities that are stated above then it does not stay just an idea anymore. The idea now has become an expression of the same idea and this expression would fall under the domain of copyright protection. We have discussed certain case laws above that explain that a character would be

⁴⁹*Warner Bros Pictures Inc* (n 17).

⁵⁰*Biswas* (n 6) 153.

considered as an expression when it is well developed and delineated and thus the ‘character delineation test’ is where the idea is converted into an expression and thus gets protected under law.

3. DIFFICULTY IN APPLICATION OF THESE TESTS

There are reasons that can be stated for justifying why the distinct delineated test is difficult to apply. Some of them being that this test lacks clarity as in this test judges are supposed to take the role of literature analytics and critically analyse the material and character and thus there is a possibility always that the application of this test would be not right and would result in overprotection of the literary character or no protection of the literary character at all. This test basically deals in extremes and it cannot be totally relied upon as it is not necessary that it will protect the characters that are developed completely either. According to this test, the conclusion that can be drawn is that the more precise, clear, developed and shaped a character is, more would be the amount of protection that the character would need. Less developed characters are given less protection as there can be interpretations and similar description of characters involving the same less amount of features and thus providing protection to these characters with less amount of description would not be very helpful and would increase complications for the judges. Thus, this is all what the test provides and does not give any more leads and guidance beyond this point.

The major drawback of the distinct delineated test is that the main feature or aspect or the amount of uniqueness that would make a character distinctively delineated and enough to provide them with the protection under copyright law has not been provided and mentioned under this test.

Therefore, the problem and confusion still exists with respect to the amount of distinctiveness in description of a character that would be enough to warrant the character’s right solely to the creator of the character. It somehow reflects the arbitrary decision making power that is there in the hands of the Judges to decide whether a character should be given protection or not. It is the judges who decide it according to their perceptions and analysis and this perception and analysis has no standard to match so that it can be a uniform structure to decide for warrant of protection to the characters. These judges act in the capacity of critics of literature and take decisions according to their own will and perceptions with respect to the aspect that whether a fictional character is deserving enough to get protection under copyright law or not and that whether a particular literary character has been developed sufficiently to be granted protection under copyright law.

There have been several contemplations made by judges. One of them being Justice Stewart. When he was asked about how he decides that whether a character is distinctly delineated and sufficiently developed then said that he decides when he sees it, that is, he decides so when he sees the literary character and then according to what it seems to him about the uniqueness in description of the character and the development of the character and that whether such character deserves protection under copyright or not.

In the case *Burroughs v. Metro-Goldwyn-Mayer*⁵¹ discusses the issues that deal with the clarity of decision making and articulation as to whether a particular fictional character is distinctively delineated or not and what makes it so. The case dealt with the protection under copyright over a literary character 'Tarzan' and the decision given by the court did not provide any reasons whatsoever of the grounds on which they gave the decision. It was held by the court that the fictional character Tarzan is copyrightable as it consists of both the attributes that are required for it to be copyrightable. It is distinctively delineated and was sufficiently developed and hence the character was held to be copyrightable. However, the question that arises here is what were the attributes that made the character so distinctively delineated, identifiable, and developed? This was not answered by the court and was not even mentioned in the judgment that was provided by the court. The description of the fictional or literary character 'Tarzan' that was provided by the court did not reflect and describe the reason as to why the literary character 'Tarzan' was held to be distinctively delineated and developed. The following description was provided by the court:

"Tarzan is not a regular man but a mixture of an ape and a man and thus he is an ape-man. He has always stayed in the jungle and therefore he has connections to the jungle environment. He knows how to communicate to the other living beings such as animals birds etc. and has been brought up amongst them. He is yet to feel emotions that humans generally feel. With respect to his personality, he is strong and innocent, gentle and athletic at the same time and also youthful."⁵²

This entire portrayal of the literary character 'Tarzan' can very well be related and applied to the description of 'Mowgli' who also is a literary character, brought up amongst the animals and birds,

⁵¹*Burroughs v. Metro-Goldwyn-Mayer* 519 F., Supp. 388 (S.D.N.Y. 1981), aff'd, 683 F.2d 610 (2s Cir. 1982).

⁵²*ibid.*

never been in touch with humans, can sync easily with animals and is an innocent, strong, energetic, youthful human.

Thus, by comparing two characters, it can be said that reaching onto the solution as to why protection should be granted to Tarzan by comparison, is better. The comparison would be a better way of providing a convincing and non-arbitrary decision to the court but in this case there was nothing to compare as such as the issue that was raised in this case did not relate to infringement of a literary character. The issue was about the granting of right for usage of the character protected under copyright. Now the role of the court was to establish that whether the literary character Tarzan was descriptive enough such that it could be covered under copyright protection for the reason of settling the giving a non-exclusive license to prove that the usage of the literary character 'Tarzan' was correct and a right under the law of copyright. For this reason, it can be terminated under the provisions of the Copyright Act.

The confusion with regards to categorizing the characters into the developed and undeveloped category still remains as can be observed from the case above. Whether a character is sufficiently developed or not and how to decide so still remains an unanswered question. Without comparisons between the two characters would result in vague contemplations and with all these problems it has been tough to rate this test of distinct delineation as the right test for determining copyrightability of the character fictional in nature.

Now that the courts have been focusing more on the copyrightability of the fictional character, it can be observed clearly that due to improper guidance, the focus from determining infringement of the character has shifted all the way to the copyrightability of the character because the courts want to protect them. The courts have not been following the comparison rule that states that the two works in question should be compared to reach the decision of infringement of copyright, whereas the court has been concentrating solely on the first part of the Nichols test that dealt with distinctive delineation of a fictional character and sufficient development of the fictional character. The courts only by determining the latter above find out infringement without performing the former and thus take unsatisfactory decisions.

In another case of *Hopalong Cassidy*⁵³, court did not focus on the infringement of the fictional character but it concentrated on the copyright of the fictional character. Hopalong was a character in a book. In the book, the personality of the literary character Hopalong was described as a tough, one who confronts and does not back off, one who is always prone to violence and is short tempered and chews tobacco. The book was eventually turned into a film. The film made after the book depicted the character of Hopalong differently. In the film, the character was portrayed emotional; he did not curse and was not how it was portrayed in the book. Even though there was no similarity as such between both the characters, that is, the fictional character mentioned in the book, and, the fictional character shown in the movie; it was held by the court that the literary character that is described in the book is distinctly delineated and therefore if a use of this character is done then such would amount to infringement of copyright. This would not be dependent on the similarity between the story lines but purely on the description and similarity between the two characters.

It was held by the court in this case that the character Hopalong portrayed in the movie had substantially similar traits as that of the literary character described in the book. However, there was not really much similarity between the two characters except for the name of the characters and the background of cowboy theme that was there. The traits and personality of the characters in fact were not similar and therefore it can be concluded that the courts have given their decisions without proper comparisons between the character, that is, the original character and the character that is supposedly infringing the original character, while determining copyrightability of the character. Just by using the phrases ‘distinctively delineated or sufficiently developed’ does not suffice the entire reasoning for the judgment that the judge has arrived upon.

It is necessary to compare the original and the allegedly infringing character so that a proper justification can be provided if a particular character does not get protection under copyright law. Similarly, the ‘Story being told’ test can also be said to have the drawbacks that the distinctive delineated test possesses. In the story, being told test the character that is the main lead around whom the story revolves and who takes the story forward is the criteria for determining the copyrightability of the character. That only this particular character of the story can be granted protection under copyright law. This test is performed separately from the distinctively delineated

⁵³*Film video Releasing Corporation. v. Hasting* 509 F. Suppp. 60 (S.D.N.Y.), *aff'd*, 668 F.2d 91 (2d Cir. 1981).

test and is not performed in any combination with the distinctive delineation test. Thus, the results that come out from this test are equally confusing and unsatisfactory and therefore the issue stills remains the same.

4. CONCLUSION

It can be concluded that the graphic characters get their copyright protection comparatively easily than the fictional characters. When it comes to fictional characters, the courts are doubtful as there are tests that are supposed to be performed and the tests in themselves are not so accurate with their solutions that it gets tough for the courts to reach a solution for providing copyright protection to the fictional characters easily. Literary work has been defined under Section 2(n) of the Act where it has been provided with an inclusive meaning altogether. The meaning is supposed to be expressed and written down and then the way and manner in which it is written is what protection is given over. It is not just the character that is important to get protection under copyright but also the way such character takes the story forward is equally important as well.

TRIALS AND TRIBULATIONS OF TRADEMARKING RELIGION IN INDIA

Pavitra Naidu*

ABSTRACT

The following paper explores religion as subject and object of trademark. The paper begins by segregating religion into religious symbols and religious organizations in order to understand the varying effect of trademark law on both of them. The paper begins by examining the right to religion in India and its limitations. Next, it defines the application of trademark law in India. The crucial part of the paper focuses on the jurisprudence present on the issue wherein it analyses the past case-laws to deduce the various scenarios wherein trademark is permitted by Indian Courts in cases of religious symbols and trademark protection offered to religious organizations. The paper also compares the final position of India with its counterparts such as China, the United States of America and the European Union. Finally, before concluding, the paper weighs the right to freedom of speech against the threat it imposes on the trademark protection received to determine whether the protection trademark laws offers is sufficient to satiate the level of protection religious organisations or public demands with respect to religious symbols.

Keywords: Trademark, religion, religious symbols, fundamental rights, U.S.A, China, European Union, freedom of universe.

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1. INTRODUCTION

Religion is an integral part of human lives and is a very personal choice. The state protects the autonomy of individuals to follow and practice their religion as they deem fit. India is a secular country, and strives to provide an environment conducive for all religions to flourish. However, there is an interesting intersection between one's right to religion and the right to expression and freedom of trade, both of which are constitutional rights. Religious signs, symbols and phrases are often used in trade. Since, all commercial activities conducted under these signs do not correspond to the religious entities; there is an increasing chance of misappropriation of religious signs that causes concern regarding preservation of religion and its culture. In such situation, it is important to understand the motivations behind a trademark that contains religious symbols/ signs/ phrases. Hence, it is important to ensure that the right to religion is not diluted due to implementation of other rights and vice versa. This paper will focus on intersection of religion-trademark law and explore if religious symbols can be registered as trademarks by private individuals/companies and by religious organisations as source identifiers. The paper will also adopt a critical lens to assess the impact of freedom of speech on trademark registration of religious symbols by private individuals (including companies) or religious organisations.

A. Can we Trademark Religious Symbols?

It has been observed that there are a few situations where religious symbols might require trademark protection, such as- 1) when a company wishes to trademark a phrase, name, symbol that has religious connotations or, 2) when a religious organisation wishes to protect their goodwill and wants trademark protection of a religious symbol representing their organisation. Therefore, the real question is whether religion can be subject (owner) as well as an object of trademark protection.

Since, trademark protection for religious organisation is not a common practice in India; it raises an additional set of question such as-

Should religious organizations be allowed to own trademarks especially if the religious mark is commonly used? Will it prevent a devotee from praying to that God and prohibit the use of trademarked symbols in their religious ceremonies? How will a religious organisation prove that their religious mark is worthy of trademark protection? , Finally, is this in line with the secular nature of India?

B. Intersection of Right to Religion and Trademark Law

In order to determine if private individuals or religious organisations can register religious phrases or symbols as trademarks, it is important to understand the laws applicable in this context. Primarily, the two important laws to analyse the issue would be the fundamental Right to Religion and Trademark Law.

i. Right to Religion

Theoretically, India is a secular country, implying that the State considers and treats all religions equally.¹ However, secularism was not one of the founding principles of this nation. The Constituent Assembly had not added the word secular in the Indian preamble; it was added later by the 42nd constitutional amendment and has no corresponding mention anywhere else in the Constitution of India.² Hence, there remains a cloud of confusion regarding the exact meaning and legislative intent behind this word.

The matter was addressed in the case of *S.R. Bommai v. Union of India*³, where Adv. Mr. Jethmalani called secularism a “vague concept not defined in the Constitution”. However, the Court held that in India, secular is not a passive attitude of religious tolerance but a positive concept of equal treatment of all religions. It required the government to exercise benevolent neutrality. Further, the Supreme Court held that secularism was a constitutional goal and the basic feature of the constitution as affirmed in the case of *Keshavananda Bharti & Indira N. Gandhi v. Raj Narain*⁴.

Furthermore, in India, right to “profess, practice and propagate religion” is a fundamental right guaranteed under Article 25 of the Constitution⁵; however, the State is allowed to regulate “economic, financial, political or other secular activity associated with religious practice”. Additionally, Article 26 of the Constitution allows religious denominations the freedom to manage their religious affairs. The Freedom of Religion granted in Article 25 and 26 is elucidated through Article 27, 28, 30 and 51 A.

¹Sujit Choudhry, Madhav Khosla & Pratap Bhanu Mehta (ed), *Oxford Handbook of the Indian Constitution* (2016).

²*ibid.*

³*S.R. Bommai v. Union of India* (1994) 3 SCC 1.

⁴*Keshavananda Bharti and Indira N. Gandhi v. Raj Narain* (1975) 2 S.C.C. 159.

⁵The Constitution of India 1950.

Next, one has to distinguish between what are secular practices and religious practices. Therefore, to deal with the issue, the Court has come up with their own test to determine what constitute as essential elements of a Religion. The reason for achieving such distinction is crucial in determining the scope of State intervention. Parts that constitutes as ‘essential part of religion’, are off-limits for the State and the religious organisations have autonomy to conduct their affairs whereas, the State has the right to regulate the ‘extraneous or unessential’ parts.

a. Essential Elements

The court uses ‘Essential practices’ test every time they have to decide if a practice is religious or not. This is not unique to India, most jurisdictions have to determine whether a policy places undue restriction of freedom of religion of a religious denomination. However, what is unique to India is the proactive role adopted by Indian judges in determining what is religion rather than accepting the version of religion practised by its believers.⁶ Such exegesis is possible as Articles 25 and 26⁷ allow for a wider interpretation that gives supremacy to the public interest over religious claims.⁸ There are two important purposes of conducting this test- 1) To decide whether constitutional protection can be awarded to the religious practice; 2) The legitimacy of an Act that regulates religious organisation.

b. Rights of Religious Organisations

The landmark judgement on religious organisations is *Commissioner, Hindu Religious Endowments, Madras v Sri Lakshimindra Thirtha Swamiar of Sri Shirur Mutt*⁹. In the Shirur Mutt case, the petitioner was the Mathadhipati who had contended the legitimacy of the Madras HRCE Act, 1951 that tried regulating the religious organisations. The petitioners contended that it violated the freedom awarded to religious organisation under Article 26. The Court observed that the Australian Constitutions and the US did not impose limitations on the right to freedom of religion. However, Indian Constitution, which is an improvement on their Constitutions, has imposed certain limitations on what should be considered as a religious practice. The Court finally concluded that-

⁶Choudhry (n 1) 1-14.

⁷The Constitution of India 1950, s 25, 26.

⁸ibid.

⁹*Commissioner, Hindu Religious Endowments, Madras v Sri Lakshimindra Thirtha Swamiar of Sri Shirur Mutt* AIR 1954 SC 282.

“Under Article 26(b) a religious denomination or organisation enjoys complete autonomy in matters deciding as to what rites and ceremonies are essential according to the religion they hold and no outside authority has any jurisdiction to interfere with their decision in such matters.”¹⁰

However, the State retains right to legitimately regulate religious practices when –

“Run counter to public order, health and morality’ or in cases of ‘economic, commercial or political in their character though they are associated with religious practices.”¹¹

Effectively, the Court by upholding the Madras HRCE Act awarded the State the right to regulate Hindu temples and religious organizations. The Shirur Mutt case expanded the jurisprudence on religious organisations and had two important takeaways- 1) The recognition of “protection under Articles 25 and 26 was not limited to matters of doctrine or belief only but extended to acts done in pursuance of religion and therefore contained guarantees for rituals, observances, ceremonies and modes of worship”;and 2) “Complete Autonomy” granted to religious denominations to determine which religious practices they would consider as essential to their religion.

Therefore, Indian Constitution allows Religious Organisations the freedom to practice their religion and decide their essential practices. However, it is interesting to see if it extends the same freedom in cases these organizations require protection from reputational harm or need to establish a signifier to uniquely position themselves amongst the other organizations.

ii. Trademark Law

Trademarks are source identifiers and protect the goodwill of a company from being misused by competing organisations. They have become an essential part of capitalistic markets today. Organisations invest heavily in protecting their trademarks and expect exclusive monopoly over its use.

In India, the Trade Marks Act, 1999 is the primary legislation governing the trademarks. The Trademark law has three important aspects- Registration, Infringement and Passing off. While registering the trademark of a religious symbol for private individuals or religious organisation is

¹⁰*Commissioner, Hindu Religious Endowments, Madras* (n 5) [20].

¹¹*ibid.*

not prohibited per se, it is important that the mark adheres to the grounds of registration under Section 9&11 of the Act.

a. Registration

Registration is the most important step in the process as it determines whether your mark will be granted protection under the Act or not. Section 9 of the Act is responsible for deciding grounds for registration. There are certain circumstances wherein, registration will be rejected under the Act. For a trademark to be registered, it is important that the mark has distinctive character, non-generic, capacity to distinguish a company's goods/services from others and should not cause any confusion in the minds of public. Furthermore, as under section 9(2)(b) a mark can be declined registration if contains anything likely to hurt religious sentiments. Next important provision is Section 11 that deals with circumstances under which the Registrar can refuse marks that are identical or deceptively similar to an earlier trademark.

Another important piece of legislation that deals with trademark of religious symbols is the Draft Manual for Trademark Practice and Procedure. The Manual does not explicitly prohibit registration of religious symbols and deities, neither does an interpretation of Section 9(2)(b) lead to such a conclusion. The Manual acknowledges the recurring use of names and pictures of Gods and Goddess or religious symbols as trademark as a common trade practice. Hence, the Manual craves out certain exceptions to trademark registration of such marks. The Manual does not allow registration of marks that could offend religious sentiments of any class/ section of public, which is also prohibited under Section 9(2) (b) of the Act. Further, the Manual provides a list of marks that are prohibited registration. The list is prepared on the directions of the central government under Section 23(1) of the Trade & Merchandise Marks Act, 1958 that remains valid. The list includes words such as "Lord Buddha", "Shree Sai Baba", "Sri Ramakrishna", "Swami Vivekanda", "emblems of the Ramkrishna Math", "Sikh Gurus such as Guru Nanak, Guru Angad" etc. The list also includes religious symbols such as "Om" or "Names- Jesus" which cannot be registered as trademark.

Once a trademark satisfies the above-discussed conditions it is eligible for trademark registration which provides numerous benefits such as-exclusive ownership rights over the mark, helps protect the reputation, recognition of services and protects the mark against infringement etc. In case of religious organisations, obtaining trademarks will help devotees avoid scams/fraud that collects

money from them posing as the agent of the Temple. Also, by following the above mentioned guidelines trademark of religious symbols by private individuals will be capable of being a source identifier.

b. Infringement

Trademark infringement refers to an unauthorised use of a mark that is identical and deceptively similar to the registered mark. Infringement is decided from the perspective of an average consumer and whether he/she will be confused regarding the origin of the goods and services. Section 29 of the Act deals with the scope of infringement of a trademark and section 30 provides a list of defense at permit unauthorised use of a trademark.

c. Passing off

Passing off is a tort that protects the property right of an organisation in their goodwill by preventing misrepresentation that could cause damage to their goodwill/ reputation.¹² The doctrine of passing off was implemented even before the trademark law was introduced.¹³ A claim under passing off could be filed by both registered as well as unregistered trademark holders and is often used as an alternative remedy in cases of trademark infringement cases.¹⁴

Passing off can be used as an effective way to protect religious marks that are not granted trademark protection. However, the burden of proof to establish goodwill is on the one who claims passing off. This can be an expensive exercise for religious organisations, which run entirely on donations and charity. Hence, it is important they be awarded trademark protection.

In the above-mentioned framework of trademark law, it is important to assess the viability of trademark registration of religious symbols for private individuals and religious organisation.

2. JURISPRUDENTIAL APPROACH TOWARDS TRADEMARK OF RELIGIOUS MARKS

In order to determine the legality of trademark of religious symbols for private companies and religious organisations one needs to analyse the existing jurisprudence on the issue.

¹²Deborah E Bouchoux, *Intellectual Property: The Law of Trademarks, Copyrights, Patents, and Trade Secrets* (4th edn 2012).

¹³ibid.

¹⁴Bouchoux(n 12).

A. Trademark of Religions symbols, phrases etc.

For any mark to qualify as a trademark it has to fulfil the criteria of Section 2(zb) of the Trade Marks Act, 1999 which requires a mark to being represented graphically, ability to distinguish the goods/ services from others and include the shape of goods/ their packaging and combination of colours. Further, as discussed above, Section 9 of the Act does not prohibit religious symbols/ phrases/ marks unless it disparages or hurt religious sentiments of a religious denomination. This ties in with the constitutional right of religious freedom under Article 25 and 26.

Indian courts have tried numerous cases on the issue and have developed consolidated jurisprudence on it. In the case of *Lal Babu Priyadarshi v. Amritpal Singh, 2015*¹⁵, the appellant had applied for registration of the word “*Ramayan*”. The court discussed whether “*Ramayan*” which is also name of a holy book in India can be registered as per Section 9(2) of the Act. The respondent contended that since “*Ramayan*” was the name of a religious book in India, the appellants could not monopolise its use. Further, many other traders in the market selling similar products were using the word as their mark. The Supreme Court dismissed the appeal on the ground that no one can create a monopoly over the mark- “*Ramayan*”. Additionally, the Court observed that if the word “*Ramayan*” is accompanied with a suffix or prefix such that the alphabets or design or length of the word is same as “*Ramayan*” then the mark will no longer hold significance as a religious book and may be considered for registration as a trade mark. Here, the appellant was trying to register the word “*Ramayan*” alone. The Court held that the mark was not distinguishable as 20 traders in the industry were using the same mark implying that the word has become “public juris and common to the trade.”¹⁶

This line of reasoning has being consistent over the decade and can be seen in older cases as well. In *Manglore Ganesh Beedi Works v. District Judge, Munsif City and Ors.* the petitioner had been using the trade mark “*Manglore Ganesh Beedi*” for over 50 years and was a well known mark among its consumers. The Respondent had filed a suit claiming that since smoking bidi is prohibited and considered a social evil in Hindu religion, using the trade mark containing “*Ganesh*” who is an important deity in Hindu religion deeply hurt religious sentiments of Hindus at large. The Court observed that there was no basis or material evidence to prove that religious

¹⁵*Lal Babu Priyadarshi v. Amritpal Singh* (2015) 16 SCC 795.

¹⁶*ibid.*

feelings of Hindus was hurt by smoking Bidi. Hence, petitioner's use of the trademark containing the word "Ganesh" and having the symbol of "Lord Ganesh" was not prohibited in law.

Therefore, the jurisprudence on the issue of trademark registration of a religious mark by private individuals seems settled in law.

B. Trademark of Religious Symbols by Organisations as Source Identifiers

The ambitions of a religious organisation wanting a trademark registration is slightly different from the reasons usual commercial organization get their mark registered. A religious organisation might want to register their mark under the Act to receive legal protection over their identity. However, before they can apply for such a mark it is important that the mark has already been established as a source identifier.¹⁷ In addition to the source identification requirement, the mark would still have to qualify the conditions of registration under Section 9 & 11 of the Act, i.e. distinctiveness and no resemblance to an existing trademark.

A common issue that is faced when religious organisations register their trademark is that their marks usually have direct references to religious symbols that might make the mark generic and a ground for refusal of registration.¹⁸

The issue trademark registration of a religious organisation was addressed by the Kerala High Court in 2013 when it conducted *Suo Motu Proceedings Initiated on a Petition received from R.S. Praveen Raj v. Controller General of Patents, Designs and Trademarks and Ors.*¹⁹ The Petitioner had alleged that the registration of trademark of "picture of Attukal Deity" and "Sabarimala of Women" was against the Trade Marks Act, 1999 and violated the Article 25 and 26 of the Constitution of India. The respondents in this case- Attukal Bhagavathy Temple Trust, had obtained registration of trademark for number of services under Class 42 (Device of Deity) such as – Temple services, Social services, Welfare services and Cultural services.

The Petitioners and the Amicus Curiae contended that the icon of "Attukal Deity" is common mark in public domain and cannot be monopolised by a Trust. The registration of the mark allows the

¹⁷ Steven John Olsen, 'Protecting Religious Identity with American Trademark Law' (2013) 12 Chicago-Kent Journal of Intellectual Property 129.

¹⁸ *ibid.*

¹⁹ *Suo Motu Proceedings Initiated on a Petition received from R.S. Praveen Raj v. Controller General of Patents, Designs and Trademarks and Ors.* 2013 (4) KHC 1.

Trust to engage in commercial advantage reducing the temple to a source of commerce and therefore, hurting the sentiments of faith and beliefs of the devotees. The court then discussed the significance of status of deity in relation to the Trust. In India, Hindu Law recognises Hindu idol as a juridical subject capable of holding property and having the same legal status as that of a natural person.²⁰ The Court finally held that they did not see any reason for prohibiting registration of the trademark as the Trust was able to prove that the mark has gained acquired distinctive character in relation to the activities and services. The Court also clarified that the intention of the Trust was not to limit the rights of the devotees but to prohibit the use of the picture of the deity for limited services that they have applied under trademark registration. The Court also successfully dispelled the petitioner's contention that trademark registration reduces the deity of the temple to a source of commercialisation. The Court explained that under the registration, the devotees are not prevented from making an offering in the name of the deity; however, others are prevented from accepting such a donation/offering by projecting and promoting themselves as an Agent of the Temple Trust.

Next, the Court discusses the constitutional legitimacy of registration and states that it does not fall foul of the Article 25 and 26 of the Constitution as the religious denomination is guaranteed the right to establish and maintain the organisation for religious/ charitable purposes and is allowed to manage their affairs. Therefore, the writ petition was closed as it was devoid of any merit.

This judgment was a very important milestone that has interpreted previous literature on the topic to conclusively arrive at the eligibility and constitutionality of trademark of a religious symbol by a religious organisation in India. It clearly demarcated thresholds of when a religious organisation can register their mark as a trademark.

C. Trademark of Religious Symbols in Other Jurisdictions

Internationally, the efficacy of how trademark rules can be utilized to prevent misappropriation of religious signs in trade is a highly debated topic.²¹ The international legal framework consisting of Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS")²² and other inter-

²⁰*Ram Jankijee Deities v. State of Bihar* (1999) 5 SCC 50; *Pramatha Nath Mullick v. Pradyumna Kumar Mullick* 1(1925) 52 IA 245.

²¹Olsen (n 17)

²² Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishment the World Trade Organization, Annex IC, 1869 U.N.T.S. 299, 33 I. L.M. 1197

state agreements between members of WTO and WIPO²³ do not directly prohibit the use of the religious signs for trademark applications, instead leaves it on individual member-state to determine whether such an application could impact the morality or public order of their society.²⁴ The following countries have allowed trademark registration of religious marks by religious organisations.

i. United States of America:

In the United States of America, the Lanham Act, 1946 contains provisions regarding trademarks and permits religious signs to be protected as trademarks. The Lanham Act also allows religious organisations to obtain trademark registration of their marks and obtain same rights as any other commercial entity.²⁵ The basis of the provision is that even though religious organisations do not sell any goods or service, they need trademark protection to protect their reputation and goodwill. However, the Lanham Act maintains the right to deny registration to any mark that “consists of or comprises immoral, receptive, or scandalous matter”²⁶

D. China:

Similarly, in China, Shaolin Temple, which is a Buddhist monastery and where Kung Fu was originated, has trademarked its religious signs “Shaolin” and “Shaolin Temple”. The Temple has applied for trademark in all 45 classes.²⁷ The aim of the Temple behind trademark registration was to prevent misappropriation of religious signs and not commercial utilization of the mark. It might be interesting to note how Shaolin Temple manages to defend their mark in all these classes. The Temple uses trademark infringement and unfair competition against any case of misappropriation of the religious signs.²⁸

E. European Union:

European Union follows a provision based on Article 6ter of the Paris Convention that outlines the grounds for absolute refusal of registration of a mark if it contains concerning state emblems,

²³ Paris Convention for the Protection of Industrial Property as last revised at the Stockholm Revision Conference, Mar.20. 1883 21 U.S.T. 1583:828 U.N.T.S. 305

²⁴Martin Sen fleben, *Study on Misappropriation of Signs* (2012).

²⁵*Purcell v. Summers* 145 F. 2d 979, 985 (4th Cir. 1944); *Oklahoma Dist. Council if the Assemblies of God of the State of Okla., Inc. v. New Hope Assembly of God of Norman, Okla., Inc.*, 597 P. 2d 1211, 1215 (Okla. 1979).

²⁶ 15. 15 U.S.C. §1052 (a).

²⁷ Bo, Jing. 2005. The historical of the protection of Shaolin Temple’s Intangible Heritage. *The Religions Cultures in the World* 2: 2–9.

²⁸ibid.

official hallmarks, and emblems of intergovernmental organizations.²⁹ However, this list does not have religious signs, therefore, implying that theoretically, religious signs could be trademarked.

Therefore, it appears that in spirit of protecting disparaging of religious marks by corporate for private gains, foreign jurisdictions have been benevolent in allowing religious organisations to obtain the trademark registration of such marks. This forms a good comparative model that India can adopt.

3. THREAT FROM FREEDOM OF SPEECH

While registration of trademark of religious marks might solve the issue of misrepresentation and disparage, one needs to ascertain its impact on freedom of expression and speech of an individual.

The fundamental right of Freedom of speech and expression is the foundation of modern democracy and is important for development of other civil liberties as well. Right to freedom of expression and speech is enshrined under Article 19 of the Indian Constitution. It is a fundamental right awarded to the citizens of India. There is a fine balance between right to freedom of expression and protecting a trademark against dilution. In order to allow citizens to exercise this fundamental right, trademark law allows certain third-party unauthorised use of the trademark, if it does not cause any confusion in the minds of the consumers regarding the source of the goods or products.

One such use of a trademark is parody. A parody is one such way of exercising the right to freedom expression and is accepted as defense against unauthorised use of a trademark, which might otherwise be considered infringement. A parody involves criticizing or ridiculing an original work. It is used to comment on the trademark itself and not use it to comment on another work.³⁰ The message a parody conveys is usually humorous. Therefore, parody can be differentiated from original trade mark. It has been observed that parody can affect the reputation of the mark in the society. In India, parody was discussed in the case of *Civic Chandran and Ors. v C. Ammini Amma and Ors.*,³¹ where the court held that “the purpose of reproduction of artistic work i.e. counter drama was not misappropriation, to produce a play similar to the original... Since copying was for

²⁹ Paris Convention for the Protection of Industrial Property as last revised at the Stockholm Revision Conference, Mar.20. 1883 21 U.S.T. 1583:828 U.N.T.S. 305

³⁰*Louis Vuitton Malletier S.A. v. Haute Diggity Dog, L.L.C.* 507 F.3d 252, 260

³¹*Civic Chandran and Ors. v C. Ammini Amma and Ors.* Manu/KE/0675/1996.

the purpose of criticism, it amounted to fair dealing and did not constitute infringement of the copyright.”

