

Intellectual Property and Knowledge Process Outsourcing in India

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November 2007



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Protection of intellectual property (IP) is a critical concern in every knowledge process outsourcing (KPO). It is a legal concern as well as a strategic business issue because IP assets are vital in today's knowledge-based economy. Even in India, with its increasingly dependable and modernized legal system, IP ownership, infringement, and piracy concerns must be thoroughly and carefully addressed in every KPO.

A KPO often involves sharing or creating multiple types of IP rights (e.g., patent, trademark, trade secret, industrial designs, copyright, mask works), each of which is governed by its own distinct national law. Such IP rights can be further categorized depending on how the IP is shared or created, such as customer IP versus service provider IP, and this can be further sub-categorized into new or pre-existing IP.

Regardless of the KPO delivery model employed, often a US customer sourcing to an Indian service provider must necessarily make its IP – ranging from proprietary designs to business processes to chemical formulas – available to the Indian service provider (which may be a third-party vendor, a business partner, or a corporate affiliate's local workforce) so that the offshored functions can be performed effectively. In addition, new IP might be created by the Indian service provider on behalf of the US customer. This sharing and creation of IP across multiple jurisdictions creates very real legal vulnerabilities for the US customer where the host country's IP laws may control IP-related disputes. In other words, US IP laws may not, and likely will not, be applied within the host country regarding IP ownership disputes even if the operative contract between the US customer and the offshore service provider contains an unambiguous "governing law" provision calling for a specific US state's laws or US federal law to govern.

Further complicating this issue, US courts may apply foreign IP law to decide issues involving the ownership of IP created abroad, notwithstanding the operative contract's governing law and venue provisions. In 1998, in a case titled *Itar-Tass Russian News Agency vs. Russian Kurier*¹ involving copyrighted work created in Russia, the United States Court of Appeals for the Second Circuit applied the "work made for hire" doctrine under Russian law to determine the initial ownership of the copyright of the works in suit.

IP protection and enforcement mechanisms for IP rights differ in material respects on a country-by-country basis. This can affect a US customer's expectations in the offshoring arrange-

ment and, in the absence of appropriate contractual safeguards, can potentially jeopardize a US customer's rights to its own IP or critical third-party technology. Therefore, in any KPO, a US customer must (i) thoroughly and carefully perform legal due diligence on national and local IP laws and customs, (ii) assess the possible impact on the contemplated KPO transaction, and (iii) structure measures that will adequately protect against the potential risk of losing control of IP so that the purpose of the KPO may be successfully accomplished.

India's IP Legal Framework and Enforcement

FRAMEWORK OVERVIEW

While India is perceived as providing better IP protection than the majority of the other offshore jurisdictions, such as China, Russia and Mexico, India's IP laws and enforcement mechanisms are nevertheless weak compared to western IP laws and practices. However, India is a member of the World Trade Organization (WTO) and generally complies with the minimum standards stipulated by the WTO Agreement on Trade Related Aspects of Intellectual Property Rights. India also is a signatory to major international IP harmonization conventions, such as the WIPO treaties, which include Universal Copyright Convention, the Berne and Paris Conventions, and the Patent Cooperation Treaty.

India also provides express statutory protection for patents, copyright, trademarks, industrial designs, and mask works. Most recently, India amended its patent statute to provide for statutory patents for drugs, chemicals, and agricultural products in addition to the historically available patent protection for process of manufacture. India has made substantial improvements to its IP regime in the last decade to foster innovation as well as to attract foreign investment. Despite these measures, however, some gaps remain in India's IP regime and the actual implementation and enforcement of IP rights remains weak and ineffective compared to US standards.

ENFORCEMENT OVERVIEW

In India, the enforcement system for IP rights includes civil remedies as well as criminal penalties. Most disputes in India relating to IP infringement settle out of court without trial. Civil cases historically require years to come to trial and a criminal case can similarly require a number of years before it is finally concluded in India's court system. Another discouraging factor for IP owners pursuing civil claims in India is the difficulty of proving the actual extent of damages caused by the infringement and recovering reasonable compensation. Typically, the monetary damages awarded by Indian courts are meager compared to US awards. Indian IP law provides only for compensatory damages based on the principle of restitution of the loss actually suffered. No statutorily-trebled damages or punitive damages are available, which particularly creates a less than optimal deterrent against piracy. While Indian IP law does not impose copyright or trademark registration requirements as a prerequisite to enforcement, registrations still serve a very important evidentiary function because they are deemed *prima facie* evidence of validity and trigger statutory damages in infringement suits.

