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JOURNAL OF INTELLECTUAL PROPERTY STUDIES

VOLUME II:II  AUGUST, 2019

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THE GLOBAL PATENT SYSTEM NEEDS A REVISION, SIGNIFICANT AND SOON

Abhishek Pandurangi

Having worked through the thick and thin of the patent industry for over a decade, with domestic & international parties, on legal and technical matters, I have arrived at one patent conclusion—that the patent system in the contemporary global ecosystem is far from achieving its objectives, and its provisions are outpaced by the way innovation is approached by the world today. Breeding among controversies and protests, patent filings are growing every year, but so are the concerns on their effectiveness and social impact; so much so that the patent system is being labelled 'broken'.¹ While attempts are made to address this, they are far too sparse, far too partisan and far too narrow, while more ubiquitous, equitable and fundamental reforms are sitting in a corner awaiting their chance. In this article, I, with the perspective of a patent attorney, shall deliberate upon those concerns, their causes and said reforms, escaping which would slowly yet progressively erode the very need of the patent system along with the advantages it stands to offer.

At the outset it is paramount to review the purpose of a patent system at its very core and origin before we discuss its present shortcomings. The word 'patent', etymologically draws source from the Latin language in which 'patent' meant open, exposed or evident, as opposed to 'latent' meaning hidden; which then sought way to usage in English where the term 'letters patent' signified public pronouncement of royal decrees granting exclusive rights.² In one of the earliest officially recorded patents dating back to 1449, King Henry VI of England awarded Inventor John Utynam exclusivity on a stained glass manufacturing process claimed by him in exchange of making the process patent, i.e. passing the specifics to the Englishmen.³ This barter philosophy of disclosing invention in exchange of monopolistic rights, in turn meant to

benefit the public at large, became the backbone of the patent system attracting subscription world over. Transcending from Europe, the practice passed on to the US and South Carolina became the first among several states to pass a state level patent law titled ‘An Act for the Encouragement of Arts and Sciences’, eventually shaping into the US Federal Patent Act of 1790.\(^4\) Towards the east, Japan, in its endeavour to become a technology focused regime adopted patent law in 1885 under the leadership of Korekiyo Takahashi who famously remarked, “We said, ‘What is it that makes the United States such a great nation?’ and found that it was patents, and so we will have patents.”\(^5\) Other regimes followed suit and soon the patent system found its way pivoting scientific and economic interests’ world over. As globalization advanced, a series of initiatives to harmonize the patent structure globally including the Paris Convention,\(^6\) the TRIPS Agreement (“TRIPS”)\(^7\) and the Patent Cooperation Treaty (“PCT”)\(^8\) were undertaken, shaping the system to what it is today. These of course were not without its due share of controversies, debates and adjustments especially in the fields of medicines, and now software.

Contributing to the debate on patents, Roberto Mazzoleni & Richard R. Nelson observed that while the history of patents was attached to doubts and often hostilities, the larger consensus weighted towards a strong patent system that would benefit economic progress in the long run.\(^9\) They put forward in their paper, broadly the following four purposes of a patent system:

1) 'Invention Motivation'
2) 'Induce Commercialization'
3) 'Information Disclosure'
4) 'Exploration Control'


According to the first purpose, the anticipation of monopolistic rights helping an invention's business prospects and restraining competition, acts as a material incentive to invest time and resources in research, thereby building an ecosystem to prefer them. This classic theory proffered for suggesting that patents foster innovation has been endorsed by several visionaries including Abraham Lincoln who said, “Before then, any man might instantly use what another had invented; so that the inventor had no special advantage from his own invention. The patent system changed this; secured to the inventor, for a limited time, the exclusive use of his invention; and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things.”\(^{10}\)

The second purpose provides for the next leg of the innovation lifecycle when the idea is seeded from the pilot phase and branched to the consumer base. It is proposed that inventions with substance often attract those who can catapult them to a commercially rewarding market, and when such an invention is patented/patent pending, it facilitates various models of patent commercialization, injecting back money to the labs, thereby ensuring a steady cycle of research and industrial evolution.

The third purpose provides for the public side of the barter, that of receiving invention disclosure which would help avoid ‘reinventing the wheel’. It is said that close to 80% of all technical literature is available only through patents,\(^{11}\) and for free.

The fourth purpose incites curiosity and investigation. Referencing the example of patents on gene fragments having benefited research firms in biotechnology much before practical applications, Mazzoleni & Nelson furthered observations that broad patents on ‘prospect opening’ inventions or discoveries can be strongly attached to their technological advancements.

While one can enlist many purposes as a subset, I believe that the four purposes seem to holistically cover the umbrella of the objectives attributed to the patent system. In an


\(^{11}\)Geert Asche, 80\% Of Technical Information Found Only In Patents – Is There Proof Of This ?, 48(1) WORLD PATENT INFORMATION 16 (2017).
ideal scenario, the first two purposes would enable private rewards to the inventors and investors, whereas through the third and fourth purposes, public interest is meant to get served, creating equilibrium or a ‘win-win’ situation as they say. In reflection, I endorse the four purposes and agree that a fitting patent system ought to achieve them progressively.

