CHAPTER 14

Exhaustion and Parallel Imports in India

Sonia Baldia

A. Legal Framework

I. Patents and Related Rights

1. Patent Law

Patent rights in India are governed by the Indian Patents Act 1970. This Act is largely rooted in English law and Indian courts routinely follow English precedents in the absence of Indian precedent. India enacted its first patent rights legislation in 1856, which was replaced half a century later with the Indian Patents and Design Act 1911. Both the 1856 and 1911 legislation was substantially based on England's Patent Act 1852. A little over 20 years after India gained independence in 1947, the 1911 Act was repealed and replaced by the Indian Patents Act 1970, which despite India's independence still closely followed, although with important exceptions, England's Patent Act 1949.

India's 1970 Patents Act fundamentally attempts to balance the interests of inventors and consumers through a framework within which the benefits of new inventions can be placed into the marketplace in a manner consistent with the interests of inventors. In 1999 and 2002 India amended the Patents Act 1970 by the Patents (Amendment) Act 1999 and the Patents (Amendment) Act 2002 (the "2002

C. Heath (ed.), Parallel Imports in Asia, 163–175

amendments") so as to modernise the law itself and also to comply with the World Trade Organization's Agreement on Trade Related Aspects of Intellectual Property Rights ("TRIPs Agreement"). These amendments are two of several changes in India's patents laws that have been made over a period of one hundred years and are cast as further evidence of India's desire and efforts to become a primary participant in the global economy and to further develop its own vast domestic intellectual and inventive resources.

India applies the doctrine of implied licence to patent rights granted pursuant to the Indian Patents Act 1970. Indian patent rights are thus exhausted when a patented product is first put on the market outside of India by or with the consent of the Indian patentee, absent some type of an express notice (whether as a marking on the product or in contract with a third party) of geographical restriction on resale or export from the non-Indian market. Unencumbered sale confers upon the purchaser of the patented product the right of unrestricted use and sale including the right to import the products into India. Prior to the 2002 amendments, however, there was no express provision in the Patents Act that addressed the issue of exhaustion.

The Doha Declaration on TRIPs and Public Health propelled the issue of international exhaustion of patent rights and parallel imports into the limelight in the context of access to affordable medicines in developing countries. The Doha Declaration primarily responded to developing countries' growing concern about the general impact of the TRIPs Agreement on health care and specifically the HIV/AIDS epidemics in sub-Saharan Africa. The Doha Declaration occupies an important status in India. Its underlying tenets can be found in Sec. 83 of the newly-amended Patents Act, which states the Act's intent and objectives, including, among others, that (i) "patents are not granted merely to enable patentees to enjoy a monopoly for the importation of the patented article", (ii) "patents granted do not impede protection of public health", and (iii) "patents are granted to make the benefit of the patented invention available at reasonably affordable prices to the public" in India.

Sec. 48 of the Patents Act, as amended by the 2002 amendments, confers upon the patentee[1] "an exclusive right to prevent third parties, who do not have the patentee's *consent*, from the act of making, using, offering for sale, selling or importing for those purposes" the patented product or the product directly obtained by the patented process in India.[2] This grant of exclusivity is subject to Sec. 107A of the Patents Act, which provides that "importation of patented products by any person from a person who is *duly authorised* by the patentee to sell or distribute the product shall not be considered as an infringement of a patent right".

Consequently, a patentee cannot assert its patent rights to prevent a third party from importing the patented product into India if such product was sold or distributed overseas by the patentee, with the patentee's *consent*, or by a person *duly*

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1 The Patents Act defines the term "patentee" to include an exclusive licensee.

2 For simplicity, all references to the patented product hereinafter will also include reference to the product obtained by the patented process.

authorised by the patentee. The Patents Act does not define the terms "consent" or "duly authorised" and provides no express guidance as to how the terms may be construed. The Act does not impose any limitations or qualifications as to the circumstances under which consent or due authorisation might be deemed to be given or state any requirement of any special relationship that governs the application of the doctrine, whether by reason of an organised corporate structure (such as parent and its subsidiary) or by contract (licensee, assignee, etc.). Although no Indian court decisions have been issued on the scope of these provisions, one can at the least safely assume that the question of sufficient consent or due authorisation for purposes of determining whether a patentee's rights have been exhausted, when ultimately brought before an Indian court for adjudication, will quite substantially depend on the facts of the individual case.