However, most religious organisations view freedom of expression as a western ideal of freedom, hence do not consider doctrine of parody acceptable.³²

Hence, even after obtaining trademark protection, the religious organization continues to be under the threat of destabilization of a trademark. This could affect the religious organisation’s identity and affect both its legal rights as well as social identity. Therefore, Religious organisations might need protection beyond what trademark law offers.

4. CONCLUSION

India is a secular nation that is developed on the theory of equal-respect for all religions.³³ This means that our Indian State policies oscillate between sarva dharma samabhava (goodwill towards all religions) and dharma nirpekshata (religious neutrality).³⁴ However, the framing of laws around religion is such that it leaves ample scope for interpretation of constitutional provisions. This makes the task very difficult for Indian courts when compared to other secular jurisdictions where there is a clear demarcation between the state and religion.³⁵ This lack of distinction also leads to uncertainties regarding the rights and duties of a religious organisation. Add to this the lack of clarity regarding their right to apply for trademark creates an environment of chaos.

Religious organisations require trademark law to achieve protection for their marks, however trademark law has obligations towards the consumers and need to ensure that the mark is worthy of trademark protection without encroaching upon civil liberties of individuals. These two demands might be difficult to harmonise.

Internationally there are a few models such as USA, China and European Union that India can adopt. However, the difference in cultural and political environments of these countries and India

³² David A. Simon, ‘Register Trademarks and Keep the Faith: Trademarks, Religion and Identity’ (2009) 49 IDEA 233.

³³Shefali Jha, ‘Secularism in the Constituent Assembly Debates: 1946–50’ (2002) 37(30) Economic and Political Weekly 3175.

³⁴Choudhry (n 1) 1-14.

³⁵ibid.

requires that legislature and judiciary proactively come up with solutions to address this multifaceted issue of trademark of religious symbols by religious organizations that will be best suited for our society.

TRADEMARK ANALYSIS IN PERSPECTIVE OF THE FUNCTIONALITY DOCTRINE

Konark Pratap Gupta*

ABSTRACT

Functionality is one of the most important doctrines, but it is also one of the most confused and unstable doctrine in the trademark regime. Functionality law would bar protection for the distinctive shape of a wrench if that shape substantially improves the leveraging ability of the wrench, and it would do so even if the use of the same shape by the defendant were likely to cause consumer confusion. However, not all trade dress are barred, and the functionality law challenge is to determine who is and who is not — and why.

This paper traces the history of the doctrine of Functionality, examines the different justifications stand. It argues that the muddled state of functionality law today stems from lack of clarity and rigor at the normative level. Courts and commentators do not focus carefully enough on the policy justifications for the rules they adopt; they stress the benefit of broad functionality without adequately considering its costs or appreciating the tricky practical problems involved in the formulating the administrable rule.

Keywords: - economics of trademark law, functionality doctrine, intellectual property, trademark law, trademark history, TrafFix Devices and trademark policy.

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1. INTRODUCTION

In modern trademark law, functionality is one of the most important doctrines, but it is also one of the most confused and unstable. The purpose of the doctrine, it is said, is to policing the boundary between, on the one hand, trademark and, on the other, patent and copyright, and to prevent trademark law from hindering competition on the product market. It achieves these objectives by blocking protection for source-identifying product features—so-called trade dress—when those features contribute to the product's functional performance. Modern functionality law, for example, would bar protection for the distinctive shape of a wrench if that shape substantially improves the leveraging ability of the wrench, and it would do so even if the use of the same shape by the defendant is likely to cause consumer confusion. However, not all trade dress is barred, and the functionality law challenge is to determine who is and who is not — and why.

This paper traces the history of the doctrine of functionality, examines the different justifications offered to support it, and analyses its political foundations critically. It argues that the muddled state of functionality law today stems from lack of clarity and rigor at the normative level. Courts and commentators do not focus carefully enough on the policy justifications for the rules they adopt; they stress the benefits of a broad functionality bar without adequately considering its costs or appreciating the tricky practical problems involved in formulating administrable rules. In particular, many defenders of a broad functionality bar cite the doctrine's role in enforcing a supposed "right to copy" any features not protected by patent or copyright. However, they invoke this right to copy without explaining how or why the alleged right can trump trademark policies.

This paper examines these policy arguments in a critical manner. It subjects the right to copy to careful analysis and concludes that, to determine the scope of the functionality bar, it is not actually a right at all, but rather a public domain policy to be balanced against trademark policies. Combining this public domain policy with trademark protection policies, the chapter outlines an analytical approach to designing optimal rules on functionality and proposes reforms that significantly alter existing law on functionality.

2. DEFINING TRADEMARK

A trademark referred to in S.2 (1) (zb) of the Trademarks Act means "a mark capable of being graphically represented and capable of distinguishing the goods or services of one person from those of others, including the shape of the goods, their packaging and the combination of colors." From a cursory reading of the same, it can be seen that the definition is quite open. Any mark, whether a word, device, brand, heading, letter, number, etc., may be registered as a trademark if it is capable of distinguishing one person's goods and services from another. Although the aforementioned whole finds place in the definition of a mark, there are certain marks such as smell and single colors that cannot be found in the Act.

However, they can still be protected and given the status of a mark. Functionality is one of the most important areas of trademark law, but also one of the most confusing and unsettled. The functionality doctrine bars, when applicable, trademark protection for source-identifying product features that contribute to a product's functional performance. For example, modern functionality law would bar protection for the distinctive shape of a wrench that significantly enhances the leveraging ability of the wrench, even when consumers associate the shape with the wrenches of the plaintiff and are likely to be confused by the use of the same shape by the defendant. However, this simple doctrine statement dissimulates a host of tricky normative and doctrinal issues. Courts and commentators disagree about what functionality means, why functional marks should not be protected, and how far the functionality bar should extend.¹

The functionality doctrine of the trademark works differently. The purpose of mark law is not to encourage innovation, but rather to protect source identification symbols used by consumers to access product quality information. As a result, there are no per se "subject-matter exclusions"; any kind of symbol can qualify for protection as long as it is capable of identifying source, including subject matter within the domains of patent and copyright. This means that trademark functionality is not about assigning subject matter properly. However, it is unclear what it is about. Some jurists argue that the main purpose of the doctrine is to promote competition on the product

¹ Most commentators agree that functionality law is a confusing mess today. See, e.g., Dinwoodie & Janis (2014) at 159–160 (noting that scholars disagree about much of functionality law but they all agree that "neither courts nor jurists have successfully formulated a consistent and workable approach to functionality").

market. Others argue that in enforcing a general right to copy, or at least a right to copy those features that were once patented, it has an important role to play. These disagreements at the policy level generate confusion at the level of doctrine.

A. Law in the U.S.

Trademarks in the United States are governed by the 1946 Lanham Act. As a pre-requisite for filing a trademark application, the Lanham Act does not require graphical representation. Unconventional marks in the U.S. are therefore easy to register. To put it simply, any mark that is non-visual in nature would only require a detailed verbal description for it to be considered for registration.²

B. Law in India

Both U.S. trademark law and the UK influence the Trademark Act, 1999. The functionality doctrine, which is an essential part of U.S. law, is also found in Indian trademark law. Similarly, for a mark to be granted registration in both Indian and UK law, graphical representation is mandatory.

Even if a mark is not inherently distinctive, it is still possible for brand owners to apply for a mark if the mark has acquired distinctive features due to its long-term use. This applies mostly to marks of color. It is not easy to establish the combination of colors or single colors as being inherently distinctive. The applicant must provide evidence during the application to show that the color or color combination is solely associated with them and designates their goods exclusively and the public associates the color with the goods of the application. The burden of proof is on the applicant to demonstrate that the color has acquired distinctive or secondary significance”.

3. HISTORY OF DOCTRINE OF FUNCTIONALITY

Functionality is the doctrine of the mark designed to deal with this issue. When applicable, the functionality doctrine bars protection for useful or aesthetically pleasing trade dress even when consumers are likely to be confused by using the same trade dress by the defendant. Much of the controversy over the scope of the doctrine has to do with what is required to bar protection beyond

²Harsimran Kalra, ‘Unconventional trademarks: the emergent need for a change’ (2010) Indian Law Journal <http://www.indialawjournal.org/archives/volume4/issue_1/article_by_harsimran.html>.

the fact that the feature serves some utilitarian or aesthetic purpose important to the product's value.³

In this paper, author examines the functionality doctrine's development (i.e., the rise) and collapse (i.e., the fall). Author describes an important common law battle, an effort that has resulted in a coherent, workable limitation on the protection of trademarks for non-traditional product identification. The doctrine produced by this struggle denied the protection of trademarks to the features of the product needed for free and vigorous competition. Under this competitive need standard, such features were considered functional. Although the "functional" label may have been somewhat misleading, when *TrafFix* was decided, "the competitive need standard was well established in federal courts".

Author identifies three possible solutions to the *TrafFix* problems. All three require that the *TrafFix* analysis be completely rejected. The first solution, and perhaps most obviously, is to return to the standard of functionality of the competitive need. This solution would essentially bring the law back to its pre-*TrafFix* state, although doing a little more would be helpful. The circuit courts were divided on how to deal with claims involving elements of an invention previously patented. A number of commentators have argued for a broad right to copy unpatented articles and particularly articles previously patented. The concern raised by these commentators is that the overbroad protection of trademarks for such articles could undermine the patent system's balance. Almost all courts rejected these arguments, but one, the Tenth Circuit Court of Appeals, adopted a special rule for cases involving previously patented articles involving commercial dress. Together with *TrafFix*, this isolated decision should be explicitly rejected and the competitive requirement standard applied as the sole limitation on the scope of mark protection for unpatented, distinctive product features. Finally, this first solution should also make it clear that aesthetic and utilitarian features do not need to be distinguished". The second solution requires the removal of functionality as an element of commercial dress claims and adopts a limited defence of functionality in its place. This proposal may be more controversial than the first, partly because it is so well established in

³ Courts sometimes express this point by distinguishing between de facto functionality and de jure functionality. See, e.g., *Vornado Air Circ. Sys., Inc. v. Duracraft Corp.* 58 F.3d 1498 (10th Cir. 1995). Trade dress is de facto functional when it is functional in the ordinary lay sense; that is, when it actually contributes to what the product is supposed to do. Trade dress is de jure functional when it is legally barred from trademark protection. Thus, de facto functionality is a necessary but not a sufficient condition for de jure functionality.

modern practice to treat functionality as an element of a trade dress infringement claim. Sometimes old habits die hard. However, there are good reasons for rejecting the established practice in this case.

A front-end filtering rule is the modern functionality rule. Trade dress claims are assessed by examining the overall design of the claimant's product. If the design is considered functional, the claim for trade dress fails. If the design is non-functional, no further analysis of the functionality issue will be carried out by the claim. This is a flawed approach. The functionality inquiry should examine the product of the defendant, or more specifically the parts of the product of the defendant copied from the product of the plaintiff. No party should be instructed to use the functional features of the product. On the other hand, where the plaintiff can demonstrate that their design is distinctive and the design of the defendant is likely to confuse consumers, a court should not walk away from the controversy, even if the overall design of the plaintiff is considered functional. To do so — and this is precisely what modern courts have done to find the functional design of a plaintiff — is to ignore the interest of the consumer in avoiding confusion. Where confusion is likely, the risk of confusion should be reduced or eliminated by taking some steps. The burden of such steps between the plaintiff and the defendant should be equitably allocated.

Author's second proposal, removing functionality as part of a business dress claim, may seem radical, but it is not. This proposal is based on the analysis of functionality carried out by the courts during the doctrine's early development. In the earliest cases of functionality, courts focused on the elements copied by a defendant and refused to order copying where those elements were found to be functional. However, the courts still placed an obligation on these defendants to take reasonable steps to distinguish their products from those of the plaintiffs. This lesson from the early cases was somehow lost when the courts started to treat functionality as an affirmative rather than a limited defense element. Author think that returning to the old rule would gain a lot.

Author's third proposal is a first two combination. Although author believe that the second proposal is a sufficient solution, it may be the most attractive solution. A front-end functionality rule would remain in place by combining the first two proposals to filter out bogus claims and applications to register fully functional designs as trademarks. The limited functionality defense would continue to play an important role in resolving disputes over litigated trade dress and provide the flexibility needed to best balance the competing interests at stake. Since this solution

offers the advantages of the second proposal while maintaining important parts of the modern approach to functionality, it may be more acceptable to the range of parties interested in reforming the doctrine of functionality.⁴

4. TYPES OF FUNCTIONALITY

A. Utilitarian Functionality

Courts will look to the following factors when determining utilitarian functionality:

- Whether a feature is essential to the use or purpose of the product; or
- Whether a feature affects the cost or quality of the product; or
- Whether granting of trademark for the exclusive use of the feature would put competitors at a significant non-reputation related disadvantage.⁵

As of 2014 the federal circuit courts are split on their utilitarian functionality analysis. Most circuits, such as the Fifth Circuit⁶ and the Sixth Circuit⁷ follow the Supreme Court's analysis in *TrafFix Devices, Inc. v. Marketing Displays, Inc.*,⁸ which focuses on whether the feature is essential to the use or purpose of the product. The Federal Circuit in contrast focuses its analysis on whether permitting a product feature to be trademarked would impair competitors".⁹

B. Aesthetic Functionality

In the United States, the "functionality" doctrine exists to stop a party from obtaining exclusive trade dress or trademark rights in the functional features of a product or its packaging. The doctrine developed as a way to preserve the division between what trademark laws protects and areas that are better protected by patent or copyright law. Thus, the functionality doctrine serves to prevent trademark owners from inhibiting legitimate competition.

When the aesthetic development of the good is intended to enhance the design and make the product more commercially desirable, trademark protection may be denied because the consumer

⁴Mark Alan Thurmon, 'The Rise and Fall of Trademark Law's Functionality Doctrine' (2004) 56 Fla.L.Rev. 243.

⁵*Qualitex v. Jacobson Products* 514 U.S. 159 (1995).

⁶*German Eppendorf-Netheler-Hinz GMBH v. Ritter GMBH* 289 F.3d 351 (5th Cir. 2002).

⁷*Antioch Co. v. Western Trimming Corp.* 347 F.3d 150 (6th Cir. 2003).

⁸532 U.S. 23 (2001).

⁹*Valu Engineering v. Rexnord Corp* 278 F.3d 1268 (Fed. Cir. 2002).

is drawn to the design. The distinctiveness of the mark serves to identify the product rather than the source, and trademark protection becomes inappropriate. The underlying theory as aesthetics become integrated with functionality, the resulting product strongly resembles product design, which may receive no trademark protection absent secondary meaning.¹⁰

This defense is generally seen in the fashion industry. Clothing brands can only be protected if they have acquired secondary meaning, and most of clothing design is held to be functional and is afforded no protection.¹¹

5. PURPOSE OF FUNCTIONALITY

The functionality doctrine reflects a tension between two interests.¹² One is the fundamental patent or copyright.¹³ The other is a producer's interests to protect its goodwill, which is embodied in symbols identifying the source of its goods.¹⁴ The trademark law formulates the functionality doctrine to balance these two interests. Courts have conceived two policy reasons for the functionality doctrine.¹⁵

The first rationale is to police the boundary between trademark law and patent law.¹⁶ Utility patent law is thought to be the only source that can grant exclusive rights to utilitarian features.¹⁷ An unpatented feature or expired patent is in the public domain, and thus competitors have "the right to copy".¹⁸

The Supreme Court has explained this rationale in *Qualitex*:

"The functionality doctrine prevents trademark law, which seeks to promote competition by protecting a firm's reputation, from instead inhibiting legitimate competition by allowing a producer to control a useful product feature. It is the province of patent law, not trademark law, to encourage invention by granting inventors a monopoly over new product designs or functions for

¹⁰*Christian Louboutin S.A. v. Yves Saint Laurent America, Inc.* 778 F. Supp. 2d 445, 447–48 (S.D.N.Y. 2011).

¹¹*Wal-Mart Stores, Inc. v. Samara Brothers, Inc.* 529 U.S. 205 (2000).

¹²*In re Morton-Norwich Products, Inc.* 671 F.2d 1332, 1336-37 (C.C.P.A. 1982); see also *Brunswick Corp. v. British Seagull Ltd.* 35 F.3d 1527, 1530 (Fed. Cir. 1994).

¹³*Morton-Norwich* 671 F.2d at 1336.

¹⁴*ibid.*

¹⁵J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competitions* 7:63 (4th edn 2013).

¹⁶*ibid.*

¹⁷McCarthy (n 15).

¹⁸Mark P. McKenna, '(Dys)Functionality' (2011) 48 Hous. L. Rev. 823, 827-828.

a limited time, .after which competitors are free to use the innovation. If a product’s functional features could be used as trademarks, however, a monopoly over such features could be obtained without regard to whether they qualify as patents and could be extended forever (because trademarks may be renewed in perpetuity).”¹⁹

The second rationale is to preserve free and effective competition.²⁰ It is based on the policy that courts must preserve free and effective competition by ensuring competitors are able to copy features that is necessary to compete effectively.²¹ If granting trademark protection for a feature hinders others from competing effectively for the related product in the market, then that feature is functional.²² On the other hand, if the copier is possible to compete effectively without copying the feature, it is not functional.²³Courts, which rely on this rationale, emphasize “the need to copy” or “competitive necessity”.²⁴ This policy was emphasized in *In re Morton-Norwich*; the court stated that the policy reason of the functionality doctrine was not the right to slavishly copy articles which are not protected by patent or copyright, but the need to copy those articles, which is more properly termed the right to compete effectively.²⁵ The fulfilment of “the need to copy” or “competitive necessity” is usually guided by the availability of alternative designs.²⁶

Courts have different opinions on the relative importance of the two rationales,²⁷ which thereby affect their interpretation of the functionality doctrine as shown below. Furthermore, it is important to point out that modern courts that admit aesthetic functionality are based solely on that doctrine on the need to promote free and effective competition, but do not aim to distinguish between trademark law and patent or copyright law design.

¹⁹*Qualitex Co. v. Jacobson Products Co., Inc.* 514 U.S. 159, 164-165 (1995).

²⁰McCarthy (n 15).

²¹ibid.

²²Mitchell M. Wong, ‘The Aesthetic. Functionality Doctrine and the Law of Trade-Dress Protection’ (1998) 83 Cornell L.Rev. 1116, 1143.

²³*W.T. Rogers Co. v. Keene* 778 F.2d 334, 343 (7th Cir. 1985).

²⁴McKenna (n 18).

²⁵*In re Morton-Norwich Products, Inc.* 671 F.2d 1332, 1339(C.C.P.A. 1982).

²⁶Thurmon (n 4) 268.

²⁷McKenna (n 18) 824-825.

The functionality doctrine, which prohibits registration of functional product features, is intended to encourage legitimate competition by maintaining a proper balance between trademark law and patent law.

In other words, the functionality doctrine ensures that protection of utilitarian product features is properly sought through a utility patent of limited duration and not through a trademark registration's potentially unlimited protection. Once a utility patent expires, the invention covered by the patent enters the public domain and the functional features disclosed in the patent can then be copied by others—thereby encouraging progress in product design and manufacture. “Thus, even when the evidence establishes that consumers have come to associate a functional product feature with a single source, trademark protection will not be granted in light of the public policy reasons mentioned.”

6. FUNCTIONALITY & VARIOUS MARKS

Author will discuss whether specific considerations have been made when the general rules apply to non - traditional marks (other than the shape of goods).

A. Service Marks

Although rare in the context of service mark applications, examining attorneys are not foreclosed from refusing registration based on functionality. In *Duramax Marine, LLC v. R.W. Fernstrum & Co.*,²⁸ the Board held that a two-dimensional design of a marine heat exchanger (commonly known as a "keel cooler"), was not functional for manufacture of marine heat exchangers to the order and specification of others. It found "a significant difference between an application to register trade dress in the nature of product design as a mark for the product itself ... and an application to register a two-dimensional drawing that may look very much like such a product, but is used on labels, catalogs, brochures, and in various other ways as a mark for services;" and stated that "the inquiry regarding functionality may need to be decidedly different" in cases involving a service mark.

The record showed that the keel cooler depicted in the proposed mark was "identical, or nearly so" to the depiction of a keel cooler in applicant's expired patent; that opposer and at least one other party had been marketing keel coolers very similar to the proposed mark; and that the design sought

²⁸*Duramax Marine, LLC v. R.W. Fernstrum & Co.* 80 USPQ2d 1780, 1793 (TTAB 2006).

to be registered appeared in applicant's catalog of pre-manufactured keel coolers.²⁹ The Board framed the question at issue as "whether any manufacturer of the formerly patented item should be free to utilize, in advertising its goods for sale, a realistic depiction of the item," and stated that:

"We must balance against opposer's argument for the extension of existing case law on functionality to what is shown by the record to be long use of the keel cooler depiction by applicant in the manner of a logo. Further, opposer has not discussed whether, when custom manufacturing services are involved, we should still apply the Traffix test for functionality (a three-dimensional product design is functional if it is essential to the use or purpose of the product or if it affects the cost or quality of the product) to the product that results from purchasing the services, or whether the test should be adapted and focus on whether use of the two-dimensional design to be registered is essential to anyone who would provide the same service, or would, if unavailable, affect the cost or quality of the service."

The Board held that opposer had failed to justify an extension of existing law to cover the circumstances of this case, but stated that its decision "does not foreclose the extension of Traffix to service marks if circumstances in a future case warrant such an extension".³⁰

B. Non- Traditional Marks

In addition to product design and product packaging, the functionality doctrine has been applied to other non-traditional proposed marks, such as sound, color, and flavor, and the same Morton-Norwich analysis, discussed above, applies to these marks.³¹ In *re Florists' Transworld Delivery Inc.*,³²(finding the color black for floral packaging functional because there was a competitive need for others in the industry to use black in connection with floral arrangements and flowers in order to communicate a desired sentiment or occasion such as elegance, bereavement, or Halloween); In *re Pohl-Boskamp GmbH & Co.*,³³ (finding the flavor peppermint functional for nitroglycerin lingual spray based on evidence that peppermint oil, which imparts a flavour of peppermint, can

²⁹ *ibid.*

³⁰ *Duramax*, 80 USPQ2d at 1794.

³¹ *Brunswick Corp. v. British Seagull Ltd.*, 35 F.3d 1527, 1532, 32 USPQ2d 1120, 1123 (Fed. Cir. 1994), *cert. denied*, 514 U.S. 1050 (1995) (finding the color black for outboard motors functional because it provided competitive advantages such as ease of coordination with a variety of boat colors and reduction in the apparent size of the engines).

³² *In re Florists' Transworld Delivery Inc.* 106 USPQ2d 1784, 1791 (TTAB 2013).

³³ *In re Pohl-Boskamp GmbH & Co.* 106 USPQ2d 1042 (TTAB 2013).

improve the effectiveness of sublingual nitroglycerin spray); In *re Vertex Grp. LLC*,³⁴ (affirming the refusal to register an alarm sound emitted by personal security alarms in the normal course of operation without showing of acquired distinctiveness); *Saint-Gobain Corp. v. 3M Co.*,³⁵ (deep purple shade for coated abrasives held functional, the Board finding that coated abrasive manufacturers have a competitive need to use various shades of purple, including applicant's shade, and that in the field of coated abrasives, color serves a myriad of functions, including color coding, and the need to color code lends support for the basic finding that color, including purple, is functional in the field of coated abrasives having paper or cloth backing).

Examining lawyers should also consider the doctrine of functionality in relation to other non-traditional mark types, such as scent. For example, an application to register scent for an air freshener or an application to register the sound of a ring tone for downloadable ring tones must be rejected as functional, as the proposed marks are essential for the use or purpose of the goods.

7. SHOULD THIS FUNCTIONALITY DOCTRINE APPLY TO ALL KINDS OF TRADEMARKS?

A determination of functionality normally involves consideration of one or more of the following factors, commonly known" as the "Morton-Norwich factors":

- (1) "the existence of a utility patent that discloses the utilitarian advantages of the design sought to be registered;
- (2) advertising by the applicant that touts the utilitarian advantages of the design;
- (3) facts pertaining to the availability of alternative designs; and
- (4) facts pertaining to whether the design results from a comparatively simple or inexpensive method of manufacture."

Accordingly, the request for information by the examining attorney should relate to the Morton-Norwich factors and: (1) request the applicant to supply copies of any patent(s) or pending or abandoned patent application(s) ;(2) request the applicant to supply any available advertising, promotional or explanatory material relating to the goods/services, in particular any specific material relating to the proposed mark; (3) inquire whether alternative designs are available to the

³⁴*In re Vertex Grp. LLC* 89 USPQ2d 1694, 1700 (TTAB 2009).

³⁵*Saint-Gobain Corp. v. 3M Co.* 90 USPQ2d 1425, 1447 (TTAB 2007).

applicant; and (4) ask whether the features sought for registration make the product easier or cheaper to produce. The examining attorney should examine the specimen(s) for information relevant to the factors of Morton-Norwich and conduct independent research on the websites of applicants and competitors, industry practice and standards, and legal databases such as LexisNexis ®. The prosecutor may also consult the records of the USPTO patent.

It is not necessary to consider all the Morton-Norwich factors in every case. The Supreme Court held that "where the design is functional under the Inwood formulation there is no need to proceed further to consider if there is a competitive necessity for the feature."³⁶ It is important that the functionality inquiry focus on the utility of the feature or combination of features claimed as protectable trade dress.³⁷ Where the evidence shows that the overall design is functional, the inclusion of a few arbitrary or otherwise non-functional features in the design will not change the result.³⁸

In the limited circumstances where a proposed trade dress mark is not overall functional but contains insignificant functional elements, the examining attorney must issue a requirement for an amended drawing and allow the applicant to remove or delete the functional elements from the drawing or display them in broken or dotted lines to indicate that they are not characteristics of the mark.

Whether a product feature is "functional" should not be confused with whether it performs a "function" (i.e., it is de facto functional) or "fails to function" as a mark. Most objects, for example, perform a function, a bottle holds liquid and a lamp provides light. Only certain configurations are functional, however, allowing an object to work better.

8. CONCLUSION

In the US, the doctrine of functionality is broadly interpreted; aesthetic functionality in particular is interpreted on the basis of the competitive necessity test. Such wide interpretation allows the doctrine of functionality to apply to any kind of mark. After becoming distinctive through use, a

³⁶*TrafFix Devices, Inc. v. Mktg. Displays, Inc.* 532 U.S. 23, 33, 58 USPQ2d 1001, 1006 (2001).

³⁷*Morton-Norwich* 671 F.2d at 1338, 213 USPQ at 13.

³⁸*In re Becton, Dickinson & Co.* 675 F.3d at 1374, 102 USPQ2d at 1376; *Textron, Inc. v. U.S. Int'l Trade Comm'n* 753 F.2d 1019, 1025, 224 USPQ 625, 628-29 (Fed. Cir. 1985); *In re Vico Prods. Mfg. Co.* 229 USPQ 364, 368 (TTAB 1985).

sign with a functional feature as shown in U.S. cases could be registered, and its trademark protection would likely hinder fair competition.

Certain application of the functionality doctrine (e.g., application of aesthetic functionality to words or logos) in the United States is inappropriate for further consideration; on the other hand, functional signs other than shapes are also difficult to acquire distinctiveness through use, as such signs are rarely protected under patent or design rights and may be used by competitors at the same time. However, since the acquisition of distinctive features predominantly relies on consumer perception, a sign can still be distinguished through use, particularly by market-powered traders.

THE CONGRUENCE OF INTELLECTUAL PROPERTY ASSETS IN COMBINATION AND CORPORATE RESTRUCTURING

*Shantanu Sharma**, *Prutha Bhavsar***

ABSTRACT

In today's world, one of the most attractive and valuable category of assets for a business is its Intellectual Property for the reason that it has immense power to help a business grow and flourish. For a number of businesses, their profits are derived majorly through use of such intangible assets only. This happens so because of either the technology that the company created, the brand that has become its trademark or the inventions in the name of patents that make a company unique and provide a superior position in the market in a related field. Now that intellectual property carries so much value in a business, it is important that its value ought to be determined in the most accurate manner as possible. Valuation becomes difficult for the reason of the intangibility of such assets. Undervaluation leads to losses by the target company and overvaluation leads to what is known as a winner's curse for the acquiring company. In addition to this, while acquiring IP a number of problems may arise with respect to jurisdiction, tax or antitrust laws. When all the issues are taken into account and the due diligence is carried out almost accurately, the profits that flow from such a merger and acquisition is immense and fruitful. Through the course of this paper, each of these aspects are discussed and analysed.

Keywords:- Intellectual Property, Merger and Acquisition, Tax, Intangible Assets, Due Diligence etc.

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1. INTRODUCTION

Intellectual property drives commerce. In this growing business world, it is believed that IP is the key to economic growth. Most of the companies that strategies expansion while undergoing mergers or acquisitions are based on Information Technology, Telecommunication, Business Process Outsourcing, Pharmaceuticals, etc. When mergers or acquisitions take place, the aim is to combine and utilize both the tangible and intangible assets of the target company to improve profitability. Intellectual property forms the most valuable asset.

In today's 'idea economy', where knowledge is power, Intellectual Property (IP) is symbolised as the unique and continuing identifier of a company because of its creations of products and processes of art, literature, music, science and technology through the creativity and intelligence of various individuals. For the same reason, valuation of IP becomes a challenge involving risk to an extent that there is a probability that no value would be created out of the merger or acquisition. The same problem does not arise while evaluating the intangibles such as the know-how and proprietary technology which is inclusive of talent or skills of the workforce. Therefore, the same method of valuation that is used for overall business valuation cannot be applied while evaluating the intangible asset. This is so because the traditional methods of valuation do not take into account the multiple outcomes possible with the use of the technologies that have not yet been commercialised or used in the marketplace¹.

2. RELEVANCE OF IP MERGERS AND ACQUISITIONS

Intellectual Property largely consists of patents, trademarks, industrial designs, trade secrets, domain names, etc. All major businesses possess certain of these intangible assets. These maybe in the form of the technology that they own, brand that they have created or certain trade secrets that they have developed. All these assets create profits and goodwill for a company and thus contribute in adding value along with its earnings. A good example for this is the Versace acquisition by Michael Kors to gain access to new product line and market for \$2.1 billion².