Various references indicate that the patent system successfully cater to the above purposes. Luminaries such as Thomas Edison, Alexander Bell, Alfred Nobel, Louis Pasteur, and Steve Jobs are hailed as beneficiaries of patents while counting their contribution towards science and industry. In a 2006 publication François Lévêque and Yann Ménérière attest that patents do provide incentives & positive effect on R&D spending. On the aspect of disclosure enabled by patents, they also indicated that 88% of survey respondents from American, European and Japanese firms consider information sourced through patents have been helpful in implementing and designing their own R&D strategy. Further, on the issue of incentivizing business around inventions, trends in patent commercialization indicate strong growth in global markets, where the receipt of international royalty and licensing fee scaled up from USD 2.8 billion in 1970 to USD 27 billion in 1990, and to approximately USD 180 billion in 2009 – surpassing the growth of global GDP.

However, on the other side of the opinion table, strong arguments against the patent system and its inability to meet expected objectives have always echoed around. Providing a strong case against patents, Michele Boldrin and David K. Levine propose to abolish the patent system altogether and provide extensive reasoning for it in their very forthright paper.

Countering the first purpose, they contend the lack of any reliable empirical evidence to indicate that patents increase innovation and productivity, and submit the effect of patents to the contrary as they subject future inventions to a giant hold up, with the


need to purchase several licenses and uncertainty on the ultimate value of the new invention. Among several examples, they cite that of Wright brothers locking down innovation for nearly 20 years in the flight technology using patents. Reference of the aircraft patent by Wright Brothers is commonly brought up while discussing the 'tragedy of anti-commons' said to occur when multiple parties have the right to exclude, leading to a state of exclusion for new entrants as well as existing patentees resulting in an overall under-utilization.\^{15}

With regards to the second purpose, Boldrin and Levine argue that it is the first mover's advantage and the competitive rents, rather than patents that facilitate industry and financial attraction to innovations, an example would be the case of Apple's iPhone. In a thoughtful deliberation, they highlight that a good amount of investment induced by patents in the US gets redirected to litigation instead of seeping in back to the innovation lifecycle, amounting to almost 14% of total R&D cost towards the end of '90s. In a more recent review, it was projected that this percentage was well over a quarter of US industrial R&D spending.\^{16}

Attacking the philosophy put forth by the third purpose that patents enable disclosure of invention, benefiting science and public at large, they remark "...that the extent of practical 'disclosure' in modern patents is as negligible as the skills of patent attorneys can make it. It is usually impossible to build a functioning device or software program from a modern patent application."

They also state with regard to the fourth purpose, "that the initial eruption of innovations leading to the creation of a new industry—from chemicals to cars, from radio and television to personal computers and investment banking—is seldom, if ever, born out of patent protection and is instead the fruit of competitive environment."

I find their arguments quite compelling and they do open up the question on whether the patent system can actually deliver on the assumed purposes when the reality of


politics, lobbyism and economic disparity come into the picture.

Several industries and countries that have stayed away from patents, have in fact seen a constant spur of innovation. None of the top three patent filers in the world, namely China, US & Japan, find a spot in the list of top five global performers in innovation. UAE, Vietnam and Bangladesh are a few countries which are climbing up fast on the innovation ladder but have considerably low contribution in patent filings, with particularly miniscule numbers originating domestically. In terms of industries, E-commerce is a good example of an erupting global success despite little or no patent protection in most countries. The same can be said about innovations in the areas of medical procedures, culinary products and fragrances which have never seen scarcity of novelty.

Also, the theory that patents attract money and vice versa suffers a setback when one observes that majority of patents filed are never commercialized. In fact, that number scores over 90% in the US alone. The popularity and constant increase of open source/open models, particularly in the software industry provide a counter-narrative too.

Moreover, the contention that patents provide inadequate practical disclosure also has merit in it. With time, patent drafting has become more a skill of how to hide the real invention in the maze of words than to enable disclosure. It is my experience that most inventors can’t grasp their own invention when they first read the patent application arising out of it. It is only after they’re made familiar with the strategies of building a stronger/ wider fence for their invention, do they digest the techno-legal language with multiple embodiments and broadening of scope every possible way. An additional issue with the disclosure theory is the handicap of language which barricades the public access and absorption of technical know-how.

It is also true that the ecosystem of enforcement is not to the best of its health.. Growing litigation numbers, by trolls and the like, not only in the US but globally has certainly infected the climate. The fear of enforcement cost alone is often a deterrent to invest in

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\(^{17}\text{Leaders in Innovation, World Intellectual Property Organisation,} \\
foreign patents forcing applicants/licensees to forgo the advantage of patents in many countries, thus disturbing the first and second purpose.

Amongst the reasons for failure to commercialize patents, a significant one is the time taken for registration, defeating the opportunity for commercialization. In several cases, a ready-to-market potential product will simply not be commercialised because the cautious investor wants to secure his/her money against a granted patent; which, by the time it reaches the table after an average 3-5 years, has lost its commercial relevance.