Those facts might include an asserted express consent whether as part of a written contract or even an oral agreement. The consent might be implied based on the circumstances of the transaction, such as bulk sales to a retailer, or where the patented product is put on the market under compulsory licence. Based on history and other patent law issues, it is likely that an Indian court would apply English precedents to determine such issues. If English precedents were followed, a stricter set of circumstances would be required to be shown before exhaustion would be imposed on a patentee, the idea being that the doctrine would not be applied where the consent is determined to be compulsory or otherwise not fully voluntary. Further, while under English law, a patentee's consent may be implied from an overseas subsidiary's or affiliated company's marketing, this is not the case when an assignee (who is unrelated to the patentee) first markets the patented goods.

The patentee may, by virtue of its statutory monopoly granted under the Patents Act, prevent any exhaustion of its rights in the patented product by placing contractual restrictions prohibiting resale or exports of the patented product from the country of origin. It is unclear if any such restrictions would have to be indicated on the product, however, upon any subsequent transfer to a third party. Indian courts are likely to apply Betts v. Willmot,[3] which established that upon a patentee's sale of a patented product in one territory without placing any restrictions on resale of that product, the purchaser acquires absolute title to such product and is free to use or otherwise dispose of the product as it desires. Contractual restrictions are more likely to be enforceable if they are clear and explicit and brought to the notice of the party importing the patented product into India at the time such party acquires the patented product. Otherwise the patentee's only recourse may be against the party with which it has privity under the agreement that contains the restrictions or against a party that had express notice of the restrictions but did not notify a subsequent transferee of the restrictions.

Support for this latter proposition is found in India's Sale of Goods Act 1930. Under this Act, a sale of goods in India carries an implied guarantee that the buyer shall have and enjoy undisturbed possession of such goods and such goods shall be

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[3] LR 6 Ch 239 (1870).

free and clear of all encumbrances not declared or known to the buyer before or at the time the contract for sale is made. The burden therefore in the example here would be on the patentee to show that the restrictions were communicated to the party at the time such other party acquired the patented product and not thereafter. If a foreign licensee is contractually restricted from exporting the patented product into India, it is unclear however whether such restraints will run with the product and would therefore prevent subsequent purchasers without notice of such restraints from importing the product into India. Nevertheless, Sec. 140 of the Patents Act sets forth certain restrictive conditions that shall be void and unenforceable *ab initio*. In addition to passing muster under the Patents Act, any contractual restrictions imposed by the patentee may also have to pass the competition test, namely, whether it would have the effect of substantially lessening competition in a market in India, under the Monopolies and Restrictive Trade Practices Act 1969, which governs competition law and policy in India.

In terms of the enforcement process, an action asserting the infringement of a patent right, including challenging parallel importation of a patented product, must be instituted within three years from the date of the alleged infringement in a District Court or High Court of competent jurisdiction. A patentee, grantee, exclusive licensee, or a non-exclusive licensee under limited circumstances, may institute such an action against the alleged infringer. The plaintiff has the burden of proof for establishing infringement. In an infringement action involving a process patent, however, the 2002 amendments place the burden of proof on the infringer to prove that the process for obtaining an identical product is different from the patented process. An infringement suit can be instituted only after the sealing of a patent that can be delayed by an alleged infringer using opposition proceedings.

In an infringement suit, a successful plaintiff is entitled to injunctive relief and damages. These damages can be measured as the plaintiff's loss or the infringer's profits, yet cannot be claimed in cases of innocent infringement or where the patented articles are not marked "Patented" followed by the number and date of the patent. An order for seizure/destruction of the infringing goods is also available, but is wholly within the court's discretion. The Patents Act also provides for safeguards against groundless threats of legal proceedings for infringement of a patent.

2. *Design Law*

In India, the doctrine of international exhaustion by way of implied licence applies to design rights granted pursuant to the Indian Designs (Amendment) Act 2000 (the "Designs Act"). The Designs Act became effective in May 2001. Prior to the Designs Act, designs in India were governed by the Indian Patents and Design Act 1911, which closely resembled the British Patents and Designs Act 1907. The century old 1911 Act was repealed and replaced by the Designs Act in 2000.