Recent amendments to the Indian Civil Procedure Code, as well as more recently issued judicial precedents, however, signal an improvement in the enforcement area. In 2002, India amended its code of civil procedure to impose mandatory time limits and associated penalties on litigants to reduce delays in the civil litigation process. While these new and ambitious requirements may likely be honored more in their breach, such requirements will probably cause a more expeditious disposition of civil cases in Indian courts. Also, in 2005 the Delhi High Court opened the door for awarding punitive damages for the first time in a copyright infringement case, observing that the level of punitive damages should be commensurate with the degree of the infringing misconduct.²

Despite improvements, civil litigation in India remains a relatively marginal enforcement tool and foreign IP owners engaged in KPO should plan to rely instead on thorough, carefully negotiated contracts that are based, as much as possible, on rules-based performance rather than standards-based conduct. For example, rules-based service level criteria (the well-known “five nines” criteria, for example), which can be objectively measured, verified, and monitored, and which present far less room for contestable dispute, should always be selected over standards-based benchmarks such as “reasonable” or “best” efforts. Efforts should also be made in contract negotiations to create a clear basis for seeking to have disputes resolved in preferable offshore venues where stronger remedies exist.

However, as suggested above, a KPO customer in India cannot rely on the enforcement of such venue selection contract terms if challenged in an Indian venue. Therefore, the contract must be as “airtight” as possible with respect to the underlying substantive obligations so that Indian-based adjudicative bodies, whether courts or Indian-appointed arbitrators, will have objective standards to follow and verifiable evidence and data to evaluate, and subjective analysis will be minimized.

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With respect to the enforcement of statutory IP rights, the most effective remedy in India to block and deter IP infringement is injunctive relief. Injunctive relief in response to breach of contract claims is available but is harder to obtain than other remedies. Other remedies, such as *ex parte* search warrants and seizure orders, known as an Anton Piller Order,³ can also be obtained in civil actions. In India, criminal prosecution is available

only in trademark and copyright cases, but not in cases involving patents or designs. More specifically, criminal remedies are available against any person who knowingly infringes or abets the infringement of a copyright or who uses or applies false trademarks and trade descriptions with the intent to defraud. Few criminal prosecutions relating to IP misconduct have emerged from Indian courts to date, but there are promising signs that Indian criminal law might become a more realistic deterrent.

Because of the weaker enforcement of India's IP laws, counterfeiting and piracy continue to be rampant and, accordingly, present a serious problem for US companies doing business in India. Such weaker enforcement presents serious challenges to the Indian government in promoting India as a destination for innovation and high-end technology development. In 2004, US companies lost over \$500 million in sales due to piracy in India of copyrighted works, particularly software, sound recordings, films, popular fiction, and other books. For these reasons, in the last several years the US Trade Representative has placed India on the "Priority Watch List" as part of what is known as the Special 301 review, which identifies foreign countries that deny adequate and effective protection of IP rights and is one of the trade measures adopted by the United States to exert pressure on India to strengthen its IP laws and enforcement.

Finally, from the KPO perspective, one of the most troubling gaps in India's IP legal framework is that India does not provide any statutory protection for trade secrets or confidential information. The United States provides statutory protection to trade secrets, both at the state and federal level, with meaningful civil and criminal remedies to counter misappropriation of trade secrets, including actual and punitive damages, injunctions, attorneys' fees, but that is not the case in India.

Conclusion

While it is clear that India offers greater IP protections than the majority of the other offshoring jurisdictions, customers are still left with much to be desired. Because of the weakness in the legal and enforcement networks available, a US company sourcing to an Indian service provider should carefully construct and consider IP rights in its applicable outsourcing arrangements and should not rely on civil or criminal enforcement in such agreements. ♦

Endnotes

- ¹ 42 U.S.P.Q.2d (BNA) 1810 (S.D.N.Y. 1997).
- ² *Microsoft Corporation v. Deepak Raval & Anr*, 2005 (33) PTC 122 (Del.); *Time Incorporated v. Lokesh Srivastava*, 2005 (30) PTC 3 (Del.).
- ³ This order derives its name from the British case *Anton Piller KG v. Manufacturing Processes Ltd.*, 1976 (1) All. E.R. 779, and is a pre-emptive ex parte injunction that aims at protecting the plaintiff against the activities of an unscrupulous defendant who may destroy or remove incriminating evidence.

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