¹Suchy Donna, 'The Block's New Big Kid: The Growing Importance of IP to Companies Puts a Premium on Effective Valuation.' (2006) 92 ABA Journal <www.jstor.org/stable/27846158> accessed 16 September, 2020.

² Mario Abad, 'Michael Kors Announces Acquisition Of Versace For \$2.1 Billion' (Forbes ,28 September 2018) <<https://www.forbes.com/sites/marioabad/2018/09/24/michael-kors-versace/#75215aea7717>> accessed 18 September 2020.

As shown in the following figure³, 34% of mergers and acquisitions take place. Certain companies undergo mergers and acquisitions with an aim to create a patent pool i.e. integrating patents which are inter related. Creation of an integrated pool of patents or any other technology fuels M&A activity as the same results in reducing litigation and licensing costs, increase in market shares, increasing capabilities, surviving the competition, etc. For example, Thales acquisition of IT leader Gemalto for €4.8 billion made the company a leader in digital identity and security such as data protection and cyber security⁴. Another example of a similar kind of acquisition is that of ABB Power Grids by Hitachi, which made Hitachi one of the largest energy frontiers of the power industry⁵. Therefore, it is necessary to note that proper IP valuation is very crucial while negotiating a deal during mergers and acquisitions. Assessment of IP assets is also required by the target company in order to protect the value of its rights.

3. METHODS OF IP VALUATION

Valuation of IP refers to determining monetary value of an intangible asset i.e. the Intellectual Property. Valuation is deemed to be an art than it is science as it involves interdisciplinary implementation of law, economics, finance, accounting and investment. Commercial valuation is based on the principle that the value of something cannot be abstract. We adhere to the questions ‘valuable to whom’ and ‘important for what purpose?’ before carrying out the valuation. This rule is of importance while carrying out valuation of intellectual property⁶.

The methods of valuation fall into three of the following categories:

1. Market Based: In this method, the value is decided by market price of analogous market transactions. However, this method becomes futile for the reason that it is difficult to find a comparable market transaction. Additionally, since intellectual property is not developed

³ Fortune Knowledge Group, ‘US Executive Survey on Mergers and Acquisitions: full speed ahead in 2016’ (KPMG Survey, 2016) <https://imaa-institute.org/wp-content/uploads/2016/03/kpmg_us-executives-on-m-and-a-2016.pdf> accessed 20 September 2020.

⁴ Business Wire, ‘Thales Completes Acquisition Of Gemalto To Become A Global Leader In Digital Identity And Security’ (The financial Post, 2 April 2019) <<https://financialpost.com/pmnp/press-releases-pmn/business-wire-news-releases-pmn/thales-completes-acquisition-of-gemalto-to-become-a-global-leader-in-digital-identity-and-security>> accessed 20 September 2020.

⁵ Jeff St. John, ‘Hitachi completes acquisition of ABB power grids to tackle renewable energy’s rise’ (Green Tech Media, 1 July 2020) <<https://www.greentechmedia.com/articles/read/hitachi-completes-acquisition-of-abb-power-grids>> accessed 20 September 2020.

⁶ Kelvin King, ‘The Value of Intellectual Property, Intangible Assets and Goodwill’ (2002) 7 Journal of Intellectual Property Rights.

to be sold and it forms only a smaller cost of larger transactions, this method becomes limited⁷.

2. Cost based: The value of the IP is determined by the cost to create or the cost to replace. However, as easy as this method is to utilise, it ignores the changes in the time value of the property and other costs during the course of the business such as maintenance costs⁸.
3. Based on estimates of future economic benefits: This method takes into account the future possible earnings of the business. This estimate is broken down into a) capitalisation of historic profits i.e. the historic earning capacity, b) gross profits differentiation which is generally associated with trademark and brand valuation, c) excess profits and d) relief from royalty cumulatively known as “discounted cash flow analysis”⁹. This is the most comprehensive method to determine the value of an IP asset. It takes into account the potential profits that would be derived from the assets on the basis of historical earnings. It also takes into account expected capital outflows and investment prospects¹⁰.

4. MEANS OF ACQUIRING INTANGIBLE ASSETS

There are multitudinous forms of obstacles, which an acquirer and a seller needs to overcome in pursuance of formulating a win - win agreement for transfer of intellectual property rights during a merger and acquisition. The factors affecting the complexity of the agreement may vary depending upon the companies size, publicity, identification of IP assets, third party claims, verification of IP, Term and territory checks, which can be further coupled with convoluted other forms of diligences.

The significance of due diligence in a merger and acquisition can be clearly projected from the range of complications aforementioned.

Acquisition agreement is the primary step towards substantiating the acquisition of intangible assets. The fundamental function of this agreement is analogous to the purpose of any other agreement, as the acquisition agreement provides the detailed terms and conditions associated with

⁷ibid.

⁸King (n 6).

⁹ibid.

¹⁰Mandavi Singh, ‘Intellectual Property; The Dominant Force in Future Commercial Transactions Comprising Mergers and Acquisitions’ (2009) 2 Indian Journal of Intellectual Property Law <<https://www.nalsar.ac.in/IJIPL/Files/Archives/Volume%202/11.pdf>> accessed 22 September 2020.

the transaction. It enumerates the purchase price, the method of payment, condition precedents, the warranties and representations made by the seller etc.

Another essential means of acquiring intangible assets are the transfer documents which are specific to the form of transfers. The IPR owned by the transferor company are not naturally transferred to the transferee's company rather even post execution of acquisition agreement the transferor company needs to provide license to the transferee's for enjoying IPR's owned by the transferor's or they need to transfer the intangible assets to the transferee's, Section 394 of the Companies Act, 1956 provides authority to the courts for sanctioning the transfers made during a process of compromise or arrangement. Trademark being a form of property can be transferred under the aforementioned section of Companies Act, 1956, for the transfers of registered copyrights, the transferee company is required to make an application to the registrar of copyrights for registration of its titles. Similarly, in cases of patent transfers the transferee is required to apply to the controller of patents for the registration of its titles, failing which the transferor remains the actual owner of the IPR's though they are been transferred in lieu of the acquisition agreement to the transferee¹¹.

5. MEASURES BEFORE ACQUIRING AN IP ASSET

Due diligence is of the utmost importance because of the varying valuations that would take place while negotiating a deal during a merger or an acquisition. It usually begins with a Letter of Intent or a Memorandum of Understanding through which all the requisite documents of each company involved in the transaction is exchanged for the other one's perusal. While doing so, it is important to undertake a Confidentiality Agreement with respect to the information shared for protection of the same. A Confidentiality agreement is especially required when there is involvement of trade secrets.

While conducting due diligence, following multifaceted approach needs to be applied:

- a) Present and future worth of the company's IP- in plant, in the marketplace and in the court.
- b) The level of insulation from the target's business i.e. the competition and infringement.

¹¹Shriyaji, 'Mergers & Acquisitions & the IPR Issues Involved' (Legal Services India, 11 September 2020) <<http://www.legalservicesindia.com/article/503/Mergers-&-Acquisitions-&-the-IPR-Issues-Involved.html>> accessed 11 September 2020.

- c) Possible third-party claims for infringement of IP.
- d) Measures taken by the target company to minimise the involvement of disputes with respect to third party claims of infringement¹².

In addition to the above factors, during the due diligence even the obligations listed in the license agreements need to be analysed. This is necessary so for the reason that Mergers and Acquisitions have a major impact on the licensing agreements. While conducting due diligence with respect to such assets, the DD team also needs to run an ownership check so that no issue arises during transfer of the ownership. Next, the team needs to check the validity of the related IP i.e. territory of each applicable IP since most of the IP rights are enjoyable in limited territory¹³.

The basic purpose of conducting due diligence is to facilitate and expedite the integration of both the firms so as to make them aware of the future risks and possibilities that will arise from the deal. The information related to the IP obtained from due diligence would also help one to know how the technical conduct of the IP takes place in the business. With a change in the economy and the diversity of the businesses around the world, the due diligence team are the environmental consultants¹⁴.

6. RISK OF UNSOUND DUE DILIGENCE

As mentioned earlier, the importance of due diligence cannot be ignored while negotiating a deal with respect to merger or acquisition. If all the relevant documents and/or information with respect to the IP assets are not analysed properly, it might have severe consequences to the business in the future. When a merger or an acquisition is driven by Intellectual Property, the valuation of the concerned IP should be carried out very carefully as IP assets are difficult to assess accurately.

A merger or acquisition involving majorly transfer of IP assets with unsound due diligence might result in what is called as a “Winner’s Curse “. Winner’s curse is said to occur when the acquirer

¹² Martin B Robins, 'Intellectual Property and Informative Technology Due Diligence in Mergers and Acquisitions: A More Substantive Approach Needed' (2008) 2008 U Ill JL Tech & Pol'y 321.

¹³ Suneeth Katarki and Aditi Verma Thakur, 'Intellectual Property Due Diligence' (Mondaq, 3 December 2015) <<https://www.mondaq.com/india/trademark/448686/intellectual-property-due-diligence>> accessed 16 September 2020.

¹⁴ Shriyaj (n 11).

company pays for such assets more than the market value and then regret the deal when the profits or the expectations are not met. Additionally, the acquirer company might also be faced with cumbersome litigations, competition from the market or multiple jurisdiction issues all resulting in failure to maximise the asset's value for profit and gains.

One of the most basic solutions to avoid overpaying while going through the deal is to not focus entirely on the past accounts but also to determine the future prospects of the deal such as that of free cash flows¹⁵. The company should also aim to strengthen and sustain the company's product position and share margin in the market. In addition to this, an analysis as to the company's future market line also needs to be carried out.

7. MEASURES POST ACQUIRING AN IP ASSET

As pre merger measures decides the basis of the integrating relationship, likewise there are huge set of post merger compliances which determines the fate of the restructuring or combination of separate entities and which needs to be analysed at the pre merger stage itself before being decisive about the combination or restructuring. These post-merger compliances can be separately characterized in two sub heads:

- A. Statutory Compliances.
- B. Administrative Compliances.

The other forms of issues associated with the integration of two separate entities are the management of human resource and finances in order to yield planned synergies out of the restructuring or combination.

A. Statutory Compliances:-

There are various statutes and a regulation which needs special attention post the closing of the integration stage.

¹⁵ibid.

B. The Companies Act :-

The compliance associated with Companies act initiates by obtaining the authenticated copy of NCLT order sanctioning the scheme, which is followed by payment of Rs 1 Lakh towards the PM's Relief Fund by the transferor as well as the transferee each.

Further, both the entities are required to file the NCLT order sanctioning scheme in e-form INC 28 pursuant to section 12(6), 13(7), 58(5), 87 & 111(5) of the Companies Act, 2013 with the Registrar of Companies (RoC), following which the transferee company is required to conduct board meeting to take the scheme on record, to record date for determining the list of share holders of transferor company for issuing shares of the transferee company, to take note of the revised share capital and paid up capital in the Memorandum of Association (MOA) and Articles of Association (AOA) of the transferee company, and to take note for amending the objective clause in the MOA. Subsequently, the allotment of shares to the shareholders of the transferor's company are to be made. Following which payment of stamp duties are to be made on share certificate.

Form FC-GPR is to be filed with the Reserve Bank of India with respect to issuance of securities to the foreign investors of transferee company, if there are foreign investments in the entity¹⁶, and lastly, scheme related filings with governmental and regulatory authorities such as the applicable labour authorities, tax authorities are to be made. These would include filings for intimating the effectiveness of scheme and updating of authorities/ vendors/ counterparts records with the name of transferee company or transfer of registrations/ licenses from the name of transferor company to the transferee company¹⁷.

C. Foreign Exchange Management Act (FEMA), 2000:-

As per Regulation 7 of FEMA 2000, after a scheme of integration has been approved by the court, the transferee is allowed to issue shares to the shareholders of transferor's company who are non residents of India, however they should not exceed the allowed percentage of non resident shareholders as are prescribed by the RBI or as are prescribed under the foreign direct investment

¹⁶Form FC - GPR' (Reserve Bank of India, 11 February 2020) <https://rbidocs.rbi.org.in/rdocs/Forms/PDFs/AP110214_ANN.pdf> accessed 8 September 2020.

¹⁷ Shubham Katyal, 'Post Merger Adaptation – A significant element to successful deal' (Tax Guru, 22 November 2018) <<https://taxguru.in/corporate-law/mergers-acquisitions-global-perspective.html>> accessed 2 September 2020.

policy by FEMA and if such threshold is not upheld by the transferee company then the transferee's company is required to take approval of the Foreign Investment Promotion Board (FIPB) and the RBI before issuing shares to non residents.

D. The Competition Act, 2002:-

The objective behind the involvement of Competition Act in the process of restructuring or combination is to ensure that such restructuring does not hampers with the active competition law regime which is to secure healthy competition in the market.

By the virtue of Section 20 of the Competition Act, 2002 the Competition Commission of India (CCI) is empowered to take Suo Moto cognisance or upon receiving the information within one year from the date of combination or restructuring authorisation to look in to the combination or restructuring undergone in order to curb or prevent the anti competitive practices. However, under section 6(2) of the Competition Act, 2002 provides the transferee's with an option to provide a prior notice to CCI post closing of the integration declaring there combination or restructuring to be adhering the competitive regulations under the Competition Act, 2002 though this may not bar the CCI from taking cognisance if need be.

E. Indirect Taxes:-

On the appointed date the transferor may have the credit lying either in stock or in work in progress, in such circumstances the credit has to be transferred to the transferee company. However, the credit shall be allowed only if stock of inputs or work in progress is also transferred along with the factory to the new site of ownership and the inputs on which credit has been availed of are duly accounted for to the satisfaction of the tax department.

F. The Special Economic Zones Act, 2005 (SEZA):-

If an undertaking is empowered to the deductions under the SEZA and is being transferred before incorporating such deductions then no such deductions shall be admissible to the restructured or combined entity.

G. Stamp Duty:-

Stamp duty is another important aspect associated with post merger compliances. The transferee company and the transferor company must make sure that they pay the stamp duties. Prior to

acquiring a private company, the transferee company can get its shares dematerialized with National Securities Depository Ltd. (NSDL) and Central Depositories Services Ltd. (CDSL). In situations where the private companies AOA does not enumerate such provisions then the same must be included by way of an amendment, this would save on the stamp duty on transfer of shares to be paid by the transferee company¹⁸.

There is no stamp duty on the combination of holding and subsidiary companies. However, the stamp duty being a state subject may vary from state to state.

H. Administrative Conduct

There are various administrative conducts which needs to be carried out to provide proper finishing to the merger and acquisition process.

- a. To reorganize the structural framework for the new entity borne out as a result of the combination and restructuring to accommodate the employees of the transferor company.
- b. To notify the bank and other financial institutions about the novel state of the transferor and transferee companies.
- c. To restructure the insurance policies for the employees of the novel entity this is a result of the combination and restructuring of the transferor and transferee companies.
- d. To make necessary changes on the official website, employees id's etc.
- e. To reformulate the accounting policies.
- f. To promote the propagation of the new entity among the public, clients etc.

The set of statutory and administrative compliances provided aforementioned are not absolute and may vary depending upon the nature of transaction, business, industry, location, etc. for converting the combination and restructuring into a success mere fulfilment of statutory compliances is not adequate, the administrative duties do form an integral part in the construction of the road towards that success, hence administrative duties should not be frowned upon.

¹⁸ibid.

8. INTELLECTUAL PROPERTY AND TAX OPTIMISATION

The intellectual property rights acquired by the virtue of restructuring or combination of two separate entities, provides ample amount of opportunities for the acquiring entity to exploit the assets acquired in the form of IPR's, this may turn out to be a suitable means of tax planning and tax efficiency.

There are certain forms of strategies which may result in tax optimisation at its peak, such as : cross border transfer pricing and IP holding companies. In these strategies the acquiring entity on obtaining the IP assets may choose to sell it, license it to another company and extricate themselves from tax compliances. Another, way of tax optimisation is to park the IP by transferring the IPR to offshore tax havens until it is qualified to be exploited.

Generally, the entity controlling and utilising the IP assets are obligated to pay service tax and on the other hand the companies creating and acquiring the IPR's are also blessed with certain tax reductions in lieu of the costs incurred by them i.e. the legal costs, research and development cost, royalties, salaries, registration fees etc., after passing a period of one year. So when clubbed together, the wider ambit of tax optimisation on the part of the acquiring or IP assets creating entity can be clearly witnessed, if the acquiring entity dispense there IP assets to a third party on the basis of a licensing agreement or if they sell it to a third party they can clearly reduce there tax expenses.

Subsequently, a company which has presence in multiple countries may incur major forms of complications in determining the tax implications, hence the pre merger compliances should also include the pre determinations and due diligence to look over the tax treaties among the nations, if any or else the tax requirements and taxation in the foreign jurisdictions¹⁹.

9. INTELLECTUAL PROPERTIES AND JURISDICTION ISSUES

The firms acquiring the IP assets often tends to use such assets in more then one country and the laws governing in the parent company of the acquiring firm are generally distinct from the IP laws in the host country, in such a scenario an ambiguity arises over jurisdiction. Generally, in these

¹⁹Singh (n 10).

situations the courts deals on the basis of the merits of the IP alone, or rely on the international conventions for the protection of IPR's²⁰.

10. CONCLUSION

Merger and acquisition is an essential and robust mechanism to expand the ambit of a company's market and is considered to be a healthy activity for the overall growth of the market. The Darwin's theory survival of the fittest can be clearly applied in the situation of mergers and acquisitions where a fitter company either acquires a lesser fit company for the expansion of their market or two companies who are struggling to survive in the market can merge together to obtain strength for their survival. However, this process eliminates many businesses in the market by acquiring them it is considered a boon for the market as a result of which there are several governmental schemes or enactments backing the promotion and propagation of this process.

“The only thing you really own is what you create, and the only thing you can create without needing someone else to give you raw materials first, is intellectual property” - Caliban Darklock²¹

As stated by Darklock, Intellectual property is the first property, which a company or a business acquires, therefore in the process of mergers and acquisitions there is ought to be transfer of intellectual properties, as they comprise of major assets of the acquired enterprise. In the research above the researcher has tried to enumerate various aspects in which an IP asset affects the process of merger and acquisition. Further by analysing ample of situations arising out of acquiring IP assets of a company during the process of merger and acquisitions the researchers are of the view that IP assets do have very strong affect on the process of merger and acquisitions. Hence, should be dealt with utmost caution, by adhering to statutory and administrative compliances, in order to obtain progressive outcomes from the combination, compromise, arrangement or restructuring.

²⁰ibid.

²¹ Anmol Mishra, 'Role of Intellectual Property in an Acquisition or Merger' (Legal Services India, 15 September 2020)<<http://www.legalserviceindia.com/legal/article-2693-role-of-intellectual-property-in-an-acquisition-or-merger.html>> accessed 15 September 2020.

MORAL RIGHTS AND ITS SHORTCOMINGS IN INDIA

Vrishti Shami*

ABSTRACT

This paper focuses on moral rights in India and the drawbacks of the provisions. This paper was motivated by the Charging Bull- Fearless Girl controversy that occurred in the USA. In an attempt to understand whether such cases are possible in India or not, this paper has looked at a similar instance where the 'Kala Ghoda' statue in Mumbai was removed and a similar statue was reinstated there. Other examples such as that of the Manu statue in front of the Rajasthan High Court have also been briefly mentioned. The purpose of using these examples is to demonstrate how the open ended wording of Section 57 allows for a wide range of cases to be registered currently. The juxtaposition of the same with the laws in the USA is then used as a means to emphasize the benefits of a well defined law. The aim of this paper is to thus assert that while there is a need for the promotion of artistic expression, to grant rights for the same with such a free hand can prove deleterious in the longer run. Hence, there is a need for reforming the current provision.

Keywords: Moral rights, copyrights, USA, charging bull, artistic expression.

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1. INTRODUCTION

Moral rights are the rights bestowed upon an artist that allow them to practice ownership over their work even after it has been sold to someone else.¹ This allows them to control how their work is treated post the sale.² The purpose of providing such rights is to encourage artistic forms of expression to flourish. Moral rights have thus also been read into The Copyright Act, 1957. However, the scope of moral rights under the Act is too broad. This may prove detrimental, especially in instances where Cultural Revolution has led to alteration of the meaning associated with statues. Thus, this paper uses such instances to elucidate the shortcomings of the definition of moral rights within the Copyright Act. Furthermore, it will rely on the ‘Charging Bull- Fearless Girl Controversy’ to illustrate the need for more comprehensive laws for moral rights. Using these instances, it will highlight the changes that are needed in the current Indian provision.

This paper has primarily relied on the case of *Amarnath Sehgal v Union of India*³ to understand the Indian interpretation of moral rights. However to understand the definition and scope of moral rights internationally, Andy M Adler’s paper titled ‘Against Moral Rights’ has been relied upon.⁴ This paper aims to argue that moral rights have endangered artistic expression under the guise of protecting them.⁵ This paper has played a crucial role in outlining the intention behind the creation of moral rights. Furthermore, this paper has been relied upon to explain moral rights as they exist under the American statute; Visual Artists Rights Act of 1990 (VARA). Additionally, Adler’s critique of fossilising artwork has been imperative for enhancing the argument on the need for more exhaustive laws in India.

Bhushan Tilak Kaul’s paper ‘Copyright Protection: Some Hassles and Hurdles’⁶ has also been heavily cited. Kaul’s paper highlights the shortcomings within the Copyright Act.⁷ This paper has been used since it has deeply analysed the problems with the Indian interpretation of moral rights. Kaul’s analysis of India’s failure to reproduce the European outlook on moral rights has been

¹Amy M Adler, ‘Against Moral Rights’ (2009) 97(1) California Law Review <<https://www.jstor.org/stable/20441070>> accessed 11th December 2020.

² *ibid.*

³ *Amar Nath Sehgal v Union of India and Anr* 2005 (30) PTC 253 (Del).

⁴ Adler (n 1).

⁵ *ibid.*

⁶ Bhushan Tilak Kaul, ‘Copyright Protection: Some Hassles and Hurdles’ (2004) 46(2) Journal of Indian Law Institute <<https://www.jstor.org/stable/43951906>> accessed 11th December 2020.

⁷ *ibid.*

paramount in illustrating the drawbacks in the Indian statute. These two articles have therefore played a crucial role in this paper since the former has assisted in juxtaposing Indian law with the American law while the latter paper has proved crucial in shedding light on the shortcomings of the Copyright Act in understanding moral rights.

2. MORAL RIGHTS IN THE INDIAN CONTEXT

Moral rights in India are encapsulated under Section 57 of The Copyright Act, 1957. This provision is a realization of Article 6bis of the Berne Convention. The latter provision states, “the author shall have the right to claim authorship of the work and to object to any distortion, mutilation or other modification of the said work.”⁸ The same has been reiterated in the former provision where Section 57(1) (a) allows the author to claim authorship over their work⁹ and Section 57(1)(b) mandates that the author may claim any damages for distortion of their work.¹⁰ These provisions were heavily relied upon in the case of Amarnath Sehgal; this case played a pivotal role in clarifying the Indian court’s stance on the matter. In this case the plaintiff, who was a renowned artist, was commissioned to create a mural for the lobby in Vigyan Bhawan, Delhi.¹¹ However, in 1979 the Mural was removed from the lobby and kept in the store room without informing the plaintiff.¹² The plaintiff then filed a suit under Section 57 claiming damages and an apology from the Indian authorities. Here the court held that, “Moral rights also promote the development of a social attitude of respect toward individual creativity. While authors must accept the responsibilities which accompany the privileges of creative work, is incumbent upon both the public and the state to acknowledge the value of artists' contributions to cultural heritage.”¹³ The court thus held that relying on Article 6bis of the Berne Convention and Section 57 of the Copyright Act, the plaintiff must be paid damages. Additionally, the court also mandated that the state government should issue an apology to the plaintiff.¹⁴ While this case played a crucial role in establishing the role of moral rights in India, there are still some drawbacks within the provision which have not been addressed. Firstly, Section 57(1) (b) merely states that an author may claim damages over the distortion of their work. However, the definition of ‘distortion’ has not been

⁸Berne Convention for the Protection of Literary and Artistic Works 1971, Art 6bis.

⁹Copyright Act 1957, s. 57(1) (a).

¹⁰Copyright Act 1957, s. 57(1) (b).

¹¹Amar Nath Sehgal (n 3).

¹² *ibid.*

¹³Amar Nath Sehgal (n 3).

¹⁴ *ibid.*

stated anywhere in the Act. Similarly, while the court in the Amarnath Sehgal case stated that “physical destruction or loss of intellectual property has far reaching social consequence¹⁵”, there was no mention of practice of one’s moral rights being limited to only physical destruction of their work. Further, the judge held that the words ‘any other modification’ should be read *ejusdem generis* with the words ‘distortion’ and ‘mutilation’. This judgement has therefore been described as one which elevates the cultural, over the merely proprietorial and industrial, aspects of copyright.¹⁶

3. MORAL RIGHTS AND STATUES IN INDIA

The aforementioned case law and provision state the open ended nature of moral rights in Indian law. Bhushan Tilak Kaul has highlighted the same by underlining that while Section 57 has attempted to embody the provisions of the Berne Convention, it has overlooked the history and cultural importance associated with the law. As a result, the Indian law is only a poor emulation of the intended law. Hence, Section 57 extends the frontiers of *droit moral* far beyond the European jurisdictions which gave birth to them.¹⁷

Firstly, since Section 57(1) (b) allows assertion of moral rights in instances of any modification, cases where the artwork appears to be disrupted due to the contextual change in their interpretation may also be accepted by the courts. While such a case may later on be rejected, there is no legal scholarship preventing the admission of such a case in court since it will *prima facie* appear to be a valid law suit. The same may be understood using the example of statues in India as well. For instance, recently a new ‘Kala Ghoda’ statue was erected in Mumbai. The original statue, sculpted by Joseph Boehm, was erected in Mumbai in 1900. This statue portrayed King George riding a Black horse. However, this statue was removed in 1965 and transferred to the Byculla Zoo since it was believed that the statue commemorated colonisation.¹⁸ Nonetheless, in 2017, a statue of a lone black horse was inaugurated in the same spot where the original statue stood. The new statue symbolises a piece de resistance, it is also seen as a celebration of Mumbai’s cultural history while

¹⁵Amar Nath Sehgal (n 3).

¹⁶Kaul (n 6).

¹⁷ *ibid.*

¹⁸Anshika Jain ‘The Tale of Kala Ghoda’ (*Live History India* November 12 2018) <<https://www.livehistoryindia.com/snapshort-histories/2018/11/12/the-tale-of-the-kala-ghoda>> accessed 11th December 2020.

ignoring the negative aspects of colonisation.¹⁹The Kala Ghoda statue is not the only instance of the removal of reminders of the British Raj in India. Several other statues such as Lord Cornwallis' statue in Mumbai and King George's statue which previously stood in front of the India gate in New Delhi have also been removed over the years.²⁰Similarly, there has also been a recent call for removing Manu's statue from the High Court in Rajasthan. It is claimed that this statue is not just a religious symbol, but also a symbol of discrimination, oppression and subjugation.²¹These instances highlight the social changes that take place over time, thus altering the meaning of any art form. Hence while the statues may have been celebration of an individual at the time that they were sculpted, fluctuating social circumstances may make the art form a reminder of oppression. In such situations, where the meaning associated with an art form is not guaranteed, the demand for the removal of a statue that subsequently becomes oppressive may invite suits where the creators assert their moral rights.

The second issue that must be discussed is that of the time period associated with moral rights. Article 7(1) of the Berne Convention mandates that, "The term of protection granted by this Convention shall be the life of the author and fifty years after his death."²² Thereby ensuring that the author' is granted moral rights for fifty years after their death.²³ Similarly, Section 22 of the Copyright Act allows legal representatives of an author to assert moral rights on their behalf for sixty years after the death of the author.²⁴However, Section 24 claims, "In the case of a literary, dramatic or musical work or an engraving, in which copyright subsists at the date of the death of the author copyright shall subsist until [sixty years] from the beginning of the calendar year next following the year in which the work is first published."²⁵ The latter provision will be applicable in the present instance since although Joseph Boehm passed away December 1890, his sculpture

¹⁹ Mustansir Dalvi 'The new horse statue in Kala Ghoda embodies Mumbai's efforts to create a false memory' (*Scroll.in* January 28 2017) <<https://scroll.in/article/827837/the-new-horse-statue-in-kala-ghoda-embodies-mumbai-efforts-to-create-a-false-memory>> accessed 11th December 2020.

²⁰Vaishnavi Chandrashekhar, 'How Colonial Statues vanished from India's cities' (*Times of India* July 15 2017) <<https://timesofindia.indiatimes.com/india/how-colonial-statues-vanished-from-indias-cities/articleshow/76703063.cms>> accessed 12th December 2020.

²¹Dhruv Jadhav and Aditya Wakhlu, 'A Symbol of Injustice' (*The Indian Express* July 31 2020) <<https://indianexpress.com/article/opinion/a-symbol-of-injustice-manu-statue-rajasthan-high-court-6533021/>> accessed 12th December 2020.

²²Berne Convention for the Protection of Literary and Artistic Works 1971, Art 7(1).

²³ *ibid.*

²⁴Copyright Act 1957, s 22.

²⁵Copyright Act 1957, s. 24.

was erected in 1900. Thus, the time period of moral rights would extend to 1960. It is pertinent to note here that Boehm's legal representatives may then not be able to contest the removal of the Kala Ghoda statue in 1965, and the installation of the new statue in 2017. However, they could still claim that due to the attainment of independence in 1947, the sculpture has been distorted. It no longer signified the glory of the British Rule, but was rather indicative of its oppressive nature. As has been mentioned above, such a law suit may eventually be rejected. However, its admissibility could not be questioned since there is no provision qualifying the definition of 'distortion' under the 1957 Act. Nonetheless, this could prove detrimental for the Courts that are already overburdened with cases.