Under the Designs Act, a proprietor's rights in a registered design will be deemed exhausted when a product to which the registered design is applied is first put on the market by or with the consent of the registered proprietor, absent express notice of restraints on resale permissible under the Act. As with patents, no Indian court decisions exist that construe the new statute with respect to the issue of parallel imports or international exhaustion as applicable to designs. Again, Indian courts are likely to apply British precedent to determine the scope of rights granted under India's design legislation. While not a direct window into how Indian courts will apply the statute as controversies begin to require judicial resolution, English precedent may be consulted for useful initial insight into any specific question or circumstances.

Sec. 22(1) of the Designs Act states that it is an infringement of a proprietor's exclusive right for a third party to import into India for the purposes of sale, without the *consent* of the proprietor, any article belonging to the class in which the design has been registered, and having applied to it the design or any fraudulent or obvious limitation. Consequently, a proprietor cannot assert its design rights to prevent a third party from importing into India a product to which a registered design is applied if such product is put on the market by or with the proprietor's consent. What amounts to "consent" raises similar issues and analysis to those discussed above for patents. Sec. 42 of the Designs Act specifically describes the restrictive conditions imposed by or with the consent of the proprietor on a third party in connection with the use or sale of the product to which a registered design is applied, that shall be considered void and unenforceable.

An action for asserting the infringement of copyright in a design, including challenging parallel importation of a product to which a registered design is applied, may be initiated at the level of a District Court or High Court of competent jurisdiction. The judicial remedies include injunctive relief, monetary damages, and destruction of the infringing goods. The Designs Act imposes a statutory ceiling of the 50,000 Indian Rupees (approx. US$1000) in compensatory damages. No criminal penalty exists for the infringement of a registered design. The Designs Act also provides for safeguards against groundless threats of legal proceedings for infringement of a design.

3. Semiconductors Layout Design Law

The Indian Semiconductor Integrated Circuits Layout Design Act 2000 (the "Layout Designs Act") became effective in 2001. Prior to the Layout Designs Act, there was no statute governing such rights in India.

Sec. 18 of the Layout Designs Act addresses the issue of exhaustion. It states that a registered layout-design is infringed if a person, other than the registered proprietor or registered user, performs "any act of importing or selling or otherwise distributing for commercial purposes of a registered layout design or a semiconductor integrated circuit incorporating such design or an article incorporating both"[4] unless "the person performs any of these acts with the consent of the

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[4] Sec. 18(1)(b).

registered proprietor of the registered layout design or if the act is within the control of the person obtaining such consent, or in respect of a semiconductor integrated circuit incorporating a registered layout design or any article incorporating such semiconductor, that has been put on the market by or with the consent of the registered proprietor of such registered layout design".[5] Consequently, a registered proprietor or a registered user may not be able to prevent a third party from importing into India a registered layout design, a semiconductor integrated circuit incorporating such design or an article containing both, if such items have been put into commerce by or with the consent of the registered proprietor, absent express notice of restraints on resale. If a person infringes a registered layout design without knowledge or notice, it is a valid defence under Sec. 18(5), but the infringer is required to undertake appropriate acts or omissions to cease infringing activities and pay a royalty for use to the registered proprietor. Sec. 40 of the Act provides a mechanism for determining such royalty. To date no Indian court decisions have been issued that address the issue of international exhaustion as applied to registered layout designs.

As to enforcement, a registered proprietor or a registered user may institute an action asserting the infringement of a layout design at a District Court or High Court of competent jurisdiction. Criminal sanctions as well as civil remedies can be levied for infringement, which include imprisonment up to three years, injunctive relief, monetary damages (not less than Indian Rupees 50,000 (approx. US$1000) and up to Indian Rupees 1 million (approx. US$20,000)), and forfeiture/destruction of the infringing goods. The order of a District Court may be appealed before the High Court with competent jurisdiction within 90 days following the date of the District Court's order and the order of a High Court may be appealed before the Supreme Court within 60 days following the date of the High Court's order.