Most of the observations made by Michele Boldrin and David Levine are sound, supporting the headline that the present patent system is broken, and draw our attention to many other happenings:

Several experts are raising questions on the ineffectiveness of the present system, and some the very need for it. Protests against the ills of patents are on the increase.

While patent fees are on the rise, the quality of patents is said to be at a serious decline.

A significant attestation to this came from within the system, when a large number of EPO examiners themselves expressed concerns on the patent quality issued by the office.18

Pharma generics and innovator companies are in an economic and political warzone. Malicious litigations are on the rise.

Despite several measures of harmonization, particularly the PCT19 and the Patent Prosecution Highway, securing and enforcing patents internationally is still a nightmare for many individuals, start-ups, small entities, colleges - basically anyone without deep pockets.

However, I would not agree with their proposal to abolish the patent system altogether.

Above and beyond the statement of Fritz Mashlup quoted in their paper,

“If we did not have a patent system, it would be irresponsible, on the basis of our


19 Supra note 8.
present knowledge of its economic consequences, to recommend instituting one. But since we have had a patent system for a long time, it would be irresponsible, on the basis of our present knowledge, to recommend abolishing it.”

I would regard that patent system at its very core is true to its cause and is capable of fulfilling its objectives, but it deviated with time, and with certain changes, maybe a few radical ones even, it may be brought back to track.

If patent system were a vehicle, it comprises of many wheels further comprising many spokes, and unless we deconstruct the issues of the spokes, the wheel and the vehicle itself, the imbalance and disarray shall keep affecting the journey. In that attempt, and to arrive at actionable suggestions of change, we shall steer the discussion through the following sections:

A. Problems faced by the stakeholders of the patent system

B. The systemic reasons why those problems arose

C. Proposed actionable solutions

A. PROBLEMS FACED BY THE STAKEHOLDERS OF THE PATENT SYSTEM

With passing time, those who became parties involved in the system started claiming their stake in the way the system functioned, and each participant tried to use and adapt the system with their singular perspective and needs, eventually derailing the system as a whole. As a result, each one of them is now facing significant problems/challenges of their own. Let us look at some of the key issues faced by the following stakeholders of the patent system one by one.

1. The Applicants/Inventors

2. The Patent office/ Patent Examiners

3. The Judiciary

4. The Governments

1. The Applicants/Inventors

1. Cost:

One of the biggest grievances of the applicants with the modern patent system is the exorbitant and uncertain monetary expenditure they have to incur to first secure, and then maintain their patent rights. Several surveys show that applicants often end up foregoing patenting as a result of the costs.\textsuperscript{21} Let alone individuals/small entities, even large companies with sizable wealth have growing concerns about the cost to maximize their IP assertion.\textsuperscript{22} The problem multiples due to the different fee buckets that demand filling up, including:

- **Official fees:**
  The bare minimum fees of filing, examination and annuities alone are significant. With countries constantly increasing these costs, filing in multiple countries can cause an intimidating set of fee matrix for an applicant to cater to—one which needs sufficient planning that cannot skip a buffer.

- **Attorney fees:**
  The system, so heavily dependent on the attorneys by design, and providing so little control in the hands of the applicant/inventor, has caused attorney fees to be a major reason of anxiety for the applicants, and that at every stage of the lifecycle—the due diligence, prosecution & enforcement. The nature of work being qualitative, choosing patent attorneys is not an easy bidding, particularly for foreign countries, where the system design necessitates needing an attorney for every step of the way generating a flurry of invoices. Another elephant in the room, which needs mention, is the model of business reciprocity between two attorneys of different countries which influences the foreign attorney recommendation. While not omnipresent, it is a fairly prevalent practice in the industry which means that an applicant may end up coughing up much more than otherwise to engage a foreign attorney because of the local attorney's interest in exchanging business with that attorney. The worst part is if the attorney causes any prejudice to the applicant's patent by substandard work or missing


deadlines, there is very little the applicant can do to restore the damage.

- Translation fees:
  Another variable adding up to the fees is the one towards the translation of patents in respective foreign languages for foreign patent filings, contributing to a significant part of the overall fees and one that has seen steep growth with time.\(^\text{23}\) Add to that the fees charged by firms for translating the office actions. Further, amidst all this, the applicant can barely ascertain whether the technical translations are accurate, for which the only way is to engage another translator with more fees to pay.

The mounting fees effect is that while the entire world is today an innovation lab and a market, no one can practically secure the entire geography of interest, straight away unsettling the first two said purposes directly. Particularly, increase in fees create inequity, and affects the smaller patentee severely,\(^\text{24}\) which is anything but good for the democracy of science and the science of democracy. A common argument supporting increase in fees is that it shall help filter out lower quality patents\(^\text{25}\) and reduce pendency\(^\text{26}\) but trends clearly seem to indicate otherwise.