4. 'CHARGING BULL- FEARLESS GIRL CONTROVERSY' AND THE VARA

To better understand the need for more effective moral rights, we must look at the 'Charging Bull- Fearless Girl' controversy that recently occurred in the USA. The controversy began when the Sculptor of the Charging Bull; Arturo Di Modica claimed that the installation of the Fearless Girl statue opposite to his artwork altered the meaning of his work and was thus an insult to his creation.²⁶Di Modica's creation was installed on the Wall Street in 1989 post the Wall Street Crash to encourage people to keep persevering. The Fearless Girl on the other hand, was created by Kristen Visbal and was erected on Wall Street in 2017 to symbolise female empowerment and gender equality in the work place.²⁷However, Di Modica, creator of the Charging Bull, has claimed that the installation of Kristen Visbal's work distorts the meaning of his work to a symbol of male chauvinism rather one of courage and persistence. Further, he has claimed that such a distortion is an infringement of his authorship rights granted to him under his moral rights.²⁸To better understand this, we must look at the Act that grants moral rights to artists in the USA; the Visual Artists Right Act (VARA). VARA was introduced in 1990 in the USA to grant rights to visual artists. This was considered a crucial law since it granted artists moral rights.²⁹However, unlike the Indian law, VARA grants rights of authorship only over forms of physical distortion of the

²⁶ James Barron 'Wounded by 'Fearless Girl' creator of 'Charging Bull' wants her to move' (*The New York Times* 2017) <<https://www.nytimes.com/2017/04/12/nyregion/charging-bull-sculpture-wall-street-fearless-girl.html>> accessed 13th December 2020.

²⁷ Renae Merle "'Fearless Girl' sets off a storm of debate' (*The Chicago Tribune* 2017) <<https://www.chicagotribune.com/business/ct-fearless-girl-statue-debate-20170421-story.html>> accessed 10th December 2020.

²⁸ Barron (n 24).

²⁹ The Visual Artists Rights Act 1990, 5 17 U.S.C. § 106A (a)(3)(B) (2017).

author's work. The same has been enshrined in Exception 1 of Section 106A as well; "The modification of a work of visual art which is a result of the passage of time or the inherent nature of the materials is not a distortion, mutilation, or other modification described in subsection (a)(3)(A).³⁰" Hence, although Arturo Di Modica may be deeply upset about the positioning of the Fearless Girl opposite his Charging Bull, he cannot contest the same since the positioning of the new statue does not in any way physically alter his work.

A. Why is VARA important?

VARA is a crucial law since it consists of comprehensive provisions on moral rights. The specification of the right to integrity being limited only to physical distortions is perhaps one of the most salient features of the Act. Andy M Andler explains the same, "We may be truer to the spirit of contemporary art if we start from the premise that it exists to be violated, reworked, and even destroyed rather than to be embalmed and preserved just as the artist intended."³¹ Such a law leaves room for multiple interpretations of the artwork and creates avenues for it to evolve over the years rather than become a redundant creation. Subsequently, VARA also prevents arbitrary law suits such as the 'Charging Bull- Fearless Girl' from reaching the courts.

B. Reforms needed in India

While some people may argue that the wide nature of India's stance on moral rights is beneficial for promoting artistic forms of expression, it is evident from the 'Charging Bull- Fearless Girl' controversy that too broad a law may aid in curbing artistic expression as well. This would be possible since a wide interpretation of the law would allow the original creator to curb any other artistic expression, which they believe threatens their work, which was also Arturo Di Modica's intention. To prevent such situations from arising India must introduce significant amendments into Section 57. The Copyright Act must include the definition of the term 'distortion'. It is imperative that a view similar to the one taken by the law makers in VARA is adopted since this would allow the creators to practice right to paternity while being forbidden from limiting another creator's right to integrity.

³⁰The Visual Artists Rights Act 1990, 5 17 U.S.C. § 106A(c)(3)(2017).

³¹Adler(n 1).

5. CONCLUSION

This paper has aimed to highlight the shortcomings of Moral rights as stated in Section 57 of the Indian Copyright Act. In order to do so we first analysed the law and its origins; this consisted of looking at the *Amarnath Sehgal v Union of India* case as well as select provisions of the Berne convention. This was then followed by developing a contemporary understanding of moral rights by using the removal and contestation of various statues across India. The discussion on statues was used to highlight the problems in both Section 57(1)(b) as well as Section 57(2). To further examine the problems associated with moral rights that do not define 'distortion of artwork' we looked at the recent 'Charging Bull- Fearless Girl' controversy in the USA. To examine the same, we also looked at VARA and the article by And M Adler. The article was used to highlight the need to let art evolve with the changing times, which was then used to demonstrate the need for more comprehensive laws on Moral rights in India. The same has been justified on grounds that while laws that are too stringent may curb artistic expression, laws as vaguely worded as those in Section 57 may disallow second generation creators to come up by granting previous authors absolute authority in the matter. It is thus my opinion that there is a need for the inclusion of a time period and definition of 'distortion' in the Act in order to promote better and more inclusive forms of artistic expression.

**JUSTIFYING THE DISSOLUTION OF
THE INTELLECTUAL PROPERTY APPELLATE BOARD
IN THE BACKDROP OF THE TRIBUNAL REFORM BILL, 2021**

*Anirudha Sapre and Madhav Deepak**

ABSTRACT

It is no secret that the Indian Judiciary is overburdened. Around twenty thousand Indian Judges trying to handle millions of cases has led to massive delays in delivering sound and fair verdicts. This burden on the Courts had led to the Government trying to find more effective ways of delivering Justice at a speedy rate. The most significant solution to this problem was the establishment of quasi-judicial bodies called Tribunal which dealt with matters in specific fields of law. Tribunals could ensure an alternate way of dealing with cases without burdening the Higher Judiciary, as well as include professionals who had expertise in these specific fields, thereby reducing long-drawn litigations. The Intellectual Property Appellate Board (IPAB), set up in 2003, was one of the Tribunals to be shut down under the Tribunal Reforms Ordinance, 2021. In its seventeen years of existence, the IPAB has divided opinions among academicians and professionals alike. Some have argued that its existence has helped Intellectual Property professionals in ensuring cheaper and faster disposal of cases, while others have accused it of red-tapism and administrative problems. This paper attempts to analyse whether the IPAB has succeeded in being an efficient organization capable of delivering justice. This paper also studies whether the proposed shutting down of the IPAB is justified or not. Lastly, this paper will attempt to predict the future of Intellectual Property litigation in India, and whether the IPAB should be replaced by another quasi-judicial body.

Keywords: IPAB, Tribunal, Trademark, copyright, high courts.

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1. OVERVIEW OF THE INDIAN TRIBUNAL SYSTEM

“Justice delayed is Justice denied”

Nowhere does this maxim hold more meaning than in India. This delay in verdicts has not only resulted in significant monetary for many parties involved in the litigation process, but has also reduced the faith of the common man in the judiciary. A survey of litigants showed that more than 60% of the respondents believed that the delay in their own cases was due to the judge not passing orders quickly enough.¹ In order to reduce pressure on the common law courts and to secure speedy disposal of cases in various forums relating to service matters, revenue, claims by and against the government and certain other matters of special importance in the context of psycho-economic development and progress, some quick means of adjudicating cases in various forums had to be evolved and the result has been the growth of Tribunals.² The 42nd Constitutional Amendment added a new chapter incorporating new provisions, namely article 323-A and 323-B of the Constitution, which took out adjudication of the matters specified there in from the jurisdiction of common law civil courts and the original side of High Courts and placed them before specified tribunals.³ Article 323-B gave the Central and State Legislatures the power to establish Tribunals to adjudicate disputes relating to Taxation, Foreign exchange, import and export, labor, land reforms, intellectual property (IP), urban property, elections to Parliament and state legislatures, food and rent and tenancy rights.⁴

A ‘Tribunal’ is an administrative body established for the purpose of discharging quasi-judicial duties.⁵ An Administrative Tribunal is neither a Court nor an executive body.⁶ It stands somewhere midway between a Court and an administrative body.⁷ The Tribunals have the power to adjudicate over a wide range of subjects that impact everyday life and function as an effective mechanism to

¹Alok Prasanna Kumar, ‘Delayed Justice: When Justice Arrives Too Late’, (*LiveMint*, 7 June 2016), <<https://www.livemint.com/Politics/AaR91YL6KuVo3ZcN3q3JfO/Delayed-justice-When-judgement-day-arrives-too-late.html>> accessed 13 October 2021.

²R.C Saxena, *Adjudication by Tribunals: Landmark in Field of Natural Justice*, 37 *Journal of the Indian Law Institute* 222, 223 (1995).

³*ibid.*

⁴The Constitution of India 1950, art 323.

⁵ Law Commission of India, *Assessment of Statutory Frameworks of Tribunals in India*, Report No. 272 (Issued on October, 2017).

⁶Law Commission of India (n 5).

⁷*ibid.*

ameliorate the burden of the judiciary.⁸ Tribunals, comprising of Judges and technical experts, can provide their expertise in niche areas of law, and can speed up the litigation process by identifying relevant evidence and interpreting the law faster than normal courts.

The Administrative Tribunals Act was passed in 1985, under Article 323A; section 28 of this Act provided for the exclusion of jurisdiction of all courts, except that of the Supreme Court under Article 136.⁹ One controversial characteristic of this Act was the constitutionality of section 28. As judicial review is part of the basic structure of the Constitution, excluding it from a legislature was not looked at favourably by professionals at that time. This was also accepted by the Constitution Bench of the Supreme Court in *S. R Sampath Kumar v. Union of India*¹⁰, but the Court added that the creation of alternate institutional mechanisms, which were as effective as the High Courts, would not be violative of the basic structure.¹¹ The administrative Tribunals under the Act were recognized as effective substitutes to the High Courts. However, there remains a healthy division of responsibilities between Tribunals and High Courts. Over the last 50 years, the High Courts have decided substantial questions of law in tax references appeals and revisions made against orders passed by Tribunals.¹² Questions of fact are concluded before the tribunals and the High Courts are concerned only with questions of law, which usually involve the interpretation of a statute or a document.¹³

However, the Tribunal system is not perfect. It is laden with several problems, like: -

- Appointment and Removal of Members: - Tribunal chairpersons are appointed after consulting the Chief Justice of India, and members are typically recommended by a selection committee.¹⁴The Tribunal, Appellate Tribunal and other Authorities (Qualifications, Experience and other Conditions of Service of Members) Rules, 2017, gave the Centre the power to “make rules to provide for qualifications, appointment, term of office, salaries and

⁸Law Commission of India (n 5).

⁹ Arun Roy V. & Vishnu Jerome, *Administrative Tribunals in India - A Welcome Departure from Orthodox*, 12 Student ADVOC. 60,65 (2000).

¹⁰*S. R Sampath Kumar v Union of India* AIR 1987 SC 386.

¹¹Roy & Jerome (n 9).

¹² Arvind P. Datar, ‘The Tribunalisation of Justice in India’, (2006) ACTA JURIDICA 288, 293.

¹³ibid.

¹⁴ Arijit Ghosh, Diksha Sanyal, Raunaq Chandrashekhar, ‘Reforming the Tribunals Framework in India: An Interim Report’, (*Vidhi Centre for Legal Policy*, April 2018) <<https://vidhilegalpolicy.in/research/2018-6-11-reforming-the-tribunals-framework-in-india-an-interim-report-1/>> accessed 13 Oct 2021.

allowances, resignation, removal and the other terms and conditions of service” for judges appointed to 19 tribunals. This included the IPAB.¹⁵ Due to this, the judicial independence of Tribunals has been compromised.

- High Pendency Rate of cases: - Despite the system being swift sounds good in theory, things have not exactly turned out that way. As of 2017, the pendency rate across Tribunals was worryingly high at 94%¹⁶. This is a result of systematic issues such as high percentage of failed hearings, and leniency in case of delay in filing and being absent during a hearing.¹⁷
- Judicial Review: - As mentioned before, time and again the issue of Judicial Review turns its head and stirs up controversy. In the case of *L Chandrakumar v. Union of India*¹⁸, the Supreme Court pointed out two main problems with directly approaching the Supreme Court in case of appeals. One was that the direct appeal was too costly for litigants, and the other was that it increased the burden on the Supreme Court. The Court suggested that an appeal of a decision of the Tribunal on question of law could be entertained at a Division Bench of the High Court, which shared the same territorial jurisdiction with the Tribunal.¹⁹

Hence, a broad overview of the Tribunal system shows that even though Tribunals are relied on, they have failed to meet the purpose for which they were formed. The burden on Courts remains more or less the same. The costs of maintaining these Tribunals have also been a talking point. In the end, a well-functioning Tribunal system would not attract such scrutiny, and would vastly improve the disposal rate of cases. If it does not work well enough, its existence could be called into question, which is what has happened with the Intellectual Property Appellate Board.

2. THE TRIBUNAL REFORMS BILL, 2021.

Before we study the IPAB more closely, it is important to understand what the Tribunal Reforms (Rationalization and Conditions of Service) Bill, 2021 (“the Bill”), aims to achieve, and its short-term and long-term consequences not just for the IPAB, but for all the Tribunals affected.

¹⁵Prashant Reddy, ‘Has the Government Signed the Death Warrant for the Judicial Independence of 19 Tribunals’, (*Scroll.in*, 5 June 2017) <<https://scroll.in/article/839588/has-the-government-signed-the-death-warrant-for-the-judicial-independence-of-19-tribunals>> accessed 13 October 2021.

¹⁶Law Commission of India (n 5).

¹⁷Ghosh, Sanyal & Chandrashekar (n 14) 19.

¹⁸*L Chandrakumar v Union of India* AIR 1997 SC 1125.

¹⁹*ibid.*

The Bill was introduced in the Lok Sabha on 13th February 2021 by Finance Minister Nirmala Sitharaman.²⁰ The Bill was passed as The Tribunal Reforms (Rationalization and Conditions of Service) Ordinance, 2021 (“the Ordinance”) on 4th April 2021²¹ as it could not get parliamentary approval and has resulted in the dissolution of tribunals constituted under nine acts, and their functions have been transferred to different Courts.²² The Tribunals apart from IPAB that were dissolved are as follows: -

- A. The Film Certificate Appellate Tribunal (FCAT): - The FCAT was set up under the Cinematograph Act, 1952.²³ The main responsibility of the FCAT was to hear appeals filed under Section 5C of the Cinematograph Act, by applicants for certification aggrieved by the decision of the Central Board of Film Certification (CBFC).²⁴ The FCAT has delivered verdicts on some of the most controversial films released in the past decade, some of them being praised and some criticized heavily. Verdicts were given on the release of films such as *Lipstick Under My Burkha* (2017), *Haraamkhor* (2015) and *Kaalakandi* (2018).²⁵ Dissolution of the FCAT means that appeals on the decision of the Central Board of Film Certification (CBFC) will be heard by the High Court, which has induced anger and frustration in the film industry.
- B. The Authority for Advance Rulings: -This authority, pursuant under the Customs Act, 1962²⁶, primarily dealt with customs related applications and pending cases regarding Central, Excise & Service tax, and had the authority on par to that of a Civil Court under the Code of Civil Procedure, 1908.²⁷ Under the new Ordinance, appeals before the tribunal shall be transferred to the High Court.

²⁰*The Tribunal Reforms (Rationalization and Conditions of Service) Bill, 2021*, PRS Legislative Research (February 13, 2021) <https://prsindia.org/billtrack/the-tribunals-reforms-rationalisation-and-conditions-of-service-bill-2021>.

²¹*Government Issues Tribunal Reforms Ordinance, The Hindu* (New Delhi, 7 April 2021) <<https://www.thehindu.com/news/national/govt-issues-tribunals-reforms-ordinance/article34262521.ece>> accessed 13 October 2021.

²²*ibid.*

²³ The Cinematograph Act 1952, s 5.

²⁴*Ektaa Malik, 'Explained: The Role and Significance of the Film Certification Tribunal, Now Abolished', The Indian Express* (New Delhi, 8 April 2021) <<https://indianexpress.com/article/explained/the-role-significance-of-film-certification-tribunal-now-abolished-7263409/>> accessed 13 October 2021.

²⁵*ibid.*

²⁶ The Customs Act 1962, s 28(EA).

²⁷ The Customs Act 1962, s 28(L).

C. The Airport Appellate Tribunal (AAT): - The AAT was established under the Airports Authority of India Act, 1994²⁸, and dealt with claims related to eviction from airport premises, and had the power to hear appeals against the order of the Eviction Officer who had the power to evict persons in unauthorized occupation of airport premises.²⁹The AAT, pursuant to the Finance Act, 2017, also acted as the Tribunal to hear appeals under the Control of National Highways (Land and Traffic) Act, 2002.³⁰ Under the Ordinance, matters relating to disputes arising from the disposal of properties left on airport premises by unauthorized occupants would be handled by the Central Government, and appeals against an order of the Eviction Officer would be heard by the High Court. Appeals filed under the provisions of the Control of National Highways (Land and Traffic) Act, 2002, would be heard by the Civil Courts.

3. THE INTELLECTUAL PROPERTY APPELLATE BOARD

The IPAB was the most controversial Tribunal that was dissolved under the Tribunal Reforms Ordinance. Founded in 2003 under the Trademarks Act, 1999³¹, the IPAB had jurisdiction equivalent to that of High Courts in IP matters. The IPAB had the power to hear appeals against the orders and decisions of the Registrars of Trademarks, Geographical Indications and Patents.³² Pursuant to the Finance Act of 2017, the IPAB was rationalized with the Copyright Board and, in 2018, with the PVPAT, and heard matters relating to disputes under the Copyright Act and the Protection of Plant Varieties and Farmer's Rights Acts.³³

A. Composition: -

The IPAB consisted of the Chairman, Vice-Chairman, and other Members of the Tribunal as the Central Government deemed fit.³⁴The headquarters of the IPAB is situated in Chennai, with benches at Mumbai, Delhi, Kolkata and Ahmedabad. The qualifications of the Chairman of the

²⁸ The Airports Authority of India Act 1994, s 28(I) (1).

²⁹ Ghosh, Sanyal & Chandrashekhar (n 14) 71.

³⁰ The Control of National Highways (Land and Traffic) Act 2002, s 5(1).

³¹ The Trade Marks Act, 1999, s 83.

³² Alok Prassanna Kumar, Ketan Paul, 'State of the Nation's Tribunals: Part 2', (*Vidhi Centre for Legal Policy*, June 2014) <<https://vidhilegalpolicy.in/wp-content/uploads/2020/06/sTribunals-IPABFinalDraft.pdf>> accessed 13 October 2021.

³³ Pankhuri Agarwal, 'Copyright Board to Be Taken Over by The IPAB Under the Finance Bill, 2017, Passed by The Lok Sabha', (*SpicyIP*, 23 March 2017) <<https://spicyip.com/2017/03/copyright-board-to-be-taken-over-by-ipab.html>> accessed 13 October 2021.

³⁴ The Trade Marks Act 1999, s 84(1).

IPAB were that he/she had to be a sitting or retired Judge of a High Court, or should have, for at least two years, held the office of Vice-Chairman.³⁵ The Vice-Chairman of the IPAB was required to have held the office of a Judicial Member or a Technical Member for atleast two years, or should have been a member of the Indian Legal Service holding a post of Grade I or higher for at least five years, in order to qualify for the post.³⁶ A Judicial Member of the IPAB was required to have been a member of the Indian Legal Service and should have held the post in Grade I of that Service for at least three years, or should have held a civil judicial office for atleast ten years, in order to qualify for the post.³⁷ Lastly, a Technical Member of the IPAB was required to exercise the functions of a tribunal under the Trade Marks Act, or under the Trade and Merchandise Marks Act, 1958, or both, for atleast ten years, and should not have held a position lower than the post of a Joint Registrar for at least five years, or should have been an advocate specializing in Trademark Law for at least ten years, in order to qualify for the post.³⁸

Pursuant to the Finance Act, 2017³⁹, the Central Government held all the power to make rules regarding the qualification of the Chairman, Vice-Chairman and Members of the Tribunal, thereby effectively overriding the qualifications laid down in the Trademarks Act.

Under the Trademark Act, the Chairman of the IPAB was appointed by the Central Government with the Appointment Committee of Cabinet (“ACC”), on the recommendation of the Chief Justice of India.⁴⁰ The ACC appointed the Vice-Chairman and the remaining members of the IPAB, and the selection of a suitable candidate for the post of Vice-Chairman was made by a Search-cum-Selection Committee, which was approved by the ACC.⁴¹ Under the Finance Act, the power to make appointments was fully given to the Central Government, and under the provisions the Act, the Tribunal, Appellate Tribunal and other Authorities (Qualification, Experience and other Conditions of Service of Members) Rules, 2017, was formed, which was struck down by the Supreme Court in 2019 in the case of *Roger Mathew v. South Indian Bank Ltd and Othrs.*⁴² The Constitution Bench of the Supreme Court, held the rules unconstitutional as being violative of

³⁵ The Trade Marks Act 1999, s 85(1).

³⁶ The Trade Marks Act 1999, s §85(2).

³⁷ The Trade Marks Act 1999, s 85(3).

³⁸ The Trade Marks Act 1999, s §85(4).

³⁹ The Finance Act 2017, s 184(1).

⁴⁰ Kumar & Paul(n 32) 22.

⁴¹ *ibid.*

⁴² *Roger Mathew v South Indian Bank Ltd and Ors*(2018) SCC Online SC 500.

principles of independency of the judiciary. It referred to its previous decision in the case of *Madras Bar Association*⁴³, where the Constitution Bench of the Supreme Court dealing with the validity and appointment of members to the National Company Law Tribunal (NCLT) under the Companies Act, 1956, held that the selection committee should comprise the Chief Justice of India or his nominee (chairperson, with a casting vote), a senior judge of the Supreme Court or Chief Justice of the High Court, and secretaries in the Ministry of Finance and Ministry of Law and Justice respectively.⁴⁴

The term of office for the Chairman and Vice-Chairman was five years, or till they attained the age of sixty-seven, whichever one came earlier. For the other members of the tribunal the maximum age limit was sixty-two.⁴⁵ Under the Finance Act, the age limit for the Chairman of the IPAB was increased to seventy years, and for the other members of the IPAB, including the Vice-Chairman, the age limit was sixty-seven years.⁴⁶

B. Matters Handled by the IPAB: -

The IPAB had the jurisdiction to handle matters related not only to Trademark, but also matters related to Patents, Geographical Inventions, Copyright and Plant Varieties. It exercised all the powers of the appellate Court to go into the facts and the law in any given case and had the power to grant interim orders at the application and appeal stage, provided that the Court first explored the possibility of deciding the main matter expeditiously and had heard the other party on the matter.⁴⁷ As of 2021, the IPAB has disposed off around 3800 cases, with more than 3000 cases only relating to Trademarks.⁴⁸ Orders of the IPAB have been challenged in the High Court under Article 226 of the Constitution as well as in the Supreme Court.

The IPAB has suffered from a lot of criticism and scrutiny from the legal profession on its inefficiency, its lack of independence, and the appointments of the members of the Tribunal. Matters had only gotten worse for the IPAB with the passing of the Finance Act, 2017, and

⁴³*Madras Bar Association v Union of India* (2010) 11 SCC 67.

⁴⁴Rahul Unnikrishnan, 'Whither Tribunal Independence', *The Hindu* (New Delhi, 2 March 2020) <<https://www.thehindu.com/opinion/lead/whither-tribunal-independence/article30957940.ece>> accessed 13 October 2021.

⁴⁵The Trade Marks Act 1999, s 86.

⁴⁶The Finance Act 2017, s 184(1).

⁴⁷Kumar & Paul (n 32) 23.

⁴⁸'Disposal of Cases at IPAB: A Glance', (*Intellectual Property Appellate Board*, February 2021) <<https://www.ipab.gov.in/img/gallery/Performance-from-2004-onwards.png>> accessed 13 October 2021.

ultimately, the decision of dissolution of the Tribunal was seen as most favorable by the Government, along with large sections of the legal profession. The next part of this paper will analyse the causes of the dissolution of the IPAB, and the future for IP litigation in India.

4. JUSTIFYING THE DISSOLUTION OF THE IPAB

Before the inception of the IPAB, no questions were asked on whether a tribunal like this was even needed. The Government never held a discussion with the general public or the IP bar on whether such a tribunal was even required.⁴⁹From its creation in 2003, the IPAB was riddled with problems like lack of independency and administrative issues.

A. Lack of Independency from the Centre: -

As observed by the Supreme Court in the *Madras Bar Association Case*⁵⁰, independence of the judiciary is a constitutional principle that is required to maintain the integrity of a quasi-judicial body, something that was always missing from the IPAB. Even in its name, the IPAB suffered from being confused as a statutory body (like the Central Board of Direct Taxes or a State level Labor Welfare Board which are not Tribunals but statutory bodies) and not a quasi-judicial body. The reason why the IPAB has been studied as a Tribunal is due to the case of *Union of India v. R Gandhi, President, Madras Bar Association*⁵¹, where the Supreme Court observed that that whenever the existing jurisdiction of High Courts is transferred to a tribunal, it is a judicial tribunal.⁵²

While appointing the members of the Tribunal, the only step where a member of the Judiciary was involved was in the appointment of the Chairman, where the Chief Justice's recommendation was taken into consideration. While the appointment of the Chairman was made in consultation with the Chief Justice of India, the appointment of other members of the Tribunal did not require consultation with the Chief Justice of India, and were appointed by the ACC.⁵³Under Section 184 of the Finance Act, the appointment of members, salaries and allowances, appointment of staff

⁴⁹Prashant Reddy, Pranav Dhawan, 'The Case for Shutting Down the Intellectual Property Appellate Board (IPAB)', (*Spicyip*, 15 April 2020) <<https://spicyip.com/2020/04/the-case-for-shutting-down-the-intellectual-property-appellate-board-ipab.html>> accessed 13 October 2021.

⁵⁰*Madras Bar Association* (n 43).

⁵¹*Union of India v R Gandhi, President, Madras Bar Association* (2010) 11 SCC 1.

⁵²Kumar & Paul (n 32) 24.

⁵³*ibid.*

members and clerks, everything came under the purview of the Central Government. In the case of Section 184, the powers in that provision go to the root of judicial independence because as established in *Shamnad Basheer v Union of India*⁵⁴, issues of appointment process and qualification criteria directly affect judicial independence of the IPAB.⁵⁵

The petition filed by Dr. Basheer challenged the constitutionality of the IPAB and exposed some deep-rooted problems that plagued the tribunal ever since its inception. The petition was filed in 2011, when the IPAB was under the control of the Department of Industrial Policy and Promotion (DIPP), Ministry of Industry and Commerce. The petition pointed out to how the DIPP in its Annual Report for 2010 listed the IPAB as one of its subordinate or allied organizations and how the DIPP handled all RTI queries pertaining to the IPAB despite the IPAB being a quasi-judicial authority in itself.⁵⁶ It also highlighted how the appointment and removal procedure for members of the Tribunal was completely different to that of High Court and Supreme Court Judges. The petition contended that Section 85 of the Trademarks Act was unconstitutional, as it failed to separate the judiciary from the executive.⁵⁷

The Madras High Court, in 2015, partially held the case in favor of the petitioner, and struck down certain sections of the Trademarks Act as unconstitutional. In particular, the Court stated: -

*“Apropos recommendation of search cum selection committee required to be approved by the appointment Committee of the Cabinet for the post of Vice-Chairman and other members, we hold that the said methodology is also totally unconstitutional as it impinges upon the independence of the judiciary.”*⁵⁸

In summation, the Court held Section 85(2)(b), which provided for the qualification to the post of Vice-Chairman by being a member of the Indian Legal Service for atleast five years, and Section 85(3)(a), which provided for the eligibility of a member of the Indian Legal Service that held the

⁵⁴*Shamnad Basheer v Union of India* W.P.No. 1256/2011.

⁵⁵Prashant Reddy, ‘Appointments and Independence of the IPAB after the Finance Act, 2017’, (*SpicyIP*, 3 May 2017) <<https://spicyip.com/2017/05/appointments-and-independence-of-the-ipab-after-the-finance-act-2017.html>> accessed 13 October 2021.

⁵⁶Prashant Reddy, ‘Madras High Court Admits Petitions Challenging the Constitutionality of the IPAB and Copyright Board’, (*SpicyIP*, 27 January 2011) <<https://spicyip.com/2011/01/breaking-news-madras-high-court-admits.html>> accessed 13 October 2021.

⁵⁷*Shamnad Basheer* (n 54) para 8.1.

⁵⁸*Shamnad Basheer* (n 54) para 9.5.

post of Grade I of that Service for at least three years for qualification for appointment to the post of a Judicial Member in IPAB, as unconstitutional.⁵⁹ The Court held that only a person who, in the post of Joint Registrar or above with the qualification of 12 years of practice at bar or 12 years' experience in a State Judicial Service with a degree in Law, along with other qualifications alone was to be considered to be appointed as a Technical member.⁶⁰

With regards to funding, the IPAB was completely dependent on the Ministry of Industry and Commerce, and often suffered from a lack of funding, which resulted in inefficiency in conducting timely hearings and other proceedings. A very detailed report by Justice Prabha Sridevan⁶¹, who served as the Chairman of the IPAB from 2011 to 2013, highlighted how the lack of funding from the Government affected the day-to-day affairs of the IPAB. The detailed study of the report shall be done under the next sub-heading.

B. Inefficiency and Delays: -

The IPAB has almost always operated in an inefficient manner, from handling of cases to appointment of its chairpersons. In its 17 years of existence, the IPAB has not had a Chairperson for a cumulative total of 1,130 days.⁶² In 2006, there was a gap of almost 9 months between the retirement of Justice Jagadeesan and appointment of Justice M.H.S. Ansari as the Chairman of the IPAB.⁶³ Similarly, there was a gap of another 9 months between the retirement of Z.S. Negi and the appointment of Justice Prabha Sridevan in 2011 and there was a delay of around a year and 8 months between the retirement of Justice K.N. Basha and the appointment of Justice Manmohan Singh in 2018.⁶⁴ This also resulted in the IPAB conducting zero hearings in the Chennai Bench for more than a year, which resumed only after Justice Singh was appointed.⁶⁵ At the time of resuming hearings, almost 630 cases were pending before the bench, as a result of the delay in appointing a Chairman.⁶⁶

⁵⁹*Shamnad Basheer* (n 54) para 10.

⁶⁰*ibid.*

⁶¹ Prashant Reddy, 'Justice Sridevan's Report Exposes the Central Government's Apathy Towards IPAB', (*SpicyIP*, 27 September 2011) <<https://spicyip.com/2011/09/justice-sridevans-report-exposes.html>> accessed 13 October 2021.

⁶² Reddy & Dhawan (n 49).

⁶³ *ibid.*

⁶⁴ Reddy & Dhawan (n 49).

⁶⁵ Sanjay Vijayakumar, 'Two Years On, IPAB Chennai Bench resumes hearing', *The Hindu* (New Delhi, 27 February 2018) <<https://www.thehindu.com/news/cities/chennai/two-years-on-ipab-chennai-bench-resumes-hearing/article22860928.ece>> accessed 13 October 2021.