II. Trade Marks

Indian trade marks are currently, but only until sometime in 2003, governed by the Indian Trade and Merchandise Marks Act 1958 (the "1958 Act"). This Act is largely based on the English Trade Marks Act 1938 and the Indian courts routinely follow English precedent in the absence of applicable Indian precedent. The 1958 statute was repealed and replaced by the new Trade Marks Act 1999 (the "New Act") but the New Act will not be effective until its notification in the Official Gazette sometime in 2003. The accompanying rules to facilitate and regulate the implementation of the New Act are currently being drafted. The New Act significantly modernises India's trade mark laws, broadens the scope of infringement, and strengthens measures against counterfeiting and piracy. Under the New Act, protection is extended to the shape of goods, packaging, and combination of colours. With these changes, India's trade

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[5] Sec. 18(7).

mark legislation is on equal footing with that of the industrialised international community, and brings India into compliance with its international obligations in the field of trade marks under the TRIPs Agreement.

The statute protects both registered and unregistered trade marks. Although a proprietor of an unregistered mark can protect the mark against acts of infringement or passing off through common law remedies, many benefits accrue through registration. A registration confers statutory protection on the mark and is considered *prima facie* evidence of its validity. Registration provides legal title to the exclusive use of the trade mark for the goods or services for which it is registered and entitles the proprietor or user to institute proceedings to enjoin or to recover damages in the case of trade mark infringement. It also has other practical implications such as discouraging third parties from adopting confusingly similar marks and serving as a basis for filing trade mark applications in foreign countries.

Indian law is quite liberal in permitting parallel imports of genuine goods bearing registered trade marks, provided such goods have not been materially altered after they have been put on the market. The general rule is that once trademarked goods are released anywhere in the world, by or with the consent of the trade mark proprietor,[6] that proprietor cannot assert its trade mark rights to prevent imports of such goods into India, provided that such goods remain materially unaltered. In other words, once genuine goods are released into commerce anywhere by or with the proprietor's consent, all associated Indian trade mark rights are exhausted. Such consent may be express or implied, direct or indirect. The underlying rationale for liberal exhaustion is that trade marks are deemed to connote trade origin and not control. The trade mark proprietor may, however, impose contractual restrictions on a third party, such as a foreign licensee, against importing genuine goods into India, provided, that such restrictions pass muster under the Trade Mark Act and the MRTP Act, India's competition statute. Subsequently, if such genuine goods are imported into India, the trade mark proprietor's remedy against the importer would be through a claim for breach of contract and not for trade mark infringement.

The issue of exhaustion was not expressly addressed in the 1958 Act, but the New Act statutorily introduces this concept. Sec. 30 of the New Act provides that where the goods bearing a registered trade mark are lawfully acquired, the further sale or other dealings in such goods by the purchaser or by a person claiming to represent him is not considered an infringement if the goods have been put on the market under such mark by the proprietor or with his consent. Such goods may not have been materially altered or impaired after they were put on the market, however. A cause of action for trade mark infringement may be available to the proprietor against an importer where the genuine goods have been materially altered without the proprietor's consent after they were put on the market. The burden of proving such consent is on the importer. A cause of action on the grounds of passing off is available if the trade mark proprietor can show that the importer is passing off the

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6 The term includes a trade mark owner, licensee, registered user or authorised distributor, as the case may be.

goods in a misleading or improper way causing confusion in the minds of the public. To date, there are no reported Indian court decisions on the issue of exhaustion or parallel imports involving trademarked goods. As in other forms of intellectual property rights, Indian courts routinely follow English precedent in the absence of guiding applicable Indian precedent.

The New Act considerably broadens the scope of infringement. In an infringement or passing off action, the plaintiff (proprietor or user) must prove infringement. Infringement proceedings, including challenging parallel importation of infringing goods, must be commenced in a District Court of competent jurisdiction. Under limited circumstances, an action may be commenced in a High Court of competent jurisdiction. The period for filing a suit is three years from the date of infringement. Subject to a *prima facie* case, the New Act makes trade mark offences "cognisable", thereby permitting the police to search and seize allegedly infringing materials before obtaining a court order. The remedies available in infringement and passing off proceedings include interlocutory injunctions (which may be *ex parte*), damages or an accounting of profits, and an order mandating seizure and destruction of the infringing labels and marks. As a practical matter, Indian courts rarely award damages in these cases, and any such awards are generally nominal. The Act also provides for criminal remedies in cases of the falsification or the false application of a trade mark and other trade mark violations, which include a minimum penalty of six-months imprisonment and a fine of Indian Rupees 50,000 (approx. US$1000) and a maximum of three years imprisonment and a fine of Indian Rupees 2 million (approx. US$50,000). The New Act establishes an Appellate Board for handling trade mark matters and for speedy disposal of appeals and rectification appeals, which, at present are heard before the High Courts.