\next{Time:}

The next biggest area of pain for applicants is time. While on one hand the applicant has to adhere to several short non-extendable deadlines, on the other, there is no saying how long they have to wait for getting their share from the patent system. The disquiet particularly manifests in the following areas:

- Time taken for the patent to be granted:
  For someone who has created an original work of art, the law allows him/her to exercise the inherent intellectual property rights in the form of Copyright immediately. For someone who has built a brand, he/she can move to court on grounds of

\footnotesized\begin{itemize}
\item Francesca Cornelli & Mark Schankerman, Patent Renewals and R&D Incentives, 30 RAND J. ECO 197 (1999).
\end{itemize}
misappropriation /passing off irrespective of registration. But for an inventor (to incentivize and encourage whom the patent system was instituted), nothing effective can be done unless the patent office says so with a stamp of grant, and that say so could take time-a lot of it.

A report released by Centre for the Protection of Intellectual Property (CPIP) on the global patent pendency problem declares that the time to get patents in some countries are so long that a patent simply becomes irrelevant in those countries.27 In a world where innovation cycles are reducing from decades to years and years to months, average time for patent approval runs far beyond. Such is the case that two to three years as an average for patent grant in some developed countries, is considered rather fast, while prominent emerging economies such as Thailand & Brazil average over 10 years! The report which uses data from 2008 to 2015, indicate that the United States Patent & Trademark Office (USPTO), European Patent Office (EPO) and the Japanese Patent Office (JPO), representing the most evolved patent ecosystems in the world, take an average of 3.5 years, 5.5 years and 5.3 years respectively and the combined loss caused by their each year's backlog costs the global economy over USD 10 billion/year. The report exemplifies inventions which had got long obsolete by the time patents were granted for it. This means that despite filing the application and paying the fees to the patent office, if there were any infringement, history witnessed no legal action but only patience by the applicant, from a system which promised him/her patent rights against the disclosure and fees. The report accordingly observes that in face of such extreme delays, the ongoing debates on the finer aspects of patent system seem irrelevant in comparison.

- Time provided for filing internationally:

Rendered as a major curtailment in maximizing IP opportunities globally, the limited and -non-extendable period of 12 months for making an international application can cause grave injury to an applicant's intended rights and interest. Even with fast moving technologies, the average time for trials, both scientific and industrial, that would be needed to gauge the commercial prospects of an invention would exceed 12 months. It is regarded that it takes an average of over four years for a regular business to stand on

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its feet\textsuperscript{28} or for the commercialization of an invention, \textsuperscript{29} which in case of a new pharmaceutical product would require over a decade.\textsuperscript{30} However, it is expected of the applicant that in that limited time of 12 months, within which there isn’t even an official search report provided, he/she must assertively decide to go international, arrange funds for it and then execute it, failing which that right is taken away forever. It was to address this rather scanty time period for which the PCT\textsuperscript{31} was administered, but that is more of a short relief rather than remedy, as the extension of time to 30/31 months from priority date is still considerably below the average time for the commercial visibility. In fact, at times, the applicants feel pressurized having to bear the additional expense for PCT and ask for why this time extension is not accorded to conventional application directly, and the answer, “due to diplomatic and legal reasons” is neither well understood nor well digested.

\textit{iii. Ambiguity & Uncertainty:}

Next we shall discuss the several patches of ambiguity and uncertainty around the patent system and how it affects the applicants.

\begin{itemize}
  \item The patent content itself:
\end{itemize}

When the patent system started, disclosures would be in a few pages supported by a few necessary drawings, more or less to the point. Thomas Edison’s articulately detailed patent for the incandescent bulb US223898 comprises of 3 pages including one of drawing. With evolution of advanced patent drafting techniques, patents of that size are long gone and patents giving out such exact details are rare. Rather today, the broader the patent, the more generic the description and more camouflaged the actual enabling details of the invention, the better it is considered for the applicant. There are some inviting satirical cartoons by Maddy & Stu Rees\textsuperscript{32} that take a light dig on this point of

\textsuperscript{31} \textit{Supra} note 8.
language and style of patent drafts. In one, a patent attorney’s reference dislodges that of an optimist and a pessimist on the half full/half empty glass when he claims it to be liquid H₂O bisecting an open cylindrical vessel. As a patent attorney I immediately looked at aspects in that expression which could be broadened further -why H₂O? Why cylindrical vessel? and that is when the joke hit me proving its point. But this observation is not limited to cartoons and jokes. In their book, Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk, James Bessen & Michael Meurer33 highlight the same and critically question the language used in drafting patents that are often too broad and vague. The book also highlights a statement by the US Supreme Court on the same subject:

“Some persons seem to suppose that a claim in a patent is like a nose of wax, which may be turned and twisted in any direction, by merely referring to the specification, so as to make it include something more than, or something different from, what its words express.”

As I shared earlier, when the techno-legal draft of patent application gets prepared, often the inventors themselves express confusion while going through it. They rely on their patent attorney’s advice and skill on bargaining the broadest possible claims for them, assuming it is in their best interest. In my assessment, this prevalent approach in the grand scheme of things is one of the key crucifiers of a healthy patent system, and in fact, is adverse to the interests of applicants, for the following reasons:

- **Likelihood of more time & expenditure towards grant:** Without conciseness and clarity of claims, the prosecution of the patent gets burdened and tails longer. Broader the patent and more the salvaging dependent claims, heavier are the bouts of office actions & responses, likely to increase the number of exchanges, and consequently, the time and the fees. Also, in modern times insufficiency of disclosure has crept up to become another significant objection in examination reports. Multiply that to tens of thousands of applications, each of which drafted by attorneys trained in modern drafting techniques, and you arrive at the present

situation of pendency and delays, which in turn affects the applicants the worst.