⁶⁶*ibid.*

Aside from delays, there have also been instances where members of the Tribunal have been unqualified for the post. In 2011, one Mr. Syed Obaidur Rahaman, who had been appointed as a technical member for Trademarks of the IPAB, was found to have provided incorrect information on his application.⁶⁷ As per the application form for the post of Technical Member, IPAB all applicants were required to cite the judgments in which they have appeared because the Trade Marks Act, 1999 required the appointment of either former Trade Mark Registrars or advocates with extensive experience in Trade Mark Law.⁶⁸ Mr. Rahaman claimed to have appeared in *Lever v. Goodwin*, an English case dating back to 1887. In another instance, a technical member for trademarks was appointed despite objection from the then Vice-Chairperson of the IPAB to his appointment on the grounds that he lacked any substantial experience in trademark matters.⁶⁹ The selection of one Mr. Sanjeev Kumar Chaswal was objected to by the then Vice-Chairperson, Ms. Usha, who observed that the documents submitted by Chaswal did not demonstrate any significant dispute resolution experience pertaining to trademarks.⁷⁰ She noted that while he'd filed trademark applications, he had not appeared to have been party to any contentious proceedings involving trademarks.⁷¹ Ultimately, he was appointed, and even acted as the interim chair between in 2017 before the appointment of Justice Singh, and ultimately retired in December 2018.⁷²

The huge backlog of cases in the IPAB, due to positions being vacant, highlights another flaw in the system. In a writ petition before the Delhi High Court in 2019⁷³, the petitioner approached the High Court for an urgent hearing seeking the stay of a patent application, pleading that the IPAB not functioning led to the patent being granted and denying his right to file an appeal.⁷⁴ As a technical member is required to form a quorum to hear the cases under the Trademarks Act⁷⁵, many cases were pending before the IPAB, as the Court observed that no technical member had been

⁶⁷ Prashant Reddy, 'Major Irregularities in Mr. Rahman's appointment to the Intellectual Property Appellate Board', (*SpicyIP*, 11 March 2011) <<https://spicyip.com/2011/03/major-irregularities-in-mr-rahmans.html>> accessed 13 October 2021.

⁶⁸ *ibid.*

⁶⁹ Reddy & Dhawan (n 49).

⁷⁰ *Report on Chaswal's Appointment to the IPAB*, SpicyIp (July 2013) <https://spicyip.com/resources/ipab/2013/report%20on%20chaswal.pdf>.

⁷¹ *ibid.*

⁷² Reddy (n 61).

⁷³ *Mylan Laboratories v Union of India & Ors* WP(C) 5571/2019.

⁷⁴ Ranjan Narula, 'Trouble at the IPAB', (*World Intellectual Property Review*, 9 September 2019) <<https://www.worldipreview.com/contributed-article/ip-appellate-board-trouble-at-the-ipab>> accessed on 13 October 2021.

⁷⁵ The Trademarks Act 1999, s 84(2).

appointed for copyrights since inception of the IPAB, and the posts of technical member for patents and technical member for trademarks had been vacant since May 4, 2016 and December 5, 2018, respectively.⁷⁶ The Court observed that around 4000 cases were pending across all the benches of the IPAB. As of 2020, the case load is estimated to be around 2626 trademarks cases, 617 patents cases, 691 copyrights cases and 1 geographical indication case.⁷⁷ Justice Pratibha Sridevan, in her report to the Madras High Court, noted that at least 22,330 sq. ft. was required for proper functioning of the IPAB, instead of the space available to the tribunal which was a meagre 5500 sq. ft., which resulted in dysfunctionality of the Tribunal.⁷⁸ No major renovations were made on that report, and the IPAB continued to operate the same premises.

This dysfunctionality of the IPAB has also attracted international criticism. The Office of the United States Trade Representative (USTR), in its Special 301 Report for 2020⁷⁹, observed “India’s copyright royalty board, which has been folded into the Intellectual Property Appellate Board, is not fully functional, as technical members still need to be appointed”. India is currently on the “Priority Watch List”⁸⁰, which means that the U.S considers the IP enforcement in India as inadequate and concerning for its own investors.

The IPAB has also had cases where hearings were conducted without the adequate quorum that was required under the Trademark Act.⁸¹ In order to conduct hearings, one Judicial Member and one Technical member were required to be present.⁸² A cause list, dated January 7, 2019, revealed that 51 matters were listed for hearing before Justice Manmohan Singh without a Technical Member on the bench and similar hearings had occurred from December 12 to 21, 2018.⁸³ All this points out to the simple fact that at every stage, from judicial appointments to conducting hearings, the IPAB has been inefficient. Being called a “national embarrassment”, the IPAB posed a risk of overshadowing the positive developments happening across the country’s IP landscape and

⁷⁶ *ibid.*

⁷⁷ Reddy & Dhawan (n 49).

⁷⁸ *Shamnad Basheer* (n 57).

⁷⁹ *Special 301 Report*, Office of the United States Trade Representative (April 2020).

⁸⁰ *ibid.*

⁸¹ Rishabh Mohnot, ‘IPAB Conducts Hearings and Passes Order despite Losing Quorum’, (*SpicyIP*, 30 January 2019) <<https://spicyip.com/2019/01/ipab-continues-to-pass-orders-and-conduct-hearings-despite-losing-quorum.html>> accessed on 13 October 2021.

⁸² The Trademarks Act 1999, s 84(2).

⁸³ *Special 301 Report* (n 80).

provided easy ammunition for critics of the country's IP system⁸⁴, and hence the decision to shut down the IPAB was justified.

5. OBJECTIONS TO THE DISSOLUTION OF THE IPAB

Although the majority of the legal fraternity has approved of the dissolution of the IPAB, some have objected to it on grounds that many of the shortcomings of the IPAB have been due to the apathy from the Government, and scrapping the IPAB to increase the case load on the Courts is not favourable. Some are of the view that the IPAB could still be a Tribunal capable of functioning efficiently and truly improving the IP landscape of India.⁸⁵ Some also believe that scrapping the only Tribunal specialized in hearing IP cases could hamper India's reputation as an IP jurisdiction, and that plans should be made to make the IPAB more efficient, and more independent, rather than shutting it down completely.⁸⁶ Also, considering that the IPAB is one of the few tribunals that has headquarters outside of Delhi, it could promote decentralization of Tribunals and could draw the best professionals and litigants to the state they're headquartered in.

Despite the shortcomings of the IPAB, it has always decided cases using the same line of reasoning that normal Courts would, and has delivered some remarkable judgements. In the case of *Novartis v. Union of India*⁸⁷, a two-judge bench of the IPAB rejected the patent application filed by the applicant for the anti-cancer drug Glivec in India. The patent application was filed in 1997, which was subsequently rejected by the Madras Patent Office.⁸⁸ The applicant then filed two writ petitions before the Madras High Court and Supreme Court respectively, and the Madras High Court transferred the petition to the IPAB. The IPAB carefully studied the patentability of the drug, and studied Section 3-d of the Patent Act, 1970, very carefully. Section 3-d states what cannot be an invention: -

⁸⁴ Jacob Schindler, 'The Indian Government Must Act Now to End IPAB Dysfunction.' (*IAM*, 7 December 2019) <<https://www.iam-media.com/copyright/saturday-opinion-india-ipab>> accessed 13 October 2021.

⁸⁵ Arun C Mohan, 'The Case for Keeping the IPAB Open', (*SpicyIp*, 17 April 2020) <<https://spicyip.com/2020/04/the-case-for-keeping-the-ipab-open.html>> accessed 13 October 2021.

⁸⁶ *Rethink Plan to Abolish Intellectual Property Appellate Board: Industry Groups*, ET Bureau (March 9, 2021) <<https://economictimes.indiatimes.com/news/economy/policy/rethink-plan-to-abolish-intellectual-property-appellate-board-industry-groups/articleshow/81403514.cms>> accessed 13 Oct 2021.

⁸⁷ *Novartis v. Union of India* AIR 2013 SC 1311

⁸⁸ Mohammed Suleman Palwala, 'A Study On: Novartis A.G v. Union of India', (*Mondaq*, 17 July 2019) <<https://www.mondaq.com/india/patent/826478/a-study-on-novartis-ag-v-union-of-india>> accessed 13 October 2021.

“The mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus unless such known process results in a new product or employs at least one new reactant.”⁸⁹

The IPAB studied the components of the drug and found that it did not pass the test of Section 3-d, and that the invention was not a “cognitive leap” in the field of cancer drugs. It rejected the patent application and decided against Novartis, who filed a special leave petition in the Supreme Court in 2009, where after a long-drawn battle, the Supreme Court upheld the judgement of the IPAB. This verdict attracted a lot of international criticism, but was praised in India, as it prevented “ever-greening” of drugs, where drug companies made minor changes to attain patents and control the market.⁹⁰ This case also demonstrated the ability of the IPAB in understanding complex matters of law and making sound judgements, despite being plagued with structural issues.

Recently, in 2021, the IPAB delivered another landmark in the case of *Indian Performing Rights Society v. Entertainment Network India Ltd.*⁹¹ where the IPAB held that when a sound recording was broadcasted during a radio show, separate royalties were payable for both the sound recording and underlying works under Section 31D of the Copyright Act, 1957. This meant that if the radio played a song, the radio broadcaster had to pay royalties to both the music label who own the sound recording and the authors who owned the underlying literary and musical rights. The IPAB justified this decision by studying the 2012 amendments to the Copyright Act, 1957, that was formed to protect the rights of artists in getting royalties.⁹² These two judgements show that the IPAB was capable of providing important decision in fields of IP apart from Trademark, despite some procedural errors by the Technical Members of the Tribunal. The IPAB also has had a good track record in regards to its decision being appealed in the High Courts. According to a report by 2014, of the thirty-four cases that were appealed in the High Court, nineteen cases were upheld,

⁸⁹ The Indian Patent Act 1970, s 3(d).

⁹⁰ Patralekha Chatterjee, ‘Five Years After the Supreme Court’s Novartis Verdict’, (*Intellectual Property Watch*, 25 May 2018) <<https://www.ip-watch.org/2018/05/20/five-years-indian-supreme-courts-novartis-verdict>> accessed 13 October 2021.

⁹¹ *Indian Performing Rights Society v Entertainment Network India Ltd.* OP (SEC-31-D)/4/2020/CR/NZ.

⁹² R.K Dewan & Co. ‘IPRS can Collect Royalties from FM Radio Stations’, (*Lexology*, March 2020) <<https://www.lexology.com/library/detail.aspx?g=866e16dc-ff02-49d7-9b2c-6a7383c54edf>> accessed 13 October 2021.

and fifteen appeals were allowed.⁹³ Given the reasons above, the move to shut down the IPAB was seen as unimaginative and unnecessary by some in the legal fraternity.⁹⁴

6. CONCLUSION

The IPAB may have been subject to harsh criticism, but a consensus amongst lawyers remains that the Indian Judiciary needs to place special emphasis on IP and needs to provide speedy disposal of IP cases. One of the methods that have been championed by luminaries like Justice Prabha Sridevan is the constitution of specialized IP benches in High Courts across India.⁹⁵ Following the example of tax benches across High Courts, IP benches could also be formed, with two sitting judges and a panel of experts who can provide assistance on different fields of IP.⁹⁶ Specialized benches could also be the best option as they wouldn't cost as much as Tribunals to maintain and could operate on Court premises, and as they fall within the jurisdictional control of the High Court, there would be less ambiguity in appeals and transfer of cases.⁹⁷ Additionally, reducing the qualifications to be a judge on this bench, and providing specialized IP training of judges, would help prevent long-lasting vacancies and ensure continuous functioning of the benches.⁹⁸

The formation of the IPAB changed the face of IP litigation in the country, but brought with it a lot of challenges and complexities. The dissolution of the IPAB was due to the fact that it failed to establish itself as a sustainable alternative to traditional courts, and after 18 years, the Government decided that the best course of action for a developing nation like India would be to stick to its Courts. For now, specialized benches seem to be the least costly, and most efficient method of dealing with IP cases in India.

⁹³Kumar & Paul (n 32) 38.

⁹⁴Bharucha & Partners, 'One Step Forward, Two Steps Back: The Tribunal Reforms Ordinance: An Intellectual Property Perspective,' (*Lexology*, 8 April 2021) <<https://www.lexology.com/library/detail.aspx?g=928fd74e-d72c-42bf-b3c9-e749baa5dd68>> accessed 13 October 2021.

⁹⁵Prabha Sridevan, 'Whose Tribunal Is It Anyway?' *The Hindu* (New Delhi, 15 November 2013) <<https://www.thehindu.com/opinion/op-ed/whose-tribunal-is-it-anyway/article5351733.ece>> accessed 13 October 2021.

⁹⁶Justice Prabha Sridevan on Govt's Proposal to Shut Down the IPAB and the Way Forward, (*SpicyIP*, 18 February 2021) <<https://spicyip.com/2021/02/justice-prabha-sridevan-on-proposal-to-shut-down-ipab-and-the-way-forward.html>> accessed 13 October 2021.

⁹⁷Shamnad Basheer, Jacques De Warra, 'Specialized Intellectual Property Court: Issues and Challenges', (*ICTSD-CEIPI67*, March 2016) <https://www.ceipi.edu/fileadmin/upload/DUN/CEIPI/Documents/Publications_CEIPI__ICTSD/CEIPI_ICTSD_N__2.pdf> accessed 13 October 2021.

⁹⁸ibid.

IP DUE DILIGENCE: COMBATting WINNER'S CURSE!

Harsha Aswani*

ABSTRACT

“When you measure what you are speaking about and express it in numbers, you know something about it, but when you cannot (or do not) measure it, when you cannot (or do not) express it in numbers, then your knowledge is of a meager and unsatisfactory kind.”¹

IP assets are known as the ultimate deal-makers or deal-breakers in all kinds of corporate transactions. Despite such importance attached to IP assets, many companies ignore their existence, until last minute, or pay only a little attention to them, due to their myopic belief that makes them think that IP assets would get transferred to them automatically with the purchased assets of the target entity. The market is, in fact, filled with cautionary tales of companies who failed to reduce the informational asymmetries due to lack of vigilance and IP due diligence exercise, leading to costly affairs, closing down of businesses, and lifelong losses.

This paper shall attempt to illustrate, through three real-life case studies, the plight of the big companies that was nothing short of a Winner's Curse, merely because they failed to put a proper IP Due Diligence exercise in place. The paper would then suggest the quarterly checks and steps to carry out the IP Due Diligence Process to combat this Winner's curse, and save oneself from making embarrassing errors in judgments.

Keywords: IP, Assets, due diligence, Winner's curse, iPad, Apple.

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¹Lord Kelvin, 'Popular Lectures and Addresses— Electrical Units of Measurements' (Oxford Reference) <<https://www.oxfordreference.com/view/10.1093/acref/9780191826719.001.0001/q-oro-ed4-00006236>> accessed 23 May 2021.

1. INTRODUCTION

In the year 1998, Volkswagen AG, the German automobile manufacturer, ended up paying almost \$800 million for the luxurious hand-picked car company, Rolls Royce Motor Cars Ltd. along with its old manufacturing unit at Crewe and the labour-force, without even getting hold of the famous “RR” logo.² The deal could be attributed to lack of due diligence and vigilance on the part of Volkswagen, who was too much fascinated by the name and goodwill of “Rolls Royce”.

Another instance happened with the Giant Technology Co., Apple, who got into a trademark kerfuffle with a Shenzhen-based company, Proview, over the rights to the name “iPad”.³ Had Apple undertaken a basic IP due diligence, it could have not only saved itself from paying \$60 million to Proview, the Chinese firm, but would have not lost its business in some parts of China.

Often, the deals on the face of it appear too glamorous to avoid, that the companies end up paying a lot higher than the actual worth of the asset they purchased, a tendency termed as “Winner’s Curse”. The companies understand the importance of the potential deal, but what is more important to them is the exercise of “due diligence” before sealing the deal, wherein they take account of not only purchase of tangible assets, but also intangible assets, such as Intellectual Property Rights. At one point of time, due diligence of IP rights to be specific was generally thought about only at the eleventh hour of the deal, but now it is not considered a small aspect anymore. Companies like to get their hands on every small bit of detail that has the potential to make or break the deal.

This paper shall first, attempt to explain the importance of IP due diligence, which is a huge and a valuable aspect in any business transactions, through real life case studies. The paper would then explain certain “*quarterly IP checks*” that a company must undertake before jumping into any kind of transaction, be it mergers or acquisitions, licensing, sale, and the like to save themselves from the embarrassment of sabotaging their own name as well as the potential losses that unnecessarily accrue.

²Terence Lau, ‘Caveat Emptor: Lessons from Volkswagen’s Lemon Purchase’ (2003) 12 Currents: INT’L TRADE L.J. 3, 4-5.

³Dan Harris, ‘Apple and China Trademarks and So Much to Learn’ (Harris Bricken, 15 February 2012) <<https://harrisbricken.com/chinalawblog/apple-and-china-trademarks-and-so-much-to-learn/>> accessed 23 May 2021.

A. Meaning and Purpose of IP Due Diligence

The term “Due Diligence” implies “requisite efforts”.⁴ Legally, the term is synonymous to “ordinary care”.⁵

Merriam Webster Dictionary defines Due Diligence in the context of a business signifies “Research and analysis of a company or organization done in preparation for a business transaction (such as a corporate merger or purchase of securities).”⁶

Due diligence, in a general and ordinary sense, refers to taking specific extra care that may be required while entering into certain transactions, which could be as simple as buying a smartphone. While purchasing a smartphone, the affordability of the buyer plays the foremost role, followed by the price at which the mobile is offered; the technical features that coincide with the price of the mobile phone are also looked into. People who are into heavy online usage would give preference to the battery life along with the processor and storage of the phone; Apart from this, the in-built camera megapixels and the aperture also influence the decision-making of the consumer; some would have a colour preference for their phone while others would want to go for larger phone displays. Once all of this is thoroughly evaluated, the consumer would probably purchase the phone. At any off chance, if they are not satisfied, they may ask the shopkeeper to show another variant within their budget. These especially specific things that a consumer checks or takes care of are nothing but ordinary diligence exercises that any prudent man would look into while making a transaction.

⁷Similarly, in any business transaction involving mergers or acquisitions, the acquirer would always carry out due diligence of the target company’s assets and liabilities, so as to make an informed decision.⁸ Due diligence helps the acquirer firm in scrutinising the target firm’s viability. The acquirer weighs the target firm’s assets and liabilities, analyses the potential risks that the

⁴Merriam Webster Dictionary <<https://www.merriam-webster.com/dictionary/due%20diligence>> accessed 23 May 2021.

⁵ *ibid.*

⁶Merriam Webster Dictionary (n 4).

⁷Mergermarket and RRDonnelley, ‘Due Diligence Roadmap: Taking the Right Steps’ (2016) 1, 8 <https://www.mergermarket.com/assets/RRD-Due-Diligence-Roadmap_Issue-1_Final.pdf> (herein after Mergermarket and RRDonnelley Survey) accessed 23 May 2021.

⁸Suneeth Katarki and Aditi Verma Thakur, ‘India: Intellectual Property Due Diligence’ (Mondaq 3 December 2015) <<https://www.mondaq.com/india/trademark/448686/intellectual-property-due-diligence>> accessed 23 May 2021.

company would have to incur and if, at all, these can be minimised, before sealing the final value for the transaction.⁹

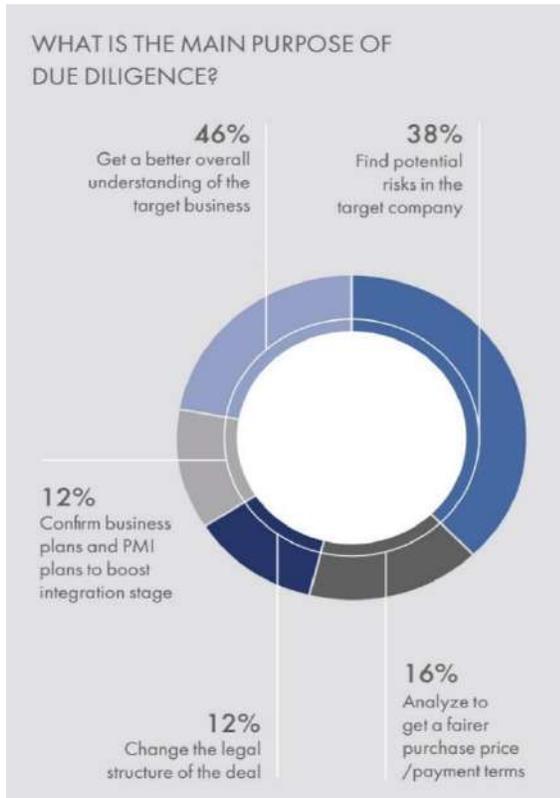


Figure 1, Source: RR Donnelley and Mergermarket Survey¹⁰

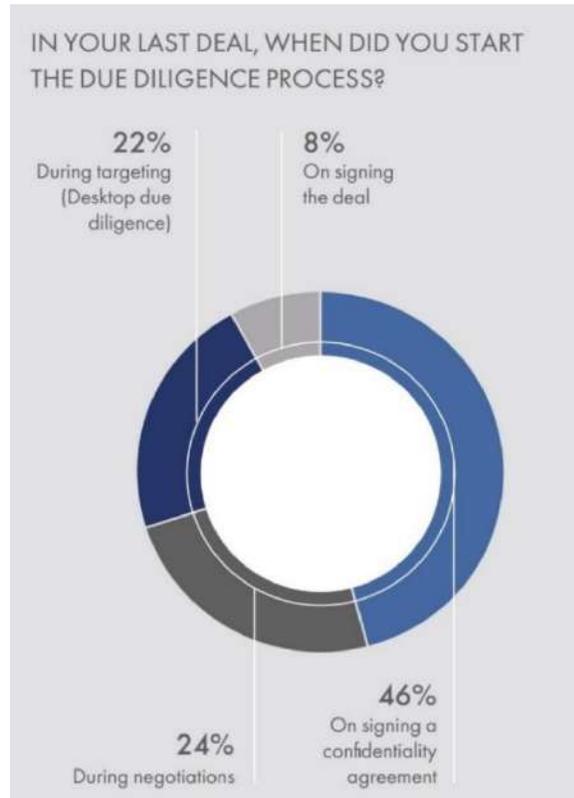


Figure 2, Source: RR Donnelley and Mergermarket Survey¹¹

In a report prepared by RR Donnelley with Mergermarket, after conducting a survey of 50 managing directors and financial advisors, out of which 46% of them revealed that due diligence helps them gain a better understanding of what they are getting themselves into, while 38% said, “For us the biggest purpose of the due diligence process is to find any potential risks that we can face.”¹²

⁹S. Katarki and A.V. Thakur (n 8).

¹⁰Mergermarket and RR Donnelley Survey (n 7) 8.

¹¹ibid.

¹²Mergermarket and RR Donnelley Survey (n 7) 8.

In the similar survey, 22% of the candidates revealed that they began their due diligence exercise, right before they started their last deal, while 46% took up the due diligence only when they found themselves entering into certain confidentiality agreements.¹³

One of the M&A financial advisors said, “We do not mind taking our time– if we are expanding into a new region; we need to have a good understanding of the company, the risks involved and how to adjust.”¹⁴

Intellectual Property due diligence forms a tiny but integral part of the entire due diligence process, for they have the capacity to add value to the transactions as well as disrupt it.

What are the most important intangible aspects of a company when deciding on a valuation?

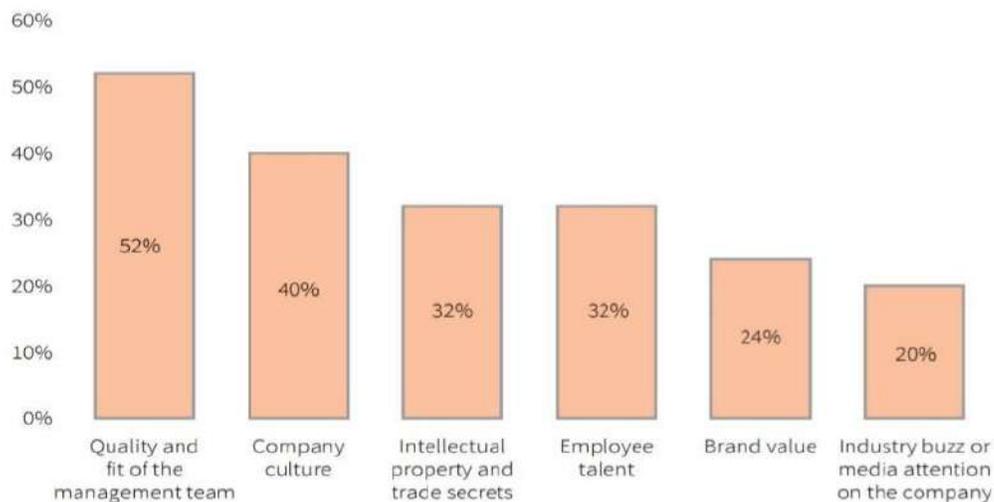


Figure 3, Source: Mergermarket and Firmex¹⁵

¹³ *ibid.*

¹⁴ Mergermarket and RR Donnelley Survey (n 7) 8.

¹⁵ Mergermarket and Firmex, ‘M&A Valuation: Trends, Challenges and Horror Stories’ (2017) 1, 6
<https://www.mergermarket.com/assets/Firmex_Q3%202017_Newsletter_Final_0.pdf> accessed 23 May 2021.

In Q4 2016, Merger market carried out another survey involving 25 senior executives at investment banks, private equity firms and corporations, wherein 32% of them answered in favour of intellectual property and trade secrets, while 24% said it is the brand value that helps them decide on a valuation.¹⁶

When we talk of Intellectual Property, as an important underlying subject matter of any transaction, whether it involves purchasing of another company's intellectual property rights, or licencing of one's own IPs or procuring another's IP on a licence, the idea is that just like any other transaction involving tangible asset, intellectual property related transactions also come with rights, liabilities, obligations, liberties, and risk. However, owing to the complexity of deals involving IP, it is difficult to predict future cash flows from such an IP. Though we can have estimates once we undertake IP valuation, there are multiple issues attached with an IP such as negative reinforcement of IP, unseen market factors challenging the validity of IP, the ownership attached to such an IP, etc. Therefore, when it comes to IP, some extra diligence, caution and care would always be advised before concluding such a deal.

IP due diligence is primarily about “analysing the intangible assets of a business, checking valid intellectual property rights subsisting therein and scope of their protection, analysing the risks involved with respect thereto, and in turn, assessing their potential value.”¹⁷

B. Relevance of IP Due Diligence: Some IP “Un-Due” Diligence Case Studies

Intellectual Property Rights reflect the strength of the company, and with positive reinforcement of the same, they have the capacity to fuel any M&A transactions, which not only gives the acquiring firm access to the use of IP of the target firm, but also reduces litigation and licensing costs. Since IPs are territorial in nature, due diligence demands recognition of differences of legal protection in the potentially attractive jurisdictions as well. A properly conducted IP due diligence carried out by skilled IP lawyers and experts along with cleverly drafted contractual provisions has the ability to contribute towards the acquirer's value enhancement. However, informational asymmetries and lack of vigilance have the reputation of “what can go wrong” procedure,¹⁸ as can

¹⁶ *ibid.*

¹⁷ S. Katarki and A.V. Thakur (n 8).

¹⁸ Ivona Skultetyova, *Intellectual Property in Mergers And Acquisitions: Deal Maker Or Deal Breaker?* (Tilburg University, 2012) 16.

be seen in the following IP “Un-Due” Diligence case studies involving famous giants Volkswagen, Apple, and Clorox.

i. Rolls Royce-Volkswagen-BMW Saga

In 1904, Charles Rolls and Henry Royce entered into partnership to start Rolls Royce, which is the absolute pinnacle of luxury when it comes to cars. It has been a brand of excellent quality and prestige from its beginning, and only the elite could put their hands on it. In 1931, Rolls Royce purchase “Bentley” that helped the company cater to the “sporty” end of the market.¹⁹ After the Second World War, the company started manufacturing engines for defence and civil aircraft under the name Rolls Royce PLC. However, in late 1960s, the mismanaged development of its advanced jet engine, the firm was adversely affected. The Consequent cost over-runs exceeded so much so that by 1971, they were not only forced to liquidate their business, but also divided the vehicle and aviation companies into two separate units.

In 1973, Rolls Royce Motor Cars Ltd. was formed, which was acquired by Vickers PLC, the defense manufacturer in the year 1980.²⁰ However, the “Rolls Royce” trademarks were still owned by Rolls Royce PLC, and Rolls Royce Motor Cars Ltd. had only the license to use that trademark. One of the clauses in the trademark licensing agreement provided, “While Rolls Royce Motor Cars Ltd. would have the rights to manufacture Rolls Royce and Bentley motor vehicles, Rolls Royce PLC would maintain exclusive control of the Rolls Royce mark in the event Rolls Royce Motor Cars Ltd. (licensee) was sold to a foreign owner.”²¹

Again, in 1997, Rolls Royce Motor Cars Ltd. ran into certain financial difficulties, while its parent company, Vickers PLC was focused on achieving “strategic growth in marine, propulsion equipment and turbine components,”²² that it ended up announcing the sale of Rolls Royce Motor Cars Ltd..²³ On March 30, 1998, BMW made a \$560 bid for the same.²⁴ Rolls Royce and BMW,

¹⁹Terence J. Lau (n 2) 3.

²⁰Reuters, ‘Company News: Vickers to keep Rolls-Royce Unit’ *NY Times* (New York 28 April 1990) <<https://www.nytimes.com/1990/04/28/business/company-news-vickers-to-keep-rolls-royce-unit.html>> accessed 24 May 2021.

²¹Terence J. Lau (n 2) 4.

²²ibid. See, Beatrix Israel, ‘Vickers: The Rolls-Royce Auction is on’ *Automotive News Europe* (Michigan, 30 March 1998) <<https://europe.autonews.com/article/19980330/ANE/803300846/vickers-the-rolls-royce-auction-is-on>> accessed 24 May 2021.

²³Beatrix Israel (n 22).

²⁴ ibid.

both delivering power for use on air and land, shared a long history. BMW, at the time of sale, was supplying V12 and V8 engines to Rolls Royce for its Silver Seraph and Bentley Arnage models, respectively, and had a clause in the supply agreement which stated, “BMW has the right to cancel the supply of engines with twelve months’ notice, if Rolls Royce Motor Cars Ltd. is sold to another car company, or three year’s notice, if it was sold to a non-motor vehicle manufacturer.”²⁵

In April, Volkswagen AG raised the bid to \$720 million, which was again raised to \$795 million, by July, and was accepted by Vickers on June 5, 1998.²⁶

What follows next was a bolt from the blue, quadruple times, when Volkswagen learned about the following events:²⁷

- a. Rolls Royce PLC asserted its exclusive rights over the overlapping double “R” Rolls Royce trademark as part of 1973 trademark-licensing agreement;
- b. Vickers PLC only sold Volkswagen the administrative headquarter, nameplates, production facilities, spirit of ecstasy mascot, the old factory and the British labour force—implying all the tangible assets, while leaving out the valuable intangible assets;
- c. The German car-maker, BMW served a twelve months’ notice to Volkswagen notifying that it would no longer supply the V12 and V8 engines for the Silver Seraph and Bentley Arnage models; and
- d. The BMW bought the irrevocable rights in “RR” trademark, for \$65 million, from its technology and manufacturing partner, Rolls Royce PLC.