Indian customs law is quite liberal as to permitting parallel imports of genuine goods with identical trade marks, even if the goods originate from independent origin or source unrelated to the registered proprietor, with no commonality as to the ownership of the trade mark. By a notification dated 18 January 1964, the Government of India has the authority to permit imports of goods bearing a trade mark which is identical to the name or trade mark of any manufacturer, dealer or trader in India, if the goods carry the name and place of the country where the goods are produced in letters as large and conspicuous as any letter in the name or trade mark in English language. The notification does, however, provide a means to prevent parallel imports of genuine goods that have been altered.

III. Copyright Law

Copyright protection is governed by the Indian Copyright Act 1957, as amended in 1983, 1984, 1992, 1994 and 1999 (the "Copyright Act"). The first Indian Copyright Act, passed in 1914, was mainly based on the British Copyright Act 1911 and was repealed by the 1957 Copyright Act. During the last four decades, the Copyright Act has been significantly amended to keep pace with commercial and technological developments and to bring India's copyright law into compliance with its international copyright obligations under the TRIPs Agreement and at par with the international standard of copyright protection.

A copyright can subsist in original literary, dramatic, musical and artistic works, cinematographic films, computer programs, databases and sound recordings, as soon as the original work comes into existence. Sec. 14 of the Copyright Act sets forth the bundle of exclusive rights granted to a copyright holder in the same work to exclude others from reproducing, preparing derivative works, publicly displaying or performing, or distributing copies of the copyrighted work.

In India, the issue of exhaustion and parallel imports is more complex when applied to copyrights. The complexity stems from the very nature of copyright, which comprises a bundle of different rights in the same work that can be exploited independently. A copyright holder[7] has the exclusive right to reproduce, adapt, publicly display or perform or distribute copies of the work. Therefore, a stricter set of circumstances may be required before exhaustion is imposed on a copyright holder, the idea being that the copyright holder's rights may not be exhausted upon the act of first sale of the work embodying copyrighted subject matter without regard to additional rights in the work, such as the rights of rental, making adaptations, etc. The general rule in India is that an importer must obtain a licence from the copyright holder in India to import the work, which must be in the form of an express consent. Generally speaking, no licence to import may be implied from the circumstances unless the copyright holder's consent can be inferred from such circumstances. The import licence requirement applies to any copyrighted work made outside India even if made by foreign affiliates or licensees, but it is unlikely to apply if the work is made by the copyright holder in India, exported and then re-imported into India. Unfortunately, very few Indian cases exist on the topic of import licensing, and are insufficient to provide much guidance with respect to other controversies that might be presented to the courts. As with patents and designs, Indian courts routinely follow English precedents in the absence of Indian precedent.

Under Sec. 51 of the Copyright Act, the copyright in a work is infringed when any person, who (i) without the licence from the copyright holder, does anything the right to do which by virtue of the Act is conferred upon the copyright holder, or (ii) imports into India any "infringing copies" of the work, except two copies for personal use (other than cinematograph films or records). The copyright holder is required to show that the infringer knew or reasonably should have known that his activities would constitute an infringement of copyright. Sec. 2(m) of the Act defines the term "infringing copy" to include any copy imported into India in contravention of the Copyright Act. Further guidance is provided under Sec. 53, which precludes importation of infringing copies made outside India that, if made in India by the same person who made them outside India, would infringe copyright. By implication, if the imported copies are made by the copyright holder in India,

[7] The term "copyright holder" includes a copyright owner or its exclusive licensee in India, as the case may be.

exported and then re-imported, the copyright holder's right to block such copies from entering the country may be deemed exhausted and such copies may not be deemed "infringing" within the purview of the Copyright Act.

Importation of infringing copies is prohibited without regard to the subsequent intended use or disposition of such copies within India, with a very limited personal use exception. The Supreme Court of India, in a 1984 case, Gramophone Co. of India Ltd. v. Birendra Bahadur Pandey,[8] broadly construed the term "import" to even include any importation for transit across the country. In this case, the defendant was routing pre-recorded music cassettes from Singapore to Nepal through India. The Supreme Court reversed the lower court's order that there was no "importation" when the goods were in transit, holding that the Copyright Act and the Customs Act 1962 prohibited importation of infringing copies of musical works for any purpose and therefore precluded routing through India.