- Increasing the chances of invalidation: A broad patent certainly increases the prospects of infringement, but it also does the same to the chances of the patent claims being struck down, and this is attested by numerous examples of successful opposition/invalidation/IPR proceedings.

- Defeats the purpose of disclosure: On a systemic level if patents deviate from the duty to purposefully provide enabling disclosure, then the system so fostered infact deprives the very patent applicants/inventors as well from access to enabling technical literature that they would have otherwise utilized, creating a negative spiral.

- The tragedy of anticommons: With a nuanced elaboration of this point, Carl Shapiro reflects upon how getting broad patents create patent thickets with overlapping rights, which in turn end up restricting the very patentees from practicing what they originally intended to. For example, in the space of Semiconductors, companies with strong patent portfolios like IBM, Motorola, Intel were compelled to stop making key products due to broad patents granted on microprocessors and semiconductor. There are alternatives of cross licensing and patent pools but they come with limited participation and other issues.

  - The 18-month publication period:

As discussed earlier, the term ‘patent’ means making public. Accordingly, one of the main objectives of the patent system is disclosure of technical literature for progressive research and preventing the duplication of research, i.e., ‘reinventing the wheel.’ However, patent applications when filed, await 18 months before getting published, unless the applicant pays additional fee for early publication. As a matter of law, no actionable rights are accrued in favour of the applicant before the publication, which causes uncertainty and vacuum in the ecosystem. When asked by clients on the rationale for this policy which either ends up delaying their rights or requiring

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additional fee to secure them, I have not been able to find any to their, or my satisfaction. A typical reason given is that the period provides a window of opportunity for those who wish to withdraw the application before it is published, which appears incongruous to the very purpose of the patent system and to the intended rights of applicants, as the balance of presumption towards an applicant filing a patent ought to be that of continuance rather than that of withdrawal. In practice, sizable proportion of applicants do not opt for early publication. This not only creates delayed accrual of rights, but also hampers clarity in patent searches and due diligence. A patent applicant or his attorney can never be reasonably sure of a patent’s prospect because there might be a similar patent already filed but unpublished at the time. It also creates a blind spot in freedom to operate study (FTO) in which one checks for potential IP hurdles before launching a product and decides to proceed on finding no patent being potentially infringed. It would be egregious if after the product launch, it became known that there was in fact an invisible patent whose claims would be infringed but the FTO could not forewarn since the patent was unpublished when the search was conducted. The delayed publication also empowers and enables the subsistence of patent trolls and submarine patents.

- **The language barrier:**
A rather small but in no terms insignificant concern is the anxiety applicants have due to not being able to read or check the contents of patent specification or patent office communications in foreign languages. While applicants choose foreign attorneys after careful due diligence or strong recommendations, in business; trust is only the next alternative to transparency. At times a minor inaccuracy in translation of the specification could make a big difference to the outcome of the applicant’s endeavour.

- **Court’s interpretation & Claim construction:**
Cost is not the last concern in litigation. It is often the approach the courts would take in interpreting the claims while asserting infringement. With constantly evolving jurisprudence, expecting patent litigation outcomes are not always easy. Add to that a set of variables including technical expertise of court, inadequate or sometimes contradictory examination guidelines, use of pith & marrow/ doctrine of equivalents and influential public pressure, the uncertainty further inflames.
iv. Difficulty to commercialize:

Corresponding to the second purpose proposed by Mazzoleni & Nelson, patents are a commercial instrument in the hands of an inventor. A property, in name and under law, IP is supposed to be tradable with a value, and several applicants strive to get a patent in pursuit of getting it licensed or sold to the industry. However, the commercialization ecosystem across the world is dim and very few patents, even deserving ones actually cross that stage, with most commercially active patents being derived in-house. Below are some key issues faced by applicants in this context:

- As discussed earlier, the prospects of a pending patent application getting commercialized are low and by the time they get granted, the patents lose commercial weight.

- Most countries do not have mechanisms, either government supported or private, to facilitate commercialization, and the applicants are pressed for time, resources, skill and network on reaching out to prospective licensees/assignees making them hit the roadblock after a point. The United States is one of the few countries which has a private ecosystem for commercialization with patent brokers and patent licensing firms, despite which most of the commercially active patents are those that are within existing companies.

- Those of which go forward often get stuck during negotiations due to disagreements on numbers in the absence of standardized rates of royalty or yardsticks of valuation unlike the other tangible forms of property. Since there is no standard agreed upon patent valuation technique in existence, so much subjectivity flows in valuation exercises that two different valuation experts would seldom arrive at the same valuation for a patent in question.

- There is very little policy level or industry level intervention to create models to enable sustainable commercialization ecosystems bridging those with the money and

36Shai Jalfin, supra note 9.


those with the patents deserving it, not just in terms of mere connection but towards
the entire lifecycle of patent commercialization. The few broking and IP exchange
models that are present have failed to produce desired traction as a result.

- The above is also applicable for the pharmaceutical industry where there is a dire need
to bridge and balance the interests of the generics and the innovators, to quench the
unrest and public opposition that has only escalated decade after decade.

- Lack of global consensus on the structure around SEPs (standard essential patents)
and FRAND (Fair, reasonable and non-discriminatory) terms on global interoperable
technologies contributes to the friction against patents in software/electronics/
telecommunication and related advance technology fields.39

2. The Patent office/ Patent Examiners

i. The growing workload on the examiners

American Economist Josh Berner observes that bad patents are inevitable as the patent
examiners are having to deal with a large and growing workload.40 With patent filings
swelling and constantly evolving case laws and guidelines, the patent examiners have a
tough task at hand. The pressure of pendency and timelines are so tight that while
examining convoluted patent drafts, conducting prior art searches, preparing office
actions, reviewing correspondences, conducting interviews and hearings, the examiner
gets to spend only an average of nineteen hours on a single application.41 In addition,
the back and forth on multiple patent applications and other tasks that come with the
job puts a higher risk of losing focus and attention to detail, which is bound to
eventually affect the quality of examination.

ii. Pressure of instructions

In the absence of well laid examination procedures, many times examiners are
pressurized to side step the line and abide by instructions from the top management

39 Benjamin C. Li, The Global Convergence of FRAND Licensing Practices: Towards “Interoperable” Legal
41 Frakes, Michael & Wasserman, Melissa F., Is the Time Allocated to Review Patent Applications Inducing
Examiners to Grant Invalid Patents? Evidence from Micro-Level Application Data, REVIEW OF ECONOMICS AND
Research Paper No. 14-16); (Illinois Program in Law, Behavior and Social Science Paper No. LBSS 14-39;
causing an overall distress in the system. The examiners are at times pressurized to grant more patents as highlighted by letters from the EPO examiners, or sometimes in the other direction as mentioned by Gene Quinn for the USPTO.\(^{42}\)

### iii. Lack of information on the status of prosecution of family members

While assessing the novelty of the patent during examination, it would be useful for an examiner to have access to patent application examination reports of family members of the patent being examined to reduce time where possible. However, that information is not always or easily available to the examiners. The Patent Prosecution Highway is meant to furnish that information but such disclosure would happen only at the behest of the applicant, and only for the accepted patents.

### iv. Difficulty with foreign language prior art references

The uncertainty caused by foreign language publications as prior art references affects the examiners and their output significantly.

3. The Judiciary

#### i. Subjectivity and discretion

It is an unpleasant reality that frequently courts have overturned the decisions of the patent office and judgments of other courts. As a result of open-ended avenues provided by the patent law, different judicial forums use different standards of claim interpretation and enforcement, also leading to venue shopping of plaintiff favouring courts, ultimately creating a disruption within the arms of judiciary itself. This was also highlighted in the Hruska Commission report, US congressional commission, which noted “patent law is an area in which the application of the law to the facts often produces different outcomes in different courtrooms in substantially similar cases.”\(^{43}\)

#### ii. Legal interpretation of technical aspects

Being a techno-legal discipline, adjudicating patent matters require the courts to interpret and sort out questions of science & technology. When applying the doctrine of

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equivalents or the pith & marrow principle, the courts have to undertake this responsibility of interpretation even further. The problem is that in many countries, the courts are ill-equipped with technical prowess to submerge into the depths of the questions.

iii. **Reviewing matters of economics instead of law**

Many a times, courts have to decide on compensatory amounts or royalty percentages in infringement matters. When valuation subjectivity is an issue with the patent valuation experts themselves, the courts would be far from possessing appropriate competence therein. However, since there are no standard metrics of arriving at the figures, the courts have to address the issue and spell out the numbers once the case reaches the docket, using subjective and unpredictable models which are particularly difficult to apply in complex and high technology products in question.44

4. **The Governments**

i. **Safeguarding the interests of domestic players**

While countries want their laws to adapt to international conventions, their sovereign interests and internal issues always steer the same. For example, India, with a thriving domestic generic Pharma industry, created a higher threshold for granting patents on pharmaceutical inventions with the famous/infamous Section 3(d) of its Patents Act constricting eligibility for patents claiming new forms or new use of known substances.45 In return, there has been substantial global pressure from countries with opposite sovereign interests— those with an entrenched branded drug/innovator Pharma industry, on India to make the regime more patent friendly, including and particularly for pharmaceutical patents. The resultant effect of such tugs of war diverges from central interests and makes patent harmonization difficult.

ii. **Keeping contrasting interest groups happy**

Politics is the art of diplomacy and politicians through their policies, need to keep all groups happy or at least contained. Accordingly, policy and its manifestation are

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45Novartis v. Union of India, AIR 2013 SC 1311.
moulded to assuage restlessness of opposing interest groups just enough to avoid a breakdown. A glaring example of this is the policy approach towards software and business method patents. On one hand, the statutory provisions, examination guidelines and the case laws signify restrictions on patents in these disciplines, but in ulterior practice those patents keep getting granted under the same provisions, ensuring buoyancy for both interest groups. This has been observed as much with evolved patent ecosystems like USA, as for a developing one like India. This inherent approach leads to broad and vague policy instruments that add entropy to the system. Particularly in context of copyrights and patents, Professor Tom W. Bell observes, “Due to public choice problems, moreover, we can expect no better from lawmakers than indelicate imbalances in favour of certain lobbies.”

iii. Keeping the lawyers happy

While this submission is based more on corridor talk than on literature, it is affirmative that governments cannot comfortably bring changes in the system that hurt lawyers as fair number in the high offices come from the same fraternity. So is the case with the patent system, which in time got designed to make the lawyers/patent agents as central - if not more - as the applicants and inventors in guiding policy. In fact, Dr. Árpád Bogsch, former Director General of WIPO observed that while governments were deciding to become party to the PCT, a key factor in play was that patent agents feared they would make less money as a result. In a research paper on patent attorneys, it is noted that the system is tuned in a way that the strength of a patent is ‘surprisingly’ more dependent on the quality of attorney than it is on the quality of the invention. In so far as policy makers are concerned, when facilitators to a system end up being prioritized over the actual beneficiaries, the shape of policy is bound to get deformed.

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B. SYSTEMIC REASONS WHY THESE PROBLEMS AROSE

While there are several factors that have led to the abovementioned problems, the following ones I believe are the systemic reasons that are largely responsible for them.

i. The opposing samples extrapolation framework:
Earlier we saw how policy is often aimed at balancing the interests of opposing groups and keeping everyone from being unhappy. To achieve this policy makers, create something that I like to call 'opposing sample extrapolation framework', in which the policy manifestation structure is designed to create samples to satisfy opposing expectations which can then be extrapolated to signal both sides that the system is aligned to their point of view. This entails introducing broad, subjective and sometimes vague policy fabric. Such is the case in patents as well. If I were voicing an opinion that patents foster innovation or easily commercialized, I will find examples to back it up, while at the same time the opposite voice will find empirical evidence too, as we have already seen earlier in this article. One may say this is a far too simplistic a theory and not always true, to which I agree but particularly in case of the patent system, I believe it has been evolved on this framework from the very beginning and thus kept fostering both positive and negative examples of its working. The subjectivity brought in the system due to inclusions of *inter alia* 'the test of obviousness', 'claim construction variables', 'Markush structures', 'sufficiency of disclosure', 'doctrine of equivalents', interpretation of which differs from every first person to the next, complicates and drains the system continuously.

ii. Treatment of patents as a created contractual right instead of an inherent/natural property right
Spanning across history and geography, 'property' under law has been accorded to extend natural and inherent rights to its owner.\(^{51}\) It means once you own the property you have inalienable rights over it and in the value vested in it naturally. Wm. E. Simmonds, Ex-commissioner of Patents (1891-93), USPTO explained that a natural right

is a right instinctively and universally recognized.\textsuperscript{52} With regards to ‘Intellectual production’, he observed that to be treated as a subject matter of ‘property’ it must be capable of reduction to possession and have value in exchange, and ‘Intellectual production’ has both of these qualities to the full, and is therefore ‘property’ in every sense. He concludes that in theory, exclusive natural right to inventions is a correct thing, subject to necessary suppressions. However, in the present scheme of things, patents, although bracketed under ‘property’/ ‘movable property’, are not customarily treated as one. For example, once I pay the money to purchase a movable property, say a camera or a car and acquire ownership of it, then it is considered my property de facto across the world without having to acquire ownership on it from each government in whose jurisdiction I intend to use it. It may be required to, at best, pay certain duty or acquire local license for its usage but I would not require to purchase it over and over again from separate governments paying the entire cost, nor do I need to initiate the entire process of purchasing from the very beginning in that jurisdiction. This is in fact true even for copyright, in that, copyright arises naturally once the work is created and is effective for enforcement across the world on evidence of ownership, subject to national laws on validity. However, in case of patents, even after procuring ownership on the patent rights in a particular jurisdiction - after complying with all requirements and paying entire sum of fees to purchase those rights, the said rights have no validity or value anywhere else in the world. To procure which you have to start the entire cycle of ownership for that jurisdiction from the very beginning and pay to purchase the rights repeatedly in each of the countries/regions independently. This resembles more the contractual rights of monopoly extended by the governments to patent applicants in exchange of disclosure and fees, including annuities that have to be submitted every year to maintain ownership of the rights in that country. It is often argued that annuities are akin to property tax over intellectual property which is contradictory to legal premise for properly tax which is calculated and collected as a predefined fraction of the value of property, while the patent annuities are independent of the value vested in the patents. Also, this is different from the notion of patent being a social contract between the applicant and the people. In this case the contract is effectively taking place between the applicant and the patent issuing authority, and the role of sovereign states becomes not that of a facilitator for enabling balanced advantage to innovators and public but

\textsuperscript{52} Wm. E. Simmonds, \textit{Natural Right of Property in Intellectual Production}, 1 YALE L.J., 16. (1891).
that of a principal and material beneficiary of the system to aid its own needs and ends. Every year patent offices across the world, including \textit{inter alia} developed ones like the USA\textsuperscript{53} and developing ones like India\textsuperscript{54} & Brazil\textsuperscript{55} generate revenues outscoring the expenditure and pass on the gains to the government’s treasury, at the expense of the patent systems’ need of resources. This design creates multiple parallel pay posts and the applicant must either replicate fees and logistics for every country burdening the entire system with cost and numbers, or compromise on his rights which were otherwise meant to have been served by the patent system under the first and second purposes proposed by Mazzoleni & Nelson\textsuperscript{56}. The counter argument is that this system allows sovereign control over what can be granted and what cannot. To that, my submission is it can still be done, by creating national validation provisions deemed fit by the state, on an already granted patent rather than at the stage of filing, just as practiced in case of copyrights where exceptions to enforcements in terms of fair use/fair dealing are reserved with governments through their respective national copyright laws while according enforceable rights to all other.

Turning the pages of history on the subject, Edward C. Walterscheid highlights how both patents and copyright were argued over the years on one hand to have inherent/natural rights and on the other with an opposite view of a created one, particularly in context of limited time period of ownership and enforceability\textsuperscript{57}.

Further, one of the possible derivatives of not recognizing patents as inherent and natural movable rights is the lack of economic and regulatory policy on value assertion to patents and associated transactions, as regimes usually do for other commodities and goods. As a result, no actionable framework has been created globally for SEPs and FRAND terms even in the most significant of the industries, let alone for individual -non-
standard essential patents.

iii. Doing away with the working model system in letter and spirit

Initially, the patent system had a condition pre-requisite that a working model or a prototype of the patented product must accompany the application. This practice followed since 1790, was nine decades later set aside causing it to evaporate from the procedure, both in letter and spirit. As long as there was a requirement of the working model/prototype of the invention, the specifications and claims were tied to it, and the patent thus granted was given for that invention per se and the arrangement/working of the invention was practically disclosed to the people. However, it was recommended to eliminate the physical models as they take up a lot of space and threaten to prove a serious public convenience. This proposal was however coupled with a supposition that the drawings and specifications retained would ensure that their removal shall cause no prejudice to any interest, public or private as a result. In effect, it was assumed that in absence of the physical models, the disclosure shall carry out their purpose.

However, in time the system relaxed the patent disclosure requirement to be 'enabling' or 'sufficient' for a 'person skilled in the art' to carry out or practice the claimed invention, which has been regarded as pregnant with ambiguity, deviating from the original requirement under the US Patents Act of 1790 - of delivering description with 'models' 'so exact' that a 'workman' or other person skilled in the art could 'make, construct or use' the same. Consequently, the current practice allows patents often over-claiming with far too generic descriptions, which according to Oskar Liivak should be rendered a criminal act on the applicant's part.

As a direct result of this, the following issues have mushroomed and seeped in deep within the system:

- increased office action time, directly affecting patent pendency

• progressive deterioration of overall patent disclosure quality despite growing numbers
• patent trolls
• creation of overlapping rights
• massively high non commercializable patents
• the tragedy of anticommons
• complex claim construction issues
• increased invalidation of patents
• antitrust implications due to increased settlements, cross licensing and patent pools owing to uncertain or probabilistic patents

iv.  **Lack of assertive & regular harmonization between countries**

Being a subject of growing importance, governments have shifted significant effort and resources towards national policies on patents and innovation. However, very little attempt has been made in recent times by countries to come together to harmonize the practices and settle open issues according to present developments in the system. Many patent offices have individually implemented successful programs which have not spread their benefits to other patent regimes due to lack of harmonization.

In his report, NK Mohanty, Controller of Patents at the Indian Patent Office, has provided noteworthy details on the historical and legal progress of global patent harmonization and highlights how much more needs to be done in that direction. It is appalling to note that after the TRIPS agreement dating back to 1995, not a single substantive harmonization agreement between countries has been concluded. Accordingly, I resonate with the views of William Barber who said, “There is much to be done to streamline patent processing around the world, and the Offices are way behind the times.”

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C. PROPOSED ACTIONABLE SOLUTIONS

In view of the above discussion, I would like to submit the following proposed actions/policy items that I believe shall ameliorate the condition of the present system which is quite desperately in need of some constructive changes. However, the proposed suggestions are not exhaustive, and some of them are postulates which may require further research and modelling to predict the nature of output on implementation:

Changes of Procedural Nature
1. The default 18-month publication period should be reduced to bare minimum period such as in days or instantly after filing the complete specification. This will enable the researchers and patent applicants while weeding out submarine patents and patent trolls at the same time.
2. The deadline for international filing to be increased to at least four years instead of one.
3. There should be a mandatory burden on the applicant to disclose known prior art references to the patent office and establish novelty and non-obviousness therewith across all patent offices. This will make the examination faster and effective, and the resultant patent stronger.
4. The Patent Prosecution Highway is a productive initiative and should be further encouraged and harmonized seamlessly across all participants of Paris Convention. On similar lines, mechanisms have to