While Volkswagen thought, it was purchasing the company, including both its tangible and intangible assets, but in reality, it purchased a half-empty box. The situation became worse for Volkswagen as despite investing hundreds of millions of dollars, it had neither the trademark nor the engines, and that it was impossible for Volkswagen to re-engineer the Rolls Royce and Bentley to use other engines. The twelve months’ time was also nothing to re-establish Rolls Royce label, and that the brand-identification mark was with BMW.

²⁵Terrence J. Lau (n 2) 4.

²⁶ibid.

²⁷Terrence J. Lau (n 2) 4-5.

This led to signing of a MOU between the Volkswagen and BMW, on July 28, wherein, Volkswagen, on one hand, retained the factory in Crewe, some 2400 workers, and the Bentley trademark,²⁸ and BMW, on the other hand, agreed to continue supplying engines and components to Volkswagen, until 2003, and also allowed Volkswagen to use the Rolls Royce mark for free until December 31, 2002, after which BMW shall take away the brand name and would establish a new “Rolls Royce Motor Cars Ltd.”,²⁹ and Volkswagen would manufacture Bentley under the name “Bentley Motor Cars Ltd.”³⁰

As negotiated, Volkswagen continued to manufacture and produce Rolls Royce from 1998-2003, until BMW, in another clever move, took advantage of the time in hand, and build a new Rolls Royce administrative headquarters and production facility in West Sussex, and a new product named “Phantom”.

Though Volkswagen still owns the rights in Bentley, the skilled workforce, but it ended up selling Rolls Royce to BMW in 2003, making BMW the exclusive manufacturer of Rolls Royce Motor Cars Ltd.

This case study shows the importance of clearly establishing a proper due diligence and evaluation to ensure that a business transaction includes not only purchase of tangible assets, but also intangible assets. While it is an axiomatic situation that one would always assume a big automobile giant like Volkswagen to have spent another set of millions so as to divert all its Trademark Attorneys and field experts towards a thorough IP-specific Due Diligence check, before concluding such a costly deal. What made Volkswagen take such a disastrous decision is not known, but certainly, Volkswagen’s poor IP due diligence and BMW’s smart IP due diligence can be said to act as the functional factor in the whole ploy.

This is how it highlights the relevance of IP rights in such business deals.

C. Apple v. Proview (Schenzhen): Trademark Scuffle over “iPad” in China

²⁸ibid.

²⁹Terrence J. Lau (n 2) 4-5.

³⁰Dirk Beveridge, ‘BMW Buys Rolls-Royce Brand Name’ *CBS News* (28 July 1998)
<<https://www.cbsnews.com/news/bmw-buys-rolls-royce-brand-name/>> accessed 24 May 2021.

- a. Schenzhen Proview and ”唯冠電子:Proview Electronics Co., Ltd. (Taiwan Proview), the two sister companies, are owned and managed by “唯冠國際: Proview International Holdings Ltd., a Hong-Kong listed-company.³¹
- b. In 2000, Proview Schenzhen successfully registered “iPad” (stylized) and “IPAD” trademarks in China, while Taiwan Proview obtained exclusive rights over eight “iPad” trademarks in Mexico, Singapore, EU and South Korea.³²
- c. In 2005, Apple was preparing to introduce its tablet terminal “iPad” in European market, when it realised that Taiwan Proview had exclusive rights in the “iPad” trademark, but is not being used in the market. On the ground of non-use, Apple filed a revocation application for the concerned trademark in the UKIPO, however, it failed.³³
- d. In 2009, Apple disguised under the name of a UK-based firm, IP Application Development, abbreviated as “IPAD”, approached Taiwan Proview, and purchased from it the right to use the “IPAD” trademark, globally, for \$55,000 (approx. £35,000).³⁴
- e. In 2010, after launching its tablet PC bearing the trademark “iPad” in the United States, Apple entered into a transfer agreement with the UK-based firm so that it can purchase all the trademarks from it at £10 (approx. \$14.14). Later, in September, “iPad” tablet entered into China.³⁵
- f. After entering the Chinese market, Apple learned that in China, Proview Schenzhen owns the trademarks “iPad” (registration no. 1682310) and “IPAD” (registration no. 1590557) since 2001 for a “desktop terminal with touch-screen display called the

³¹Kazuhiro Matsumoto, ‘Intellectual Property Rights in China: Learning Through Two Case Studies’ (LinkedIn 14 October 2016).

<<https://www.linkedin.com/pulse/intellectual-property-rights-china-learning-through-two-matsumoto>> accessed 24 May 2021.

³²Niu Yie Editor, ‘Lessons Learned From Apple’s Defeat in IPAD Trademark Case in China: The Role Of IP Lawyers In Corporate Investment and Finance Transactions’ *NIUYIE* (8 May 2017).

<<http://niu.yie.com/lessons-learned-from-apples-defeat-in-ipad-trademark-case-in-china-the-role-of-ip-lawyers-in-corporate-investment-and-finance-transactions/>> accessed 24 May 2021.

³³Niu Yie Editor (n 32).

³⁴ *ibid.*

³⁵Kazuhiro Matsumoto (n 31).

Internet Personal Access Device (abbreviated as “IPAD”)³⁶, and not Taiwan Proview.³⁷

商标的详细信息			
注册号/申请号	1590557	国际分类号	9
申请日期	2000-01-10		
申请人名称(中文)	唯冠科技(深圳)有限公司	申请人地址(中文)	广东省深圳市福田区沙头角保税区21,23号
申请人名称(英文)		申请人地址(英文)	
商标图像			
商品/服务列表	计算机;计算机周边设备;显示器(电子);光通信设备;电话机;收音机;照相机(摄影);电子防盗装置;摄像机;电话;... 查看详细商品...		
初审公告期号	776	注册公告期号	768
初审公告日期		注册公告日期	
专用权期限	2011年06月21日至2021年06月20日 年		
后期指定日期		国际注册日期	
优先权日期	无	代理人名称	深圳市德商商标事务所
指定颜色		商标类型	普通商标
是否共有商标	否	备注	
商标流程	撤销三年不使用 续展 转让		

Fig. 1: Source: Kosuke Suzuki³⁸

商标的详细信息			
注册号/申请号	1682310	国际分类号	9
申请日期	2000-09-19		
申请人名称(中文)	唯冠科技(深圳)有限公司	申请人地址(中文)	广东省深圳市福田区沙头角保税区21,23号
申请人名称(英文)		申请人地址(英文)	
商标图像			
商品/服务列表	计算机;计算机周边设备;显示器(电子);电话设备;光通信设备;摄像机;电话机;收音机;照相机(摄影);已录制的(已录制的);计算机选用的打印机;照相机;... 查看详细商品...		
初审公告期号	799	注册公告期号	611
初审公告日期		注册公告日期	
专用权期限	2001年12月14日至2011年12月13日 年		
后期指定日期		国际注册日期	
优先权日期	无	代理人名称	深圳市德商商标事务所
指定颜色		商标类型	普通商标
是否共有商标	否	备注	
商标流程	续展 转让 异议复审 转让		

Fig. 2 Source: Kosuke Suzuki³⁹

- g. On one hand, Proview Schenzhen was claiming exclusive ownership rights over the two registered marks, and on the other hand, Apple claimed to have purchased the rights for the same from Taiwan Proview, which extended throughout the mainland China. Proview Schenzhen said that the rights that have been assigned to Apple by Taiwan Proview had no connection with Proview Schenzhen.⁴⁰
- h. When Proview Schenzhen refuted Apple’s claims, Apple along with its UK-based IP firm, in the year 2010, filed a case against Proview Schenzhen in The Schenzhen Intermediate People’s Court claiming a compensation of RMB 4million for the economic loss suffered by them.⁴¹
- i. The case was admitted on April 19, 2010, where defendant Proview Schenzhen asserted, “As the Trademark Transfer Agreement was concluded between the UK IP and Taiwan Proview, the transfer of the two China-registered trademarks owned by

³⁶ibid.

³⁷Kazuhiro Matsumoto (n 31).

³⁸Kosuke Suzuki, ‘Background of the iPad China Trademark Case’, MBP Japan (Tokyo, February 2012), <https://mbp-japan.com/tokyo/suzuki/column/1315553/>.

³⁹ ibid.

⁴⁰Kazuhiro Matsumoto (n 31).

⁴¹Niu Yie Editor (n 32).

the Defendant apparently constituted unauthorised disposition, and, therefore, had no effect on Proview Schenzhen, notwithstanding the fact that it was the subject-matter specified in the Agreement.”⁴²

- j. Apple asserting its claims said, “The transfer of the subject trademarks was a collective transfer transaction, and the signing of the transfer agreement by Taiwan Proview created an apparent agency with Proview Schenzhen, therefore, the Trademark Transfer Agreement was valid.”⁴³
- k. The Court, however, rejected the claims made by Apple, and refuted the “apparent agency argument,” as baseless. The Court held “In commercially obtaining another person’s trademarks, the Plaintiffs shall have a higher duty of care which required them to enter into a trademark transfer agreement with the trademark right holder, and complete necessary trademark transfer procedures, in accordance with the Chinese laws.”⁴⁴
- l. The case went in appeal to the High Court of Guangdong Province. Eventually, the court asked both the companies to enter into a settlement agreement, and on June 25, 2012, Apple and Proview Schenzhen settled the claims, following which Apple paid USD 60 million to the defendant, and in exchange, Proview Schenzhen lifted the ban on “iPads” made by Apple, that were prior to the agreement blocked by Chinese Customs from entering into and going out of China.⁴⁵

The moral of the story is that had Apple conducted a proper due diligence checks prior to entering into the Chinese market, it could have learned about the true ownership of the two registered trademarks withheld by Proview Schenzhen since 2001, and that Proview Schenzhen was using the same since 1998, even before Apple starting manufacturing the iPad in 2002. Along with this, Apple also failed to take note of the fact that Chinese Trademark Law requires that after the trademark rights transfer procedure is done, it is mandatory for the transferee to get its trademark registered and approved by the Chinese Trademark Office.⁴⁶ It

⁴²Niu Yie Editor (n 32).

⁴³ibid

⁴⁴Niu Yie Editor (n 32).

⁴⁵Kazuhiro Matsumoto (n 31).

⁴⁶Niu Yie Editor (n 32). *See*, Kazuhiro Matsumoto (n 31).

is difficult to even imagine that company like Apple could also make a costly and embarrassing error, both in judgment and takeover transactions. All it suggests is that a slight vigilance and a timely due diligence exercise could have saved Apple from paying compensation to Proview Schenzhen, irrespective of the amount and Apple's financial capabilities, along with being pulled off from the shelves in China for some time.

D. Crolox and Pine-Sol Saga

- a. "PINESOL" (without the hyphen) was launched as a detergent in the year 1929, and filed for trademark registration at the USPTO. However, USPTO denied the registration on the ground that "PINESOL" is similar to its competing trademark "LYSOL", and could cause likelihood of confusion in the minds of the consumers.⁴⁷
- b. Despite the refusal by USPTO, "PINESOL" continued using the mark on their products, which made "LYSOL" file a suit against them. However, in 1956, both the companies reached an agreement putting three restrictions on the use of "PINESOL" trademark:⁴⁸
- c. The mark "PINESOL" would be separated by a hyphen as "PINE-SOL" in order to avoid any confusion with "LYSOL";
- d. The mark "PINE-SOL" would be used only on those products which consist of "pine oil" as an active ingredient;
- e. The brand has to illustrate "pine" or "evergreen trees" along with the mark "PINE-SOL" on its products.
- a. In return, "PINE-SOL" was permitted to be used as a "general household cleaner consisting primarily of pine oil"⁴⁹ or as a "pine oil cleaner, disinfectant and deodorant,"⁵⁰ and that it could even expand its market by introducing other products.
- f. In 1965, PINE-SOL expanded its market and started using the trademark on aerosol spray disinfectant, for which LYSOL sued American Cyanamid, the owner of PINE-

⁴⁷Linda A. Kerns, 'Limitations in Trademark Agreements are Not Trade Restrictions' (1997) 9 LOY. CONSUMER L. REV. 310, 311.

⁴⁸Linda A. Kerns (n 47).

⁴⁹ibid.

⁵⁰Linda A. Kerns (n 47).

SOL and restricted the use of the trademark to cleaning products, except aerosol spray disinfectant, as part of the 1967 agreement.⁵¹

- g. In 1983, when LYSOL started selling “LYSOL PINE ACTION”, Cyanamid sued LYSOL for unfair competition, trade-dress infringement and violation of the 1967 agreement.⁵²
- h. In 1987, Sterling Winthrop, Inc., the owner of LYSOL sued Cyanamid for using “PINE-SOL” trademark on non-aerosol pump spray, which prompted both the companies to enter into a new agreement, known as the 1987 agreement, which placed the following restrictions:⁵³
 - i. The use of PINE-SOL mark on disinfectant products was limited to two products per geographic area;
 - j. The use of original PINE-SOL product was restricted to a cleaner, and not as a disinfectant;
 - k. The products of PINE-SOL could include only all-purpose generic cleaners.
 - l. PINE-SOL was allowed to market a “multi-purpose pump spray household cleaner with disinfecting properties,”⁵⁴ and in exchange LYSOL was permitted to market and sell “LYSOL PINE ACTION CLEANER.”
- m. In the year 1990, CLOROX Company purchased the rights in PINE-SOL’s business as well as the trademark from the owner, Cyanamid, for \$465 million, with a view to cash on the strength of the mark.⁵⁵
- n. However, CLOROX purchased PINE-SOL which was subjected to the 1987 agreement that not only laid down detailed restrictions on the manner in which PINE-SOL could advertise and package its products, but also limited the type of products PINE-SOL could sell.⁵⁶
- o. When CLOROX attempted to diversify its business, following which a television commercial advertised CLOROX PINE-SOL’s product, Sterling filed a suit for the

⁵¹Linda A. Kerns (n 47).

⁵² *ibid.*

⁵³Linda A. Kerns (n 47).

⁵⁴ *ibid.*

⁵⁵Marc Lieberstein and Gwen Peterson, ‘Putting the Diligence in Intellectual Property Due Diligence: Cautionary Tales of Those Who Didn’t’ (2016) 25:2 NYSBA BRIGHT IDEAS 1, 1.

⁵⁶Marc Lieberstein and Gwen Peterson (n 55) p. 2.

grant of permanent injunction of the commercial as the same was in violation of the advertising restrictions placed in 1987 agreement. The court granted the injunction in favour of Sterling.

- p. However, CLOROX went about challenging the terms and conditions in 1987 agreement, alleging restraint of trade, furthering of monopoly by LYSOL, thereby violating the Sherman Antitrust Act.
- q. The court rejected all the allegations placed by CLOROX and held, *“The 1987 agreement only limited CLOROX’s use of the PINE-SOL mark, and not CLOROX’s ability to compete with the LYSOL brand. Thus, the agreement did not constitute a violation of the Sherman Antitrust Act under a “rule of reason” analysis.”*⁵⁷

2. GENERAL REQUIREMENTS IN AN IP DUE DILIGENCE EXERCISE: QUARTERLY CHECKS

Every business and every IP-driven transaction has its own set of requirements, however, there are following quarterly checks that are a must to follow in all the IP due diligence exercises:

A. Identification of relevant “protected” and “protectable” subject-matters under IP laws⁵⁸

When we talk about IP due diligence, the first thing that is required to be done is to locate the principal IP, which is already “protected,” in the sense, “registered,” and with respect to which one needs to be cautious. Once such IP is identified, the next step is to identify other IPs that are capable of being detected and acquired as well. These could be identified by accessing the target company’s IP portfolio, which contains the list of IPs that they associate themselves with, whether as owners or licensees, and also information regarding their pending applications, which boosts their entire portfolio up. So, this portfolio will only reflect the IPs that the targeted entity has already figured out for itself, and not the unacknowledged and abandoned IP which could be protected, for this the acquirer company will have to dig into the overall information of the company, including its departments, working, IP policies in place, etc. There could also be a possibility of the acquirer company having more IP acquisitions in

⁵⁷Linda A. Kerns (n 47) 4.

⁵⁸S. Katarki and A.V. Thakur (n 8).

the future because of this underlying, unearthed, uncovered, unattended IPs, which will be revealed to it once it undertakes a thorough IP check.

B. Status Check: Analysis of IP rights over the subject matter⁵⁹

This step only focuses on the registrability *aspect of the IP*, i.e., whether the identified IP is registered in favour of the target company, and if there are legitimate rights available over this IP. In addition, it is important to check if the subject-matter in question is sufficiently protected by all the applicable IPs. If a certain subject-matter has a possibility of registration, and is not registered, the reasons for the same are also to be known. If there exist any pending applications, or if the registration was applied for but rejected, all of this is mandatory to learn through this status check.

C. Validity Check: Check for applicable territories and terms⁶⁰

The next step is to check whether the protection acquired is still subsisting and is valid or not. If any renewal is in line, or there are any revocation or cancellation proceedings going on. It is also important to see if the registration is subjected to any terms and conditions that either limit the jurisdiction or territories to which such IP exists, say, if it is just a domestic or national registration, or is it also protected across other international jurisdictions; or if there are exist any other limitations on the same. The term of protection could vary with territories, so it is important to keep a check of that.

D. Ownership Check: Check for the origin of IP rights creation⁶¹

This is one of the most essential requirements of the IP due diligence exercise, which necessitates checking if the ownership in the identifiable IP vests with the target company or not because ultimately if the target company does not have the rights in IP, it cannot transfer the same to the acquirer company. At times, there may exist multiple associated parties, such as the parent company, subsidiary company, or foreign associate companies, which make it a possibility for such ownership in IP to vest with the IP Holding Company, and the targeted company could merely possess the limited right to use the IP. There may also exist co-ownership, which might make any such transfers a complicated deal.

⁵⁹S. Katarki and A.V. Thakur (n 8).

⁶⁰ *ibid.*

⁶¹S. Katarki and A.V. Thakur (n 8).

E. Claim Check: Third-Party's Claim on the IP rights involved⁶²

The next important step requires identification of any third-party claims in the relevant IP, such as the existence of any license agreements, franchise agreements, joint-venture agreements, distributorship contracts, assignment deed, Memorandum of understandings, etc. Scrutiny of all such agreements is mandatory to learn the exclusivity the acquirer company would get from such transaction. At times, third-party rights or interests could accrue unintentionally, or there might be encumbrances such as lien, mortgage, etc. attached to the concerned IP, the thorough knowledge of which could be gathered from the records of the relevant IP office or the records of the Registrar of Companies.

F. Conflict Check: Conflicts with Third-Party Intellectual Property Rights⁶³

Claim check and Conflict check are almost a related concept, but different. In Claim check, when we talk about third parties having any interest or claim, it is generally focused on a third party right that may have been created, say by way of a license, or by way of using the IP as a security right so as to secure a credit amount, similar to a mortgage. However, when we talk about "conflicts with third party," this is the aspect that speaks of infringement. Any pending litigations, or any dispute where the target company may have been alleged to have infringed or violated any rights of the third party accrued therein, needs a proper check, so as to avoid any future claims that the acquirer firm should have known in the first place.

3. STEPS IN DUE DILIGENCE EXERCISE

In order to carry out the quarterly checks in an organised manner, there are following specific steps that the Acquirer company must undertake. These steps are though not rigid, but are the most preferred when conducting IP Due Diligence—

- i. Set a Proper IP Due Diligence Team,⁶⁴ comprising of intellectual property rights attorney and field experts;

⁶² *ibid.*

⁶³ S. Katarki and A.V. Thakur (n 8).

⁶⁴ *ibid.*

- ii.** Prepare and send an IP Due Diligence Checklist,⁶⁵ which would comprise of queries related to existing IP and the corresponding ownership of the same; if the IP has been registered, or the application is pending; along with the specific information required to understand the standing of the target company;
- iii.** Separate the IP assets of the target relevant for the transaction from the irrelevant ones.⁶⁶ This will ensure that the acquirer company knows which are the relevant IP assets for acquisition and which are the irrelevant or the ones that can be looked into later. At times, there might exist supplementary or associated IP rights along with the relevant IP rights, perusal of which is necessary to streamline the focus of the main transaction;
- iv.** Read all documents carefully⁶⁷ with utmost precision without any failure or any possibility of there being an error because once the acquirer company acquires it with flaws and risks, the entire burden will shift to the latter. Whether it is an assignment deed, or a license agreement, or franchising agreement, technology transfer agreement, registration certificate, renewal certificate, non-disclosure agreements, employer-employee certificate, etc. a thorough reading of all the clauses is advisable to understand the nature of IP policy the firm follows, and if there exist any limitation or restriction that might hamper the future business flow of the acquirer firm;
- v.** Requisition for additional information based on the information.⁶⁸ The target company usually provides the fundamental information that the acquirer firm shall need in order to carry out the preliminary perusal of the Target company. It is not necessary that the target company shall disclose anything and everything from their end, but if the acquirer firm requires any additional information based on the information that the company has already furnished, or any other information received from the outset that needs clarification, the acquirer firm must ask the same.
- vi.** Verify facts and confirm information received from the target,⁶⁹ or even from any outside source to avoid any confusion. Any contradictory information related to a

⁶⁵S. Katarki and A.V. Thakur (n 8).

⁶⁶ *ibid.*

⁶⁷S. Katarki and A.V. Thakur (n 8).

⁶⁸ *ibid.*

⁶⁹S. Katarki and A.V. Thakur (n 8).

particular IP asset received from the records of IP offices or any IP-related database or google database, the same must be verified at all costs from the target company. It is not advisable to rely on the face value of the target company. Of course, display of trust is a must, but verification of factual data must be done, including any cost required to pay as part of a judgment, if any, passed against the target company, and the reason for not paying it until now.

- vii.** Analyse protected and protectable IP rights,⁷⁰ and carry out all the quarterly IP checks, like ownership check, claim check, conflict check, status check, validity check, etc.
- viii.** Try and resolve issues, if any, in respect of IP rights.⁷¹
- ix.** Define the nature of IP agreements required for the transaction.⁷² Once all the quarterly checks are concluded, the acquirer company needs to finalise whether they want the actual agreement, or the deal to work out, so that the entire IP rights could be chalked out, and how, when and through what manner all would be transferred could be further discussed.
- x.** Provide a final diligence report on the benefits and the risks associated with the relevant IP,⁷³ and accordingly, choose to finalise or not to finalise such a transaction.
- xi.** Document, execute and record the IP agreements,⁷⁴if the acquirer company chooses to go ahead with the deal.

4. CONCLUSION

The increasing importance of IP rights in the transactions of any company cannot be denied. They have the capacity to, in fact; provide a competitive edge over the rival firms. IP rights, though play only a tiny role in all kinds of bigger transactions, but they are the most valuable considerations that can either make or break a business. However, the approach of many companies, including the Giant tech Co. Apple, or the renowned luxurious Car Company, Volkswagen, and even one of the dominant market players in the field of general household cleaners and bleaches, Clorox, have been disappointing at one point of time, which made them unnecessarily pay hundreds of

⁷⁰ *ibid.*

⁷¹ S. Katarki and A.V. Thakur (n 8).

⁷² *ibid.*

⁷³ S. Katarki and A.V. Thakur (n 8).

⁷⁴ *ibid.*

thousands of million, over a deal that they could have possibly avoided, had they been vigilant and actively conducted an IP Due Diligence exercise.

In fact, history is filled with such examples, where companies, during bigger corporate mergers and acquisitions, or even a simple licensing deal or litigation, have taken extreme steps that reflected their costly and embarrassing errors in judgment, and proved nothing short of a Winner's curse. The companies laid back attitude towards the IP rights and the associated informational asymmetries through lack of disclosure between the parties, improper composition of due diligence team, comprising of transactional lawyers and IP counsels had portrayed a lack of comprehensive understanding of IP-driven transactions. The companies avoid IP searches for it involves a lot of time and money, but such high-stake investments need more IP searches than other investments, and companies learn about the missed opportunity and the wreckage they create only during the time of litigation, which has the potential to sabotage the corporate reputation as well as the careers of people employed with such companies.

This could, however, be easily remedied by:

- i. Engaging qualified IP Attorneys, and subject-matter experts, as part of the IP due diligence team, each performing a clearly-defined task and who could gauge the utility and consequences of every transaction in line.
- ii. The team could carry out IP-specific due diligence, study the relevant market, the IP laws of the concerned jurisdiction, and then advise the company to play upon their strengths, while knowing their weaknesses and resolving them in time.
- iii. Special precaution could be taken while reading onto the IP related documents carefully so as to not miss out on important terms and conditions associated therewith. Other company related documents should also be read from the IP perspective to make proper decisions.
- iv. Make the company understand the value and worth of its IP rights, and be vigilant while dealing with any third-party claims.
- v. Carry out all the quarterly IP checks to avoid last minute pain, and lifetime losses.
- vi. Communicate seamlessly and honestly with the person performing the search, and double-check every finding before pursuing upon it. The aim of the search must be entirely clear to the entire team working therein.

- vii. A thorough IP Due Diligence could give an edge to the companies, who can cross-license their technologies or any other IP in order to set aside the potential infringement suit.
- viii. The most important is to sign the confidentiality documents before revealing any of the trade secrets during the negotiation, because not always the negotiations result into a merger or acquisition.

DENIAL OF PATENTS IN THE BIO-TECHNOLOGY SECTOR AND ITS CONSEQUENCES ON INDUSTRY DEVELOPMENT

Aryan Shah*

ABSTRACT

Patents have been increasingly used globally as a form to financially protect the creators of original inventions. Any new product or process of doing something which constitutes an inventive step and is capable of industrial application is usually eligible for patent protection. In fact, the significance of patent protection is paramount in any industry to garner investor confidence. Without the financial protection accorded by patents, investors are likely to shy away from exposing their capital for the development of new inventions. Without investments for research, development and innovation across different industries are bound to fail. To ensure that intellectual property rights are globally respected, international treaties like the Trade Related Intellectual Property (TRIPS) Agreement have been put in place to govern the grant and enforcement of patents. With the goal of promoting technological innovations, the TRIPS Agreement provides for the protection and enforcement of intellectual property rights. Discussing the nature of patent protection, this paper aims to analyse the provisions of the TRIPS Agreement with respect to patents as well as how they have been given effect by international jurisprudence. As we will see, courts around the world have often used the provisions of international treaties to deny patent protection, especially in the bio-technology sector. Consequently, the repercussions of patent denial will be discussed with its broader implications on the development of the industry. Finally, a suggestive discussion will shed light on issues of the current patent enforcement regime which may need to be reconsidered to streamline the long-term objectives of treaties like the TRIPS Agreement.

Keywords: Patents, Bio-technology, TRIPS, inventions, patent enforcement regime.

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1. INTRODUCTION

Through this paper, we shall understand how international jurisprudence has interpreted international and domestic laws with regards to patent protection in the bio-technology sector. In doing so, this paper shall attempt to shed light on how modern innovation has thrown all the assumptions we had about the development of technology out the window. International laws on patent protection have greatly underestimated the rapid advance, especially in the bio-technology sector. In fact, this particular sector has advanced so much that one could argue that the laws governing its protection are lagging behind the times. Before justifying this stance, we first need to understand what patent protection is, the existing international and domestic laws in place, and judicial interpretation in cases.

Patent protection serves as an incentive given to individuals and companies, which gives them exclusive rights to commercially benefit from any invention, whether it is a product, a new process of doing something or a new technical solution to a problem, for a certain time.¹ The two types of patents are:

- Product patents, which are granted for apparatus which serve as the end product of an invention (example – mobile phones, cars, etc.).²
- Process patents, in which protection is provided for the method or process through which the end product is obtained (example – an innovative method of harvesting crops).³

Thus, we could surmise that the nature of a patent consists of three significant elements. Firstly, it provides the inventor with an exclusive right. Secondly, the protection accorded to the inventors to commercially benefit from their invention becomes contractual once a patent is granted. Finally, the rights accorded through the patent are time bound, i.e., they cease to exist after the period of protection granted by the patent.

¹ Deborah E. Bouchoux, *Protecting Your Company's Intellectual Property: A Practical Guide to Trademarks, Copyrights, Patents & Trade Secrets* (AMACOM Division of American Management Association International 2001) 153-160.

² Michael Waterson, 'The Economics of Product Patents' [1990] 80 AER 4, 863-869.

³ George P. Carroll, 'Process Patents Involving Principles of Nature' [1910] 19 YLJ 3, 172-179.

Internationally, the TRIPs Agreement is one of the leading conventions on patent law. Members to the TRIPs Agreement are obligated to give effect to its provisions through their domestic laws to promote global cooperation in the enforcement of patent protection. For example, India, being a signatory to TRIPS, has made three amendments to its Patents Act, 1970 to accommodate the provisions of the Agreement.⁴ However, being an international treaty, the Agreement cannot afford to be too stringent with its provisions due to the possibility of members defaulting. Thus, it has to provide certain exceptions where member countries can use their discretion to deny patent applications. As we shall see, courts around the world have often used these exceptions to deny patent protection to inventions in the bio-technology sector, which could effectively stunt research and development in the industry due to the resulting drop in investors' confidence.

2. THE TRIPS AGREEMENT, 1994 (RELEVANT LAWS ON PATENT PROTECTION)

The TRIPS Agreement, which is one of the leading international conventions on intellectual property, serves as a model for its member countries while drafting their domestic patent laws. Negotiated in the Uruguay Round of the General Agreement on Tariffs and Trade (1989-1990)⁵, and administered by the World Trade Organization, the TRIPS Agreement provides its member nations with the minimum standards of regulating different kinds of intellectual property. The Agreement also provides enforcement procedures, dispute resolution procedures and remedies.⁶ Since signatories to this Agreement are required to uphold its principles through their domestic laws, it would follow that any such law which is counter-productive of the objective of the TRIPS Agreement would also stem from an interpretation of its own rules. Thus, it is important to first observe the relevant laws on patents in the TRIPS Agreement before analyzing how their interpretation in domestic laws has affected development in any sector.

Article 27(1) of the TRIPS Agreement requires its member nations to provide patent protection for any invention, whether it is a product or a process of doing something, in all fields of technology as long as they are new, involve an inventive step and are capable of industrial application.⁷ Thus,

⁴Jerome H. Reichman, *The TRIPs Agreement Comes of Age: Conflict or Cooperation in the Post-Transitional Phase?, Intellectual Property: Trade, Competition, and Sustainable Development the World Trade Forum* (edited by Thomas Cottier, Vol. 3, University of Michigan Press 2003) 115-140.

⁵ Daniel Gervais, *The TRIPS Agreement: Negotiating History* (Sweet & Maxwell 2012) Part I.

⁶The Agreement on Trade-Related Aspects of Intellectual Property Rights 1990, art 1(3).

⁷The Agreement on Trade-Related Aspects of Intellectual Property Rights 1990, art (1).

it would follow that any invention that is unique and achieved through human ingenuity should be eligible for patent protection.

However, it must also be noted that the TRIPS Agreement also provides certain conditions when member nations can exercise their discretion to exclude certain subject-matter from patent protection. For example, Article 27(2) allows members to exclude any inventions from patentability which are deemed necessary for the protection of public order, morality, health, human, plant or animal life, or to avoid prejudice to the environment.⁸ Similarly, Article 27(3) allows members to exclude from patentability any medical methods for the treatment of humans or animals and the production of plants and animals through essentially biological processes.⁹

A. Compliance of Domestic Laws with TRIPS Agreement

As discussed above, members to the TRIPS Agreement are obligated to structure their respective domestic intellectual property laws in compliance with the Agreement. For example, the United States law 35 USC § 101, which provides for the conditions and exceptions to patent protection, is obligated to do so within the confines of the TRIPS Agreement. Similarly, even the exceptions to patentability in India¹⁰ mentioned in Section 3 and 4 of the Patents Act, 1970 adhere to the Agreement. If member nations are obligated to model their laws in such a manner, it would also follow that they may make provisions for denial of patents provided they do so within the confines of Article 27(2) and 27(3) of TRIPS.

While both the above-mentioned Articles can only be used by members to deny patents in good faith, a study of international jurisprudence around them is required before commenting on the effectiveness of these Articles in promoting the broader goals of technological innovation around which the Agreement was drafted.

⁸ The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), 1990, art 27(2).

⁹ TRIPS, art 27 (3).

¹⁰ The Patents Act 1970, s3.

¹¹ The Patents Act 1970, s4.

3. HOW DOMESTIC INTERPRETATION OF THE TRIPS AGREEMENT HAS AFFECTED THE BIO-TECHNOLOGY SECTOR

Now that we have cleared the statutory aspect of patent protection, we can begin developing our argument on how statutory interpretation has fared in real world cases. As discussed above, Article 27(3) of TRIPS allows members to exclude from patentability, production of plants and animals through essentially biological processes. It was under the ambit of this Article, that the United States excludes patentability for products, which constituted natural phenomenon.¹² Eventually, this interpretation was evolved by a US Appeals Court to exclude any products, which did not possess “markedly different characteristics than those found in nature”.¹³ The courts’ decision would not come as a surprise to experts on patent law as most countries would usually classify products which do not have markedly different characteristics than those found in nature as ‘products of nature’. Such products which do not convincingly have any characteristics, which are not freely found in nature, are then excluded from patentability as exceptions under the TRIPS Agreement.¹⁴

The reasoning behind excluding such biological processes from patentability was explained in *Funk Bros Seed Co. v. Kalo Inoculant Co.*, where the court stated that manifestations of laws of nature are “part of the storehouse of knowledge and free to all men”.¹⁵ This interpretation was also used in *Diamond v. Chakrabarty* where the court held that a new mineral discovered, a new plant found in the wild or even genetically engineered microorganisms are not patentable as they would be considered ‘natural phenomenon’. It further explained that under US law 35 USC S 101, living things were not patentable.¹⁶ The scope for interpreting natural phenomenon became even more clear in subsequent cases where courts established that even novel and beneficial mathematical formulas¹⁷, discovery of new ways to harness qualities of unique metals¹⁸ or concepts of electromagnetism and steam power¹⁹ would not be patentable as these were ‘naturally occurring concepts’ which do not have any distinct qualities from those found in nature. Even isolated human

¹² United States Code, Title 3, Section 101.

¹³ *Diamond v. Chakrabarty* [1980] 447 U.S. 303 (1980).

¹⁴ Rochelle C Dreyfuss, ‘*Patenting nature-a comparative perspective*’ (2018) JLB 5.3, 550-589.

¹⁵ *Funk Brothers Seed Co. v. Kalo Inoculant Co.* [1948] 333 U.S. 127 (1948).

¹⁶ *Diamond* (n 13).

¹⁷ *Parker v. Flook* [1978] 437 U.S. 584 (1978).

¹⁸ *Funk Brothers Seed Co.* (n 15).

¹⁹ *O’ Reilly v. Morse* [1853] 56 U.S. 62 (1853).

genes were held to be not patentable in the high-profile case of *Association for Molecular Pathology v. Myriad Genetics* on account of the genes existing naturally and the only discovery in the case being their location.²⁰ Such court decisions made it clear that the discovery of scientific principles, concepts and living or non-living natural occurrences were not eligible for patent protection.

A. The Roslin Institute Case

While most of the above-mentioned cases would seem reasonable to any expert on patent law, the case of *In Re: Roslin Institute* may raise some concerns. In 1996, Ian Wilmut and Kieth Campbell, along with their colleagues at the Roslin Institute, Scotland successfully cloned the first mammal ever, Dolly the sheep. The method they used to achieve this was called Somatic Cell Nuclear Transfer (SCNT) which was a novel and unique process. While the Institute received a process patent on the SCNT method in 2009, they had also claimed a patent on another product: Dolly herself as well as any animal cloned using their SCNT method.²¹

Dolly enjoyed a short life as the first mammal to be cloned from an adult cell, succumbing to a lung disease in 2003. Although Dolly died in 2003, Roslin Institutes attempt to patent her and lay commercial claim to all animals cloned using their method spanned over a decade. The US Patent and Trademark Office (PTO) cited 35 USC S 101 which excludes “laws of nature, abstract ideas and natural phenomena” from the subject matter of a patent to deny a product patent for the cloned sheep. Consequently, Roslin Institute attempted to appeal against the PTO’s decision in the Patent Trial and Appeal Board in 2013. However, the decade-long saga ended in 2014 when the U.S Federal Appeals Court gave a final verdict against granting a product patent to Dolly’s creators.²²

Now, with reference to earlier discussed jurisprudence, we know that the ‘product of nature’ exception to patentability has been used to include both, naturally occurring products (e.g.- the discovery of a new metal) and non-naturally occurring products that do not have any distinct characteristics than that found in nature (e.g.- genetically engineered microorganisms that classify

²⁰*Association for Molecular Pathology v. Myriad Genetics, Inc.* [2013] 569 U.S. 576 (2013).

²¹ Lauren Matlock-Colangelo, ‘*Broadly Unpatentable: How Broad Method Claims Have Limited Patentability Of Diagnostic Inventions*’ [2019] 119 CLR 3, 797-836.

²²*ibid.*

as natural phenomenon).²³ We also know that the cloned sheep, which was technically a living organism, would justifiably not be patentable under 35 USC S 101 as explained in *Diamond v. Chakrabaty*.²⁴ The problem lies when the requirement to possess “markedly different characteristics than found in nature” starts being used to refuse patent protection to products created more through human ingenuity and intervention than ‘laws of nature’. The court in the Roslin Institute case used the earlier Supreme Court decisions to determine the scope for patentability. Here, the court held that although the cloned sheep was produced through biotechnological methods, it was still an exact genetic replica of the “naturally occurring” sheep from which it was cloned. Since it did not possess any markedly different characteristics than the sheep found in nature, it could not be patented as well.²⁵ While the Institute claimed that the cloned sheep could be distinguished from the natural sheep through its mitochondrial DNA, the judge in this case did not give it much consideration since it was not mentioned in the patent application.²⁶ The judgment may seem more problematic when one considers that once the sheep was cloned, factors such as age and weather conditions would give them a unique appearance which would be distinct from the original animal. Even if one ignores all technical aspects and intricate legal interpretations from earlier case law, the conclusion of the Roslin Institute case would be a denial of patent protection to a product which was widely considered a scientific breakthrough in the biotechnology sector with far-reaching possibilities.

4. CONSEQUENCES OF STRICT JURISPRUDENCE ON INDUSTRIAL DEVELOPMENT

While the SC decisions discussed to shed light on the scope of “products of nature” have always had their critiques for including non-naturally occurring products within their ambit, the Roslin Institute case serves as a perfect example of how the current regime could potentially be counter-productive to the overall goal of the TRIPS Agreement, i.e., the promotion and encouragement of development in technology and industry.²⁷ While the denial of patent protection to Dolly could be

²³Tup Ingram, ‘*Association for Molecular Pathology v. Myriad Genetics, Inc.: The Product of Nature Doctrine Revisited*’ [2014] BTLJ 29, 385–417.

²⁴*Diamond* (n 13).

²⁵*In Re: Roslin Institute (Edinburgh)* [2014] 750 F.3d 1333 (Fed. Cir. 2014).

²⁶*ibid.*

²⁷PeterK Yu, ‘*The objectives and principles of the TRIPS agreement*’ [2009] *Hous. L. Rev.* 46, 979.

justified by legal experts using previous case law, industries such as personalized medicine and biotechnology would be greatly impacted by the courts' rationale.

The general hostility towards granting patents to human made products which are identical to nature could cause investors to shy away from promising areas of biomedical and technological research.²⁸ The Roslin Institute case provides the perfect example to highlight this issue due to the sheer potential of the product which was denied patent protection. The success of cloning animals has opened the path to evolutionary concepts such as cloning human cells as possibly even creating lab grown organs. However, no matter the potential, no development can happen on this front without proper investments for research and development. The denial of patent protection to cloned animals would definitely weigh on an investor's mind, whose primary goal is to financially protect his interests. If investors are convinced that they would not be able to commercially benefit from the products created, investments in the particular area of research would irrefutably be stunted.²⁹ Supporters of the current regime may argue that in the Roslin case, a process patent on the SCNT method should be sufficient to tackle this issue. However, such claims do not account for the fact that the average investor does not understand the subtle differences in the types of patents and are still much more comfortable with a product patent. Even those who understand the differences are sure to reconsider their investments if a product patent is blatantly denied, even if the researchers still hold a process patent.

A. The Potential 'Domino Effect'

Even before the Roslin Institute case, one could argue that the Supreme Court decision in the Myriad Genetics case set the stage for a disastrous blow on the biotechnology sector. Judge Thomas' view on this case led many to expect a complete cessation of the personalized medicine industry.³⁰ Here, the creation of cDNA (composite DNA) was held to be patent eligible only if it could be distinguished from actual DNA.³¹ While a layman may not realize the significance of this distinction, it essentially only allowed longer strands of cDNA which were distinguishable from actual DNA to be patented. The shorter strands which could not be distinguished were excluded

²⁸ Ted Sichelman, 'Commercializing Patents.' [2010] 62 SLR 2, 399-411.

²⁹ *ibid.*

³⁰ Clark D Asay, 'The Informational Value of Patents.' [2016] 31 BTLJ 1, 259-264.

³¹ Association for Molecular Pathology v. Myriad Genetics, Inc. [2013] 569 U.S. 576 (2013).

from patentability.³² One could argue that it was this requirement to be ‘distinguished from nature’ that was amplified into a decision where the cloned sheep was denied patentability on the same grounds on account of being identical to the sheep from which it was cloned.

One of the biggest issues with the courts’ interpretation in cases related to biotechnology is that they seem to penalize ‘perfect’ inventions while making allowances for imperfect ones. Justice Thomas’ comments on the Myriad decision leads us to believe that short strands of cDNA could not be patented on account of being indistinguishable from actual DNA.³³ This pill seems hard to swallow because the exact recreation of organic material should be considered the epitome of success in cloning technology. The pinnacle of personalized medicine, at least with regards to cloning, would be to eventually create lab grown organs which would be completely indistinguishable from naturally occurring organs as only such organs can be safely transplanted to prolong human life. Such indistinguishable organs would undoubtedly be considered a bigger technological breakthrough than cloned organs, which are distinct from naturally occurring organs. If Judge Thomas’ explanation is considered, such ‘perfect’ lab grown organs could be excluded from patentability. In such a scenario, no commercial company would risk spending billions of dollars on research necessary to make this goal a reality. Without the possibility of exclusive rights, development in such promising fields is bound to dry up.³⁴

B. Challenges and Suggestions

An objective analysis of the reasons given by courts to deny patents will reveal that the logic used to do so had some degree of legal backing. In a system where precedent is given paramount importance, it is only natural for courts to structure their verdict keeping previous jurisprudence in mind. However, when accepted legal interpretations visibly pose obstacles to the broader goals behind which the statute was drafted in the first place, a need for review arises. The primary goal of the TRIPS Agreement is to promote technological development and innovation.³⁵ However, when exceptions in the TRIPS Agreement are used by courts to justify denying patent protection

³²Sebastien Bradley, ‘Cross-Country Evidence On The Preliminary Effects Of Patent Box Regimes On Patent Activity And Ownership.’ (Vol. 108, Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association 2015), 1–15.

³³ibid.

³⁴ Clark D Asay, ‘The Informational Value of Patents.’ [2016] 31 BTLJ 1, 259–264.

³⁵Peter K Yu, ‘The objectives and principles of the TRIPS agreement’ [2009] *Hous. L. Rev.* 46, 979.

to genuine innovations like cloned animals and genetically engineered microorganisms, it has the opposite effect which is counter-productive to this goal.

The major obstacles faced with any international treaty, is the issue of enforceability. Various failed treaties in the past have proven that no matter how admirable the intentions, they are bound to implode if their member nations do not follow them. Thus, to ensure success, international treaties usually tend to be more relaxed in their restrictions to encourage member nations to follow their provisions. However, vague statutes which are open to broad interpretation is not an effective solution to reduce restrictions. As discussed above, if statutes leave a broad scope for interpretation, there exists a strong possibility that judicial interpretations may lead to their provisions having a diverse impact on their overall objectives.

To overcome the issues caused by a lack of proper guidance, the TRIPS Agreement may need to be reviewed. Although the current statute makes an admirable attempt to balance the rights of the inventor and the rights of domestic governments to restrict patentability for the common good³⁶, the provisions in place are vague and could be interpreted in numerous ways. A clarification on how the exceptions to patentability can be used along with exact conditions could go a long way in ensuring that patents are only denied for situations envisaged by the drafting body.

Furthermore, if the goals envisaged by the TRIPS Agreement are to be realized, the judiciary needs to remain cautious of the real-world impact of their decisions. Rather than trying to interpret the scope of the exceptions within the international treaties, the judiciary should structure their verdicts in light of the broader goals of the statute they are interpreting. Finally, a proper balance must be struck while determining whether a product is a natural phenomenon or a creation through genuine human intervention. The precedent of requiring inventions to possess 'markedly different characteristics than those found in nature' should be reassessed considering modern technological breakthroughs which seek to duplicate natural phenomena. Industries like the biotechnology sector, often hailed as the 'the future of science' will only be able to thrive if their rights are protected by intellectual property laws in a structured manner.

³⁶ibid.

5. CONCLUSION

The purpose of this paper was to highlight the importance of statutory provisions and the ways in which they are interpreted. As we have seen, even domestic laws which are consistent with the TRIPS Agreement can be used to deny patent protection to products in a manner which can threaten the fundamental objectives of the Agreement. One of the major reasons for patents being denied in the *Myriad Genetics* and *Roslin Institute* cases could be that science has evolved beyond the expectations of the drafters of the Agreement. While making provisions to exclude 'products of nature' from patentability, it is possible the drafters did not take into account the fact that the latest breakthroughs in the biotechnology sector would be identical to natural products. However, just like biotechnology, and every other industry in the world, law is an evolving concept as well. It needs to constantly adapt to the dynamic developments in the world it seeks to regulate. Keeping this in mind, certain provisions of the TRIPS Agreement as well as domestic laws modelled around it may need to be reviewed or restructured. It is crucial that developments in different industries are kept in mind while doing so to ensure that all new, unique and innovative inventions are given sufficient protection to facilitate their development.

NON-CONVENTIONAL MARKS: GRAPHICAL REPRESENTATIONS AND CONTEMPORARY PROBLEMS

Doyita Mukherjee*

ABSTRACT

It is imperative that as developments take place in the socio-economic realm, lawmakers observe and initiate the same in laws. The field of intellectual property rights has witnessed remarkable developments that have taken place with changing times. One major change that has transpired worldwide, is the inclusion of non-conventional marks in the paradigm of trademark registration. Non-conventional marks are those marks which cover the colour, shape, sound of goods etc. Initially, the trademark registration was only accorded to conventional marks such as the logo, the brand name, device, word etc., but gradually IP domain witnessed the inclusion of unconventional marks.

However, with all these developments, there is still a long road yet to be trod upon. Non-conventional marks is still a grey area in need of research, which brings us to the question as to how limited are the laws on non-conventional trademarks in the light of the recent registrations and rejections. Besides the hindrances in graphical representation of olfactory marks and registration of non-conventional marks leading to monopoly in the market, recent times have witnessed a trend of registrations such as the registration of the non-cylindrical shape of lipstick belonging to the famous French cosmetic brand Guerlain, which has surprised the IP world.¹ However, there is a lack of proper legal framework governing the registrations of such marks leading to ambiguity and resulting in many marks awaiting their registration such as the shoe manufacturer Timbaland who awaits the registration of the shape of their iconic yellow boots. Moreover, recently the European Courts have given a string of judgements rejecting or cancelling shape marks such as Tecnica's famous moon boots² and Logitech microphone shape.³

Keywords: Trademarks, Non-Conventional Marks, Graphical Representation, Olfactory marks, distinctive marks.

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¹Leonhard Romisch, "Non-Conventional Marks- A Significant Departure in Lipstick Design", BrandWrites (27th Jan 2022, 11:00 PM), <<https://brandwrites.law/non-conventional-marks-a-significant-departure-in-lipstick-design/>> accessed 15 Jan 2022.

²EUIPO Board of Appeal, R1039/2019-1.

³EUIPO Board of Appeal, R2630/2019-4.

1. INTRODUCTION

Every time we start watching a Netflix Original, we are greeted by the popular “Tu-dum” sound that is stuck in everyone’s head. However, for many it may not have ever crossed their mind that sounds like these are so unique in character that they are in itself able to represent the entity and distinguish its products and services from that of other entities. For instance, the “Tu-dum” sound helps to differentiate Netflix from Amazon Prime, another OTT platform. The moment you hear the sound anywhere, be it your friend’s house or in the mall, you would know that there is a Netflix Original being played there, and you are very less likely to confuse it with an Amazon Original.

Article 15(1) of TRIPS provides that a trademark consist of a sign or a combination of signs which are capable of distinguishing the goods and services of one undertaking from that of another undertaking.⁴ Moreover, Section 2(1)(zb) defines a trademark as a mark which is capable of being represented graphically and has the capability to distinguish the goods and services of one person from that of another person and may include the shape of goods, their packaging and combination of colours.⁵

The purpose for which Trademark is adopted is three-fold. Firstly, a trademark helps to distinguish the products and services of one source from the similar products and services of other sources thereby preventing confusion in the minds of the consumers. Secondly, it provides protection to the trade, business and good-will that the trademark and its owner has earned over time. Thirdly, it provides assurance to consumers that products and services bearing a particular Trade Mark are of equal quality. Further, trademark protection also assists in the advertisement of the particular product bearing the trademark.⁶

Over the years, the Court in many cases has laid down the object behind trademark protection. In the case of *Cadbury India Limited v. Neeraj Food Products*⁷, an observation was made by the Delhi High Court wherein they stated that the prevention of dishonest adoption of one’s trademark intending to make profits out of it by virtue of good-will and reputation of the Trademark is the

⁴ Agreement on Trade-Related Aspects of Intellectual Property Rights 1994, art 15(1).

⁵ Trade Marks Act 1999, s 2 (1) (zb).

⁶ JT McCarthy, *Trademarks and Unfair Competition* (Vol 1, New York, 1973), 86.

⁷ *Cadbury India Limited v Neeraj Food Products* (2007) 35 PTC 95 (Del).

core spirit of the Trade Marks Act, 1999. ⁸Moreover, in the case of *Ramdev Food Products Pvt. Ltd. v. Arvindbhai Rambhai Patel*⁹, the Supreme Court observed that the intrinsic purpose of trademarks protection is establishing a connection between the goods being sold and its source thereof suggesting the quality of products. ¹⁰

The paradigm of Trademark law has undergone a lot of change and has seen evolution as different countries and their respective courts are overburdened with applications for colours, shapes, sounds, smells, motions, tastes to be registered as trademarks. Many of them, like the famous Tarzan Yell or the triangular-shape of the Toblerone chocolate have been registered as trademarks. But, the question arises what are these marks called and how are they registered.

This paper will essentially deal with such marks known as non-conventional marks, their graphical representation and the practical issues that erupt in their registration as trademarks.

A. Non-Conventional Marks – Definition

Section 2(1) (m) of the Trade Marks Act, 1999 provides the definition for “mark” and states that it includes a device, brand, label, ticket, name signature, word, letter, numeral, shape of goods, packaging or combination of colours or any combination. Such categories of marks can be divided into two parts namely, the first bracket includes categories such as device, brand, label, ticket, name, signature, word, letter and numeral; the second bracket include shape of goods, packaging or combination of colours. The former categories marks fall under the purview of conventional marks which can be easily graphically represented and registered as trademark, whereas the latter categories which fall outside the purview of conventional marks are known as non-conventional marks.

When you think of Amul Butter, some of the salient features that would come to your mind include the girl in a polka-dotted dress, the style and the font in which “Amul” is written and the tag-line “utterly butterly delicious”. All distinctive features that come to your mind are conventional marks which can be graphically represented and can be used to distinguish the product from similar products by other undertakings, for instance Mother Dairy or Nandini.

⁸ibid.

⁹*Ramdev Food Products v Arvindbhai Rambhai Patel* (2006) PTC 281 (SC).

¹⁰ibid.

On the other hand, when you think of McDonald's, the famous jingle "I'm lovin' it" is bound to play in your head. This jingle has been registered as a sound mark in USA¹¹ as it is capable of creating a unique identification of the brand "McDonald" in the minds of consumers and also possesses the ability to distinguish it from other undertakings like KFC or Burger King.

In other words, non-conventional marks are those marks which are beyond the boundaries of traditional marks and include categories like touch, smell, sound, colour, shape, texture and more. Traditionally, trademark protection is given to those marks which are capable of being graphically represented and can be used to distinguish the goods and services of one undertaking with that of another. In recent times, many non-conventional marks have also been provided trademark protection because they possess the ability within them to create a unique identification of the product in the minds of the public. ¹²Hence, sounds like the Tarzan's yell has been given trademark protection because the sound possesses the ability to create a unique identification in the minds of consumers. ¹³

While registration of protection of non-conventional marks is only a recent phenomenon, debates and discussions regarding it have been going on for several decades. In fact, before registration of the famous shape of Toblerone or Yahoo's three-note yodel, some of the initial well-known registration of non-conventional marks includes the shape of the bottle of Coca-Cola and the blue-coloured gift box of Tiffany's Company that helped to create a unique identification in the minds of people.¹⁴

Solid debates regarding registration and protection of non-conventional marks started taking place in 19th century Europe. It was finally in 20th century Bolivia, where arguments lead to unconventional marks like sound, shape etc. being granted protection because of their ability of being graphically represented and possessing distinctive character. ¹⁵ While it has been twenty

¹¹'I'M LOVIN' IT Trademark Details' (JUSTIA Trademarks) <<https://trademarks.justia.com/782/57/i-m-lovin-78257203.html>> accessed 20 September 2021.

¹² Faye M. Hammersley, 'The Smell of Success: Trade Dress Protection for Scent Marks' (1998) 2 Intellectual Property Law Review 105, 115.

¹³ Trademark Registration no: 2210506.

¹⁴'Smell, Sound and Taste-Getting a Sense of Non-Traditional Marks' (WIPO) <http://www.wipo.int/wipo_magazine/en/2009/01/article_0003.html, last seen on 10/11/2016> accessed 20 September 2021.

¹⁵ Shikhar Sinha & Kunal Gopal, 'Tracing the Jurisprudence of Smell Marks as a Trademark' (2017), 1 HNLU Student Bar Journal 61, 68.

years since the registration and protection of unconventional marks came into being, however, the graphical representation of such marks has posed quite practical problems, particularly for the non-visual marks like sound and smell as they could create confusion in the minds of the general public.¹⁶

B. Graphical Representation of Non-Conventional Marks

Section 2(1) (k) of the Trade Mark Rules, 2017 defines graphical presentation of trademarks as “representation of a trademark for goods and services represented or capable of being represented in paper form and includes representation in digitised form”. Graphical representation of a mark is considered to be an essential condition for it to be eligible for registration in India. In other words, a trademark application needs to be graphically represented and the mark must possess the ability of being represented on paper.

The requirement for a trademark application to be graphically represented is mainly for the following purposes. Firstly, it allows traders to identify which other traders have applied for registration as a trademark and secondly, it also allows the public to determine the subject matter of the registration.¹⁷

While graphical representation of conventional marks did not pose much problems, but as the definition of “mark” widened to include shape of goods, packaging, colours and combination of colours, sound marks etc., and the graphical representation of such non-conventional marks started posing significant challenges. However, with time, law has developed and there are many non-conventional marks that have been graphically represented and thus, provided trademark protection.

i. Sound Marks

Sound marks are those marks which provide identification of products and services through a unique audio clip. Some forms of sound marks include musical notes and onomatopoeia. One of the best examples of sound marks is the Yahoo three-note yodel.

¹⁶ *ibid.*

¹⁷ *SwizzelsMatlow Limited’s Trade Mark Application-R.P.C., Report of Patent, Design and Trademark Cases (1998) Oxford Journals 244-249.*

Initially, sound marks were not recognized as marks, which are capable of registration and trademark protection. However, the situation changed in the case of *Shield Mark BV v. Joost Kist*¹⁸, wherein the European Court of Justice held that in certain situations sound marks can be provided trademark protection provided they were able to fulfil the prerequisites of registration of conventional trademarks i.e. the ability of being graphically represented without causing confusion.

For registering a sound mark in United States, the general principle which was provided by the Court of United States during the registration of the Nokia tune is that the aural perception of the listener which may be as fleeting as the sound itself unless, the sound is so inherently different or distinctive that it attaches to the subliminal mind of the listener to be awakened when heard and to be associated with the source or event with which it struck.¹⁹ Some of the famous tunes and melodies which have been granted trademark protection in the United States include the Tarzan Yell²⁰, Merrie Melodies theme song²¹ etc.

In India, sound marks are allowed for trademark registration and protection. Rule 26(5) of the Trade Mark Rules, 2017 provides that where an application for trademark registration consists of a sound as a trademark, the reproduction of the same shall be submitted in MP3 form not exceeding thirty seconds length recorded on a medium which allows for easy and clearly audible replaying accompanied with a graphical representation of the notations. The first sound mark registration by the Trade Mark Registry was the Yahoo three-not yodel. Some other notable sound mark registrations in India include “VROOM” sound registered as a sound mark by the Hero Motor Corp²² and the famous dialogue “*Muddai Lakh Bura Chahe Toh Kya Hota Hai? Wahi Hota Hai Jo Manjjure Khuda Hota Hai!*”²³ by Mehboob Productions.

¹⁸*Shield Mark BV v. Joost Kist* (2004) R.P.C. 315 (ECJ);

¹⁹T. Priyadarshini and Neetika Yadav, ‘Nokia’s Triumph in 2007- Registrability of Sound Marks and Areas of Concern’ (Indian Law Journal)

<https://www.indialawjournal.org/archives/volume1/issue_3/article_by_priyadarshini.html> accessed 20 September 2021.

²⁰Trademark Registration no: 2210506.

²¹Trademark Registration no: 2473248.

²²Trademark Registration no: 2529021.

²³ Trademark Registration no: 3027897.

C. Olfactory Marks

Olfactory marks or smell marks is another category of non-conventional marks which has posed quite a problem in being graphically represented. One of the main issues in graphical representation of smell marks is that they can only be represented in a verbal manner, however, verbal form is not an accurate or official method for determining the difference between two smells. However, one method of graphical representation of smell mark could be the chemical formula behind it.

In the case of *Sieckmann v. Deutsches Patent-und Markennamt*²⁴, the smell mark under consideration was not allowed for registration as a trademark on the ground that the mark was found to be unobvious to the average customer. In that case, the Court completely ruled out written descriptions, chemical formulae, samples and graphic profiles as means of identification of smell marks.

In the *Sieckmann* case, the ECJ laid down requisites that will render a smell mark to remain unregistered. Firstly, the subjective nature of the written description of the smell mark can be interpreted differently by everyone. Secondly, consumers are unable to understand the chemical formula behind the smell mark without the help of experts, therefore the Court ruled out chemical formulae as means of graphical representation of smell marks. Thirdly, change of environment can have an effect on the durability of the scent and lastly, the Court opined that a trademark is required to be represented graphically and should also be “specific, self-reliant, clear, accessible easily, understandable, objective & robust”.²⁵

The Court of United States in the case of *Re Celia Clarke*²⁶ provided that registration of smell marks can be allowed. In this case, the Court made an attempt to bring about a distinction between the different uses of smell marks, in the sense when the smell is not an inherent character of the goods and services and in those circumstances, where the smell is an intrinsic part of the goods and services. In the latter, the smell can't be separated from the goods and services to which it is attached.

²⁴*Sieckmann v Deutsches Patent-und Markenamt*, [2003] C-273/00, E.T.M.R. 37.

²⁵ *ibid.*

²⁶ *In Re Celia Clarke* [1990] 429 ITAB 758.

In India, to this date no smell mark has seen the light of trademark registration. The laws regarding the registration and graphical representation of smell marks have been silent and thus no smell mark has been given trademark protection in India.

D. Colour Marks

Colour marks are a form of visual non-conventional marks and come in two forms: singular colour mark or combination of colours. In the case of *LibertalGroep v. Benelux Trademark Office*²⁷, the issue came up before court on whether or not the singular colour orange could be registered as a trademark. The European Court of Justice relied upon the *Sieckmann*²⁸ case wherein a criteria was laid down for graphical representation of non-conventional marks stating that the representation should be clear, precise and self-contained. Moreover, it must be durable, objective and easily-accessible.

The Manual of Trademarks, Practice and Procedure 2017²⁹ has laid down the criteria for graphical representation of colour marks. It states that for a colour mark to constitute a trademark, it is imperative that the colour or a combination of colours must be able to bring about distinction between the goods and services of one trader with those of other traders. If there is any particular colour of packaging which has become a distinctive feature of that product or service of a trader, then it should be protected by registration.

For single colour marks, they can be registered as a trademark provided that they are very unusual and peculiar in a trade and recognized by the traders and consumers that it creates a unique identification of the goods and services provided by that trader. Some single colour marks which have been registered in India include the colour "Brown" by Victronix AG³⁰ and the "Magenta" colour by Telekom AG³¹.

For combination of colours, the Manual³² provides that it will be registerable but will be dependent on their uniqueness and the purpose for which they are being used. If the combination of colours

²⁷*Libertel Groep BV v. Benelux Trademark Office* [2003] C-104/01 (ECJ).

²⁸Trademark Registration no: 2473248 (n 21).

²⁹'Draft of Manual of Trademarks, Practice and Procedure', (IPIndia) <https://ipindia.gov.in/writereaddata/Portal/IPOGuidelinesManuals/1_32_1_tmr-draft-manual.pdf> accessed 20 September 2021.

³⁰Trademark Registration No: 1394234.

³¹Trademark Registration No: 1462271.

³²*In Re Celia Clarke* (n 26).

is present as a figurative mark then not more than two colours will be accepted for registration. In case the combination of colours is being used for packaging of a product, then they are prime facie, less likely to indicate source of trade. If colours are being used for packaging, then for it to be registered, it will be evaluated that how unique the colour combination is in relation to goods and whether the combination will create a unique identification of the particular goods in the minds of consumers. One example where a combination of colours was registered as a trademark is the combination of colour “Yellow and Green” registered by Deere & Company³³.

E. Shape and Packaging of Goods

Shapes of goods have also received trademark recognition in India. Section 9(3) of the Trade Mark Act, 1999 provides that a mark shall not be registered if it consists of the shape of goods which result from the nature of goods.³⁴ The shape should also not have functional considerations³⁵ and should not add extra value to the goods and services.³⁶

Section 26(4) of the Trade Marks Rules, 2017 provides that where an application for registration of trademark includes the shape of goods or its packaging, the reproduction provided shall consist of at least five different views of the trademarks and description by word of the trade mark. Some examples of shape marks being registered in India include the shape of Jaguar Car registered by Jaguar Land Rover Ltd.³⁷ and the Saffola 5 litres Oil Cans which came with two handles by Marico Ltd.³⁸

2. PRACTICAL PROBLEMS AND CHALLENGES ATTACHED TO GRAPHICAL REPRESENTATION OF NON-CONVENTIONAL MARKS

As aforementioned, the trade mark law has evolved a lot in the last century and as a result we have witnessed the inclusion of non-conventional marks in the spectrum of trademark registration. However, there are a number of challenges that stand for an applicant who wishes to get a non-conventional mark registered. For registration of a trademark, it is essential that the subject mark

³³ Registration No: 1551759.

³⁴ Trade Marks Act, 1999, s 9 (3) (a).

³⁵ Trade Marks Act, 1999, s 9 (3)(b).

³⁶ Trade Marks Act, 1999, s 9(3) (c).

³⁷ Trademark Registration no: 2820937.

³⁸ Trademark Registration no: 2505358.

should be graphically represented. While non-conventional marks like word marks or device marks pose no problems in that area, when it comes to non-conventional marks, issues creep up.

Among the non-conventional marks, visual marks like colour or combination of colour and shape marks are not difficult to be registered as they can be graphically represented. However, non-visual marks like smell and sound marks tend to create confusion in the minds of consumers, hence, their registration is littered with quite a few obstacles.

While Indian law recognizes the graphical representation and registration of certain sound marks, the law is still silent when it comes to smell or olfactory marks. The reason behind this could be the difficulty in graphical representation of the same. A smell mark may be represented by chemical formula or the composition details, however, it is challenging because that doesn't help in the identification of the product to which the smell mark is associated. Moreover, as stated in the Sieckmann's case, chemical formulae can hardly be understood by a consumer and for it to be understood, one has to approach experts on the ground. Moreover, most smell marks do not possess the ability of bringing about a distinction between the goods and services of one person and that of another, which is the prime object of getting a trademark protection. However, there are some smell marks which have been able to meet the criteria for distinctiveness and have got trademark protection outside India, for example, the tennis balls of Dutch Company smell of freshly cut grass.

Besides graphical representation, another question that should be posed is how do we store such smell marks? Over the years, the question of graphical representation of smell marks have been raised time and again, but the difficulty in storing olfactory marks has not been the bone of discussion, even though it poses great difficulty in registration of such marks. This is where one can highlight upon the limitation of law, In the light of so many non-registrations of smell marks and some still awaiting for registration, the law should have taken into consideration the absence of any guideline or rule regarding the same. However, we are yet to see the light of the day, when the law will be amended to provide a proper framework for the registration of smell marks. One solution that can be catered through this research paper is that the problem of storage of smell marks can be dealt with in a practical manner with technological advancement. One needs to create a virtual reality system where such smell marks can be stored for an infinity, with such features being incorporated in the system, that ensures it doesn't evaporate or dissolve.

Another non-conventional mark that may cause problems when applied for registration is touch marks. Touch marks or texture, just like smell marks are subjective in nature. It is not a visual mark and hence cannot be seen with bare eyes, but only felt. This poses a problem for a consumer as to how such touch marks can bring about a distinction between the goods of which they are a characteristic feature. For instance, for a consumer it may be difficult and confusing for him/her to understand the difference between the bags provided by two different brands, just by touching it. However, a touch mark which has been registered is the texture of the Louis Vuitton bag.³⁹

While many sounds have been registered as trademarks in the past, yet they pose an issue when it comes to their registration. In the case of *Honda AG v. Harley-Davidson Inc.*,⁴⁰ The exhaust roar of Harley-Davidson bikes could be viewed as a characteristic feature, however, many Japanese manufacturers like Suzuki, Honda and Yamaha and many American manufacturers like Polaris objected to the exhaust roar being provided trademark protection as it was not a distinctive feature of the bike. Many other motor-bikes by other manufacturers could make the same exhaust roar sound, and it would ultimately lead to confusion in the minds of the general public. Thus, only those sound marks which have a very distinctive character in them that helps to distinguish goods of that particular person with that of another or those which have attained a secondary meaning, are eligible for being registered as trademarks.

Another obstacle that comes in the path of registration of non-conventional marks is the doctrine of functionality. The doctrine lays down that if the functional features of a product are given trademark protection then it would create some level of monopoly in the market. For instance, the shape of a razor cannot be registered as it will provide a technical result of its shape nature.⁴¹ The doctrine of functionality applies to any feature that is crucial to the usage and purpose of the product or if it affects the cost and quality of the product.⁴² The main issue in cases related to this

³⁹Dipak Rao & Sana Singh, 'The Contemporary Issue of Non-conventional Trade Marks', (Lexology) <<https://s3.amazonaws.com/documents.lexology.com/ebe88cd8-9ed8-4d56-8ee2-a9123af2fb19.pdf?AWSAccessKeyId=AKIAVYILUYJ754JTDY6T&Expires=1592240024&Signature=iGwXi1AOjRF5E%2FG5Te8ZCR0%2F%2BtA%3D>> accessed on 20th September 2021;

⁴⁰*Honda AG v Harley-Davidson Inc* (1997) 108 F 3d 1393 ;*Harley-Davidson Inc v William Morris D/B/A Bill's Custom Cycles*(1994) 19 F 3d 142; *Harley-Davidson Inc v Selectra International Designs* (1994) 861 F Supp 754;

⁴¹Adv. Ms. MugdhaPalsule& Adv. Ms. Nikita Lakhani, 'India: Conventionalisation of Non-Conventional TradeMarks' <<http://www.cnlu.ac.in/2021/CIRF/5%20Adv%20Mughda%20Palsule%20and%20Adv%20Nikita%20Lakhani.pdf>> accessed on 20September 2021.

⁴²*Qualitex Co. v. Jacobson Prods. Co.* (1995) 514 U.S. 159, 162, 165 (Supreme Court).

doctrine is the uncertainty that lingers in getting registration for the functional feature of a product which might result in legal monopoly.⁴³

Trademark protection of non-conventional marks also creates conflict with other intellectual property protections, as many of these marks also require protection under other intellectual property. In India, courts have often been faced with a conflict between protection of shape marks under design law as well as trademarks law. This is because Section 2 of the Designs Act, 2000 provides that the shape of goods is eligible for protection under Designs Act, 2000. ⁴⁴The difference that lies between a shape getting trademark protection and design protection, is that in the former shape that becomes eligible for trademark registration should be related to the source of the goods, while in the latter's case it is the aesthetic appeal that makes the shape eligible for registration as a design. ⁴⁵Besides, design and trademark protection, shape marks are also a subject matter for copyright protection, and in the past the packaging and shape of goods have also been provided copyright protection.

Recently, the European Court has granted trademark protection to the shape of lipstick of the famous French cosmetic brand, Guerlain. The Court held that the brand's lipstick shape is quite different and unusual from other lipsticks in the market, as it is non-cylindrical in shape and cannot be positioned upright on a flat surface. Moreover, the unusual shape of the Applicant's lipstick will remind one of a boat hull or a cradle and therefore, the public will be able to easily recognize this lipstick as belonging to this particular brand, since it distinctly differs and deviated from the cylindrical shape of lipsticks in the market.⁴⁶

However, this recent development should not constitute the basis for one to assume that the windows of laws regarding non-conventional marks have opened and are changing with relevant times. While the spectrum has definitely widened, however, it is still not at par with recent times. There are still many non-conventional marks, which for years are waiting to be registered, such as the famous shoe manufacturer Timberland still hasn't seen the light of the day for the registration of the shape of its yellow iconic boot which originated in the 1970s. Recently, the famous Moon

⁴³Trademark Registration no: 2505358 (n 38).

⁴⁴ Design Act 2000, s 2.

⁴⁵Trademark Registration no: 2505358 (n 38).

⁴⁶GC,T-488/20-Guerlain.

Boot's Italian manufacturer⁴⁷, Tecnica Group S.A. encountered defeat that resulted in the cancellation of its 3-D shaped boot marks. It was held that the manufacturer's mark was neither inherently distinctive nor had it acquired distinctiveness. Moreover, the shape as a whole didn't depart from the "norms or customs of the sector".⁴⁸

3. CONCLUSION

Customers usually identify goods and services with a particular feature which is so unique to that good or service. It could be conventional marks like the logo or brand name, or it could be non-conventional features like smell, sound or colour.

The trademark laws in India have been revamped to include non-conventional marks as well. Non-conventional marks may get a well-known status only because of its prolonged use and popularity, but cannot become generic as conventional marks. An advantage of protection of non-conventional marks is that they increase the creativity of manufacturers so that they try to make their products more distinctive in a non-traditional manner. It acts as an incentive for many brands and companies to market their goods and services in the most innovative manner possible.

However, the disadvantage attached to trademark registration of non-conventional marks is that it can lead to monopoly and unfair competition in the market. Moreover, marks like taste marks and smell marks cannot be graphically represented and also do not possess the distinctive character to bring about distinction between goods and services.

Indian law regarding trademarks is moving and evolving with time. While non-conventional marks like sound, shape and packaging and colours have been given a legal backing, with time one can expect law to lay down criteria for graphical representation of other non-conventional marks. It is time for India to look at the criteria for registration of non-conventional marks in other countries like the USA and UK, and implement the same here.



⁴⁷Romisch (n 1).

⁴⁸EUIPO Board of Appeal (n 2).

MONSANTO CO. V. STAUFFER CHEMICAL CO: THE EXPERIMENTAL USE EXCEPTION

*Anusrita Ranjan**

1. INTRODUCTION

Patents are granted to inventors to protect their rights, from others selling, making, and using the product or its process. However, the right of a patent is not always absolute. The experimental use exception is a common law exception to the patent-holder's exclusive right of use.⁴⁹ Essentially, the exception allows researchers to use inventions that have already been patented, for the purpose of conducting trials and research, while the license remains with the patent holder. In this paper, the author attempts to explain the curious case of the experimental user exception through *Monsanto Co. v. Stauffer Chemical Co* in the United Kingdom. The paper also delves into a comparative analysis of the exception in India and its application.

2. FACTS

The case of *Monsanto Co. v. Stauffer Chemical Co* revolves around the nuances and nature of the experimental use exception. The Monsanto Company was a leading producer of chemical and agricultural products, based out of the United States of America. Stauffer Chemical Company was a chemical company, also from the USA, which was in the business of production of herbicide. The plaintiffs, Monsanto had filed an injunction against Stauffer, the defendants to prohibit the use or sale of the allegedly infringing herbicide, Touchdown. The defendants relied on section 60(5) of the Patents Act of the United Kingdom to conduct “experimental” trials with the already infringing herbicide. The Court held that the exception could not apply if the patented product was used for testing or evaluating a different product or process.⁵⁰

The primary objective of the experimental use exception is to accelerate growth in the field and further development in the country, while also protecting the inventor's patent rights. The motive behind such an exception is to strike a balance between the rights of the inventor and producer and

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⁴⁹ Janice M Mueller, “No Dilettante Affair: Rethinking the Experimental Use Exception to Patent Infringement for Biomedical Research Tools” (2001) 76 WASH. L. REV. 1, 19-21.

⁵⁰ *Monsanto Co. v. Stauffer Chemical Co.* (1985) (RPC 515).

other players, so that a disadvantageous monopoly does not arise in the market. However, it is just as important to implement the exception in the country's law, carefully, to not cause detriment to the very essence of patents. It is a widely accepted concept in patent law all around the world. The United Kingdom statutes have prescribed experimental use exception in section 60 (5) of the Patents Act of 1977. Section 60 of the Act allows for a statutory provision of direct and indirect patent infringement. Section 60(5)(b) of the Act essentially states that activities with an experimental objective, relating to the matter of the invention, will be exempt from the aforementioned infringement. The section was laid down to bring the patent laws of United Kingdom in accordance with the provisions and statutes of the European Patent Convention, which, however, does not have a specific provision regarding the exception. It is also important to understand the significance of Article 31(b) the Community Patent Convention (CPC) 1975, from which the exception originally stemmed from. It lays down that any act done, which relates to the subject matter, for the sake of experimentation would not infringe a patent.⁵¹

3. JUDGEMENT

The Monsanto case is considered to have paved the way for United Kingdom's patent laws on the topic of experimental use exception. The case laid down conditions in which a trial can be considered an experiment. The Court restricted the scope of the exception by narrowing down the definition of the term "experiment". "Trials carried out in order to discover something unknown or to test a hypothesis or even in order to find out whether something which is known to work in specific conditions can fairly, in my judgment, be regarded as experiments."⁵²The case of Monsanto established a test which held that experimental use exception would only cover acts that sought to create or produce new information but it is not applicable for activities that seek to verify already existing evidence. The Court was also cognizant of the fact that the motive behind a trial could be for various reasons and it would be difficult to ascertain and said it was up to the courts to decide upon, based on the evidence produced by the defendants.⁵³ However, if the trial was executed to show the utility of a product to a third party, it would not be regarded as done for an

⁵¹Aditya Nagarsheth, "Experimental Use Exception: An International and Comparative Overview", (2004), Journal of Intellectual Property Rights, Vol19, pp 549-556.

⁵²*Monsanto Co* (n 2).

⁵³ Kevin Iles, *A Comparative Analysis of the Impact of Experimental Use Exemptions in Patent Law on Incentives to Innovate*, Nw. J. Tech. &Intell. Prop. 61 (2005)<<https://scholarlycommons.law.northwestern.edu/njtip/vol14/iss1/3>> accessed 13 Oct 2021.

experimental purpose. The execution of the field trials on Stauffer's premises was protected by Section 60 (5) (b) of the Act since its main objective was to discover something unknown, despite having a commercial end goal. The Court held any experimentation observed on Stauffer's premises was covered by section 60(5)(b) of the Patents Act of 1977. But activities conducted by Stauffer elsewhere "in order to amass information to satisfy a third party" would not have been covered by exception of experimental use. Additionally, the activities or trials can have a combined objective of both experimental and commercial but the predominant one has to be experimental. The subject matter of the patented invention is also significant as the experiment conducted should be on the specific subject matter.

The Court finally observed that Stauffer's field trials with the herbicide were conducted in order to prove to a third party that a product works which could not be considered "for experimental purposes", rendering it to be infringing of the patent.⁵⁴ The Court also subscribed to the fact that an experimental trial with a commercial goal in view can be considered a defence. However, it not necessary for all trials to have a commercial purpose that makes it an exception. Hence, the exception may be applicable to commercial entities as well. However, with Stauffer's appeal, the application of section 60(5) was upheld. The Court of Appeals observed that any activity by a company would have a commercial goal and that it did not defeat the experimental use exception.⁵⁵

4. APPLICABILITY OF THE JUDGEMENT IN INDIA

The Monsanto case has been pivotal in cementing the United Kingdom's stance on the experimental use exception. In Indian law, the idea of the experimental use exception is still growing. Section 107 and 47 are the provisions in Indian law, the Patents Act of 1970 that go into the exception. Any experiments conducted to collect information for regulatory purposes will most likely profit from the exception. However, a level of ambiguity is prevalent in these sections as the Act does not have set definitions for terms such as "research" and "experiment"⁵⁶ In contrast to the stricter conditions set out in the UK's patents laws, Indian laws seem much wider and more open to interpretation. "The interpretation of "experimental use" or "scientific research" is

⁵⁴*Monsanto Co* (n 2).

⁵⁵ *ibid.*

⁵⁶Biplab Lenin and Harsha Rohatgi, "Exceptions and Limitation of Patent Rights and its Enforcement in India", (2015), Journal of Intellectual Property Rights, vol 20, pp 297-304 <http://docs.manupatra.in/newsline/articles/Upload/68811C66-E206-4E36-AB5A-415E9B19395B.pdf>.

exceptionally broad and is very general and there is not much clarity in this context.”⁵⁷ Indian laws also do not attempt to create any distinction between commercial and non-commercial objectives to the research. Section 107A of the Patent Act of 1970 holds the exception for certain acts which are not considered to be patent infringement. This section is considered India’s Bolar exemption. The Bolar exemption, in simple words, allows researchers and manufacturers to experiment with patented products and produce them in restricted quantities to further enable research. However, this mainly relates to the pharmaceutical sector and its products. The defence under section 47(3) of the Patents Act of 1970 is only applicable if it can be proven that the subject matter is restricted to experimental activities or research, without a commercial objective. In India, science and its growth are still considered to be at a nascent stage, due to which the country’s laws are also constructed with a very broad understanding to accelerate research. The current broad exception might turn out to be prudential, taking into consideration the Indian economy. A wide interpretation of the exception might give a significant boost to foreign investment, especially from countries which do not have the exception like the United States of America.⁵⁸ Presently, India’s liberal approach to the exception seems to be a push in the right direction, enabling the growth of research and technology in the country, as opposed to developed countries with a stricter application.

⁵⁷Shamnad Basheer and Prashant Reddy, “The 'experimental use' exception through a developmental lens”, (2010) IDEA: The IP Law Review, 50 (4), SSRN: <http://ssrn.com/abstract=2216850>.

⁵⁸*Monsanto Co* (n 2).

A CRITICAL NOTE ON THE DELHI HIGH COURT'S RULING IN THE PHONEPE VERSUS BHARATPE TRADEMARK TUSSLE.

*Ritwik Guha Mustafi**

1. INTRODUCTION

A trademark implies a lawfully secured word, mark, symbol, color, abstract, etc. Trademarks are an asset to competing firms and other organizations since they are a source of visibility, goodwill, and reputation. They are a significant aspect of product differentiation and consumer loyalty towards a brand. Additionally, trademarks are of strategic importance to any brand since a validly registered trademark accords legal protection against duplication of the concerned brand's products or services.

Section 28 of the Trademarks Act, 1999 (hereinafter 'The Act') provides that a registered trademark gives its proprietor exclusive rights to use the mark and other related benefits. Section 29 (1) of the Act provides that a registered trademark may be infringed by using an identical or deceptively similar mark by an unauthorized user.¹

Trademark infringement and passing off due to dishonest intention to earn profits by copying a well-known brand's name have been contentious. Passing off is a common law concept used to protect unregistered trademarks. This is a general occurrence when a product is deceptively similar to the plaintiff's, i.e., passing off as something else, thereby confusing the consumers.²

Indian courts have given a plethora of judgments, laying down guidelines for determining the circumstances for trademark infringement. The 'anti-dissection rule' and the 'dominant mark rule' are the two major rules that received a lot of interpretations through past judgments.

In April 2021, the Delhi High Court adjudged the case of *PhonePe Private Limited v/s Ezy Services and Anr.* and referred to the two rules mentioned above and the interpretation therein.

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¹Parul Malik, 'Difference between Passing Off and Infringement of Trademark' (*Mondaq*, 10 March 2020) <<https://www.mondaq.com/india/trademark/902156/difference-between-passing-off-and-infringement-of-the-trade-mark> > accessed 18 July 2021.

²Sneha Kolluru, 'Passing Off and Infringement under Trademark' (*Law Times Journal*, 2 July 2020) <<https://lawtimesjournal.in/passing-off-and-infringement-under-trademark/> > accessed 18 July 2021.

The Court was seemingly reasonable in its ruling in a few parts of its judgment, but its mandate was highly contentious regarding some other points.

This note examines the aforementioned case's different aspects in detail. It provides a critical analysis of the case's judgment that is pertinent for understanding the validity of the High Court's ruling.

It can be hypothesized that while adjudging a case of trademark infringement and passing off, all the relevant tests have to be considered and applied justly and proportionately to avoid any confusion and legal loopholes.

A. Facts of the case

Following are the brief facts of the case³:-

Both the plaintiff (PhonePe) and the defendant (BharatPe) are online payment service providers. The plaintiff alleged that the defendants' mark infringes the plaintiff's registered trademark and amounts to passing off by the defendants. The plaintiff and the defendant are online payment service providers; the former's services are available to all those who download the app. The latter's services are exclusively meant for merchants.

Thus, the plaintiff sought a permanent injunction against such usage.

B. Issue

Has there been a trademark infringement and passing off of the plaintiff's trademark by the defendant?

C. Plaintiff's contentions – Following are the brief contentions of the plaintiff⁴:-

- The word 'Pe' is an essential and dominant part of the plaintiff's trademark, of which the plaintiff has been a prior user since 2015.

³*PhonePe Private Limited v/s Ezy Services and Anr.* [2019], CS (COMM) 292/2019 available at <<https://indiankanoon.org/doc/17509216/>> accessed 18 July 2021.

⁴Devangini Rai, 'PhonePe v. BharatPe: Whether Vernacular Wordplay can save from being labeled as generic' (*SpicyIp*, 1 June 2021) <<https://spicyip.com/2021/06/phone-pe-v-bharat-pe-whether-vernacular-wordplay-can-save-from-being-labelled-generic.html>> accessed 19 July 2021.

- The word 'Pe' has no etymological connotation, and when used along with the word 'Phone,' it forms an essential and dominant part of the plaintiff's trademark.
- The defendant's mark also has 'Pe' as the dominant mark used in the public domain.
- The defendant's mark provides the same services as that of the plaintiff and thus, can confuse the consumers.
- The plaintiff uses the suffix 'Pe' in its mark, and both the plaintiff and the defendant provide similar services. Therefore, the defendants' usage of the suffix 'Pe' can be reasonably apprehended to create an impression of association or nexus with the plaintiff's services in the minds of an average consumer with an imperfect recollection.

D. Defendant's contentions – Following are the grounds on which defendants based their case⁵:-

- They have been using the mark 'BharatPe' since 2018.
- By the time the defendants applied for the mark's registration, it had achieved considerable goodwill and was well-established.
- The mark 'BharatPe' is highly fanciful and inherently distinctive of goods and services provided.
- As per the rule laid down in previous judicial pronouncements in India, the contesting marks have to be compared as a whole, and therefore, the plaintiff's contention regarding passing off due to the mere use of the suffix 'Pe' is not valid.
- The marks are distinguishable concerning their patterns and words and cannot confuse an average consumer.

E. Delhi High Court's observations and the *ratio decidendi* of the Court –

Following are the Delhi High Court's observations and rationale⁶:-

- According to the 'anti-dissection rule' and Sections 17 (1) and 17(2) of The Act, the disputed marks are to be considered whole, and their components cannot be isolated from each other. Thus, viewing the two disputing marks as a whole, both are composite. The

⁵*PhonePe Private Limited* (n3).

⁶Yashvardhan Ranat, 'Explained: PhonePe v. BharatPe Trademark Dispute – "Pe"/Pay-as-you-go' (*SCC Online*, 19 May 2021) <<https://www.sconline.com/blog/post/2021/05/19/explained-phonepe-v-bharatpe-trade-mark-dispute-pe-pay-as-you-go/>> accessed 19 July 2021.

plaintiff's claim of exclusivity over the suffix 'Pe' cannot be entertained since it connotes as 'Pay' and is descriptive to the nature of the plaintiff's business.

- According to the 'dominant mark rule,' the suffix 'Pe,' when seen as a whole with other parts of the two marks, constitutes an essential part of the marks since the alphabet 'P' is in block letters and is prominently highlighted in both marks.
- Barring the common "Pe" suffix, it cannot be said that the "PhonePe" trademark of the plaintiff and the "BharatPe" trademark of the defendant is confusingly or deceptively similar. 'Phone' and 'Bharat' are not deceptively similar, phonetically or otherwise. The infringement of the dominant part of the trademark may constitute an infringement. The suffix 'Pe' in the marks is descriptive, and for making a case of infringement, the plaintiff has to prove that the aforementioned suffix has acquired distinctiveness and secondary meaning.
- The nature of services provided by the plaintiff and the defendants is also different. The plaintiff offers a plaintiff online payment portal. On the contrary, the defendants provide a single QR code, based on which the customer could work with all UPI-based applications, including the "PhonePe" application of the plaintiff. To know the difference, consumers who deal with such applications may be expected, prima facie. Therefore, no prima facie case of passing off can be said to exist, even on this ground.
- The grant of interim injunction is denied, and the application is dismissed.

2. EXAMINING THE DELHI HIGH COURT'S JUDGMENT: A CRITICAL ANALYSIS

It is submitted that the fact that the Court found the suffix 'Pe' as a deliberate misspelling of a descriptive word and held it to be the dominant part of the marks due to the capital letter 'P' is incorrect and diverges from the stand taken by Indian Judiciary in the past regarding the 'dominant mark rule.'

Indian Courts had utilized the dominant mark rule to safeguard parts of a trademark only when such parts were adopted arbitrarily, were part of a family of marks, or where the parts were a unique combination having no recognized meaning.⁷

In the present case, the Delhi High Court relied highly on the *Marico v. Agrotech*⁸ for the line of reasoning that getting a minor modification of a descriptive word registered as a trademark cannot prevent the use of its purely descriptive version from being used as a trademark. Using the same line of reason, the High Court opined, in the present case, that tweaking a descriptive word's spelling will not provide exclusivity over its use.

However, the Court seems to have focused more on the Hindi translation of 'Pe,' which means 'On' [a Hindi-language preposition]. It is submitted that the word 'Pe' is merely an intelligent wordplay. It coincidentally rhymes with the English word 'Pay.' Therefore, it provides an idea about the online payment service provided by the plaintiff.

In the case of *South India Beverages (P) Ltd. v. General Mills Mktg. Inc.*, the 'dominant mark rule' was examined. Following were the observations of the Delhi High Court in the said case⁹:-

"Though it bears no reiteration that while a mark is to be considered in entirety, yet it is permissible to accord more or less importance or "dominance" to a particular portion or element of a mark in cases of composite marks. Thus, a particular element of a composite mark that enjoys greater prominence vis-à-vis other constituent elements may be termed as a "dominant mark." The principles of "anti-dissection" and identification of "dominant mark" are not antithetical to one another, and if viewed in a holistic perspective, the said principles rather complement each other."

In the present case, the word '*Pe*' provides an idea about the nature of the plaintiff's service and accords creativity and arbitrariness to the plaintiff's mark. The word 'Phone' is a generic term,

⁷Abhinav Hansaraman, 'Pay/'Pe' Charcha: Delhi High Court's decision in PhonePe v. BharatPe Trademark Dispute' (*SpicyIp*, 8 May 2021) <<https://spicyip.com/2021/05/pay-pe-charcha-delhi-high-courts-decision-in-phonepe-v-bharatpe.html>> accessed 20 July 2021.

⁸*Marico Limited v/s Agro Tech Foods Limited*, FAO (OS) No. 352/2010 available at <<https://indiankanoon.org/doc/39264970/>> accessed 19 July 2021.

⁹Ranat (n6).

and since the suffix, 'Pe' is instrumental in granting creativity to the entire mark, it is submitted that the suffix 'Pe' should be considered the dominant part of the mark. Additionally, it must be noted that the suffix 'Pe' has been accorded prominence in the plaintiff's logo.

With regards to the Court's observation on the different nature of services of the parties, it is submitted that both brands are competing in UPI online platforms and that in the *Amritdhara Pharmacy v. Satya Deo Gupta*¹⁰ case, wherein 'AMRITDHARA' and 'LAKSHMANDHARA' were the two contending marks, the Supreme Court of India had held that deceptive similarity of marks has to be seen through an 'ordinary buyer's perspective.' In the said case, the Court had relied upon the phonetic similarity between the two words to determine whether or not the case entailed an occurrence of passing off.¹¹

In this case, the Court seems to have ruled on perspective on the immunity from confusion amongst 'sophisticated consumers.' No regard has been given to the fact that the prospective users of the brands may as well be 'ordinary and less tech-savvy consumers.'

3. CONCLUSION

The ruling of the High Court in the present case is partly correct, especially concerning the 'anti-dissection rule.' The Court beautifully upheld and enumerated the basic tenets of the 'anti-dissection rule' and examined its application in the present case.

However, the High Court did not consider the basic tenets of the 'dominant mark rule' as was laid down in the South India Beverages case and did not apply the said test in a correct sense in the present case.

The Court correctly observed the subtle differences between the online payment services of the plaintiff and defendant; however, the Court seemingly ignored the factum that the differences were so subtle that it might be inconsequential to the less tech-savvy and illiterate merchants and other consumers.

¹⁰ *Amritdhara Pharmacy v. Satyadeo Gupta* [1962], 1963 AIR 449 available at <<https://indiankanoon.org/doc/368264/>> accessed 20 July 2021.

¹¹ *ibid.*

It is suggested that the Delhi High Court may, keeping in view all the previous relevant Indian judicial pronouncements and the ratio therein regarding trademark infringement and passing off, indicate the need for a comprehensive provision to be inserted in the Trademarks Act 1999. It will serve as a concrete and uniform base for upcoming passing-off cases. To conclude, the Court's ruling needs to be revisited and rectified in specific significant points to not cause any future confusion in the Indian laws regarding trademark infringement and passing off.