To date, there are very few Indian cases on the issue of exhaustion and parallel imports as applicable to copyright. In one case, Penguin Books England v. India Distributors,[9] copyright was successfully used to prevent parallel importation of copyrighted works into India which were manufactured and sold overseas by a foreign licensee. The court did not assume consent or imply a licence for importation in the absence of express authorisation from the copyright holder to permit parallel imports even though the imported copies were made and sold outside India by the foreign licensee. In the case, Penguin brought an infringement action against India Distributors. Penguin (India) was an exclusive licensee of copyright in India to 23 titles of well-known works of authorship. The defendant, India Distributors, was importing copies of these titles purchased in the United States and was selling them at significantly lower prices than the authorised distribution channels of Penguin. The imported copies were lawfully published and sold in the United States by the lawful holder of copyright in the United States, Penguin (US). The defendant argued that the imported copies were not "infringing copies" within the meaning of Sec. 51 of the Copyright Act because they were "lawfully published" genuine copies purchased in the United States and imported into India. The trial judge denied Penguin's request for interlocutory injunction, but on appeal the division bench granted the injunction on the ground that copyright is infringed if any person, without a licence from the copyright holder, imports into India any literary works for any purpose, including selling, distributing or other commercial activities. The interlocutory order did not present any analysis on whether such copies were deemed "infringing copies" within the meaning of Sec. 51. It stated that importation and subsequent distribution of the copies was tantamount to "publication" of the work and therefore infringed the exclusive licensee's right to "publish" the work in India. The issue, however, remains far from settled because the order was only interlocutory and the parties settled the dispute out of court before the court's final judgment.

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8 Supreme Court of India (21 February 1984).
9 AIR 1985 Delhi 29.

In terms of the enforcement process, three kinds of remedies are available against infringement of copyright: civil, criminal, and administrative. Civil proceedings can be instituted in the District Court or High Court of competent jurisdiction. In civil cases, the copyright owner or exclusive licensee, or in the case of anonymous works, the publisher, may seek an injunction, damages or an accounting of profits, and the handing over of infringing copies under the statutory framework. A plaintiff may also seek relief in the form of damages and injunctive relief through a common law claim of tortious conversion of property. A conversion claim, however, offers no greater protection than the statutory claims that are available. Under the copyright statutes, Indian courts will not usually award damages if the alleged infringer can satisfactorily establish that at the time of the infringement he was not aware and had no reasonable ground for believing that copyright subsisted in the work. In such a case, the plaintiff is entitled only to injunctive relief and an award of the infringer's profits.

Criminal remedies are available against any person who knowingly infringes or abets the infringement of a copyright. Sec. 63 of the Act, as amended, provides that infringement is punishable by imprisonment for a minimum period of six months to a maximum of three years and imposes fines ranging from Indian Rupees 50,000 to 200,000 (approx. US$1000 to $4000). Sec. 63A provides for even harsher penalties against repeat infringers. Officials may seize without a court issued warrant all copies of the infringing work, provided that the official reasonably believes that an infringement is being or will likely be committed. Although this process is not surprisingly somewhat controversial, because of the scope of the problem in India's markets, it is meant to check threatened infringement in its infancy and send a strong and much needed signal of intolerance to would-be infringers in an effort to assist India's growing role as a world market. If the infringing act is not committed in the course of trade or business, a lesser punishment and sentence may be imposed. Ultimately, the intent or knowledge of the infringer is an essential element for criminal liability. The criminal provisions under the Indian statute are among the toughest in the world.

An administrative remedy is available under Sec. 53 of the Act, pursuant to which the Registrar may issue an order prohibiting the importation of offending copies in India, and the handing over of the confiscated goods to the copyright owner. In addition, Sec. 11 of the Customs Act 1962 authorises the Government of India to stop infringing goods from entering into the country. The government has initiated many training programs on copyright enforcement for law enforcement officials and has set up special sections within police departments to deal with cases involving copyright infringement and imports of offending copies. The government has also taken complimentary measures to consistently lower tariffs on importation of computer software in the last five to six years from 80% to 20%, which will reduce imports of infringing copies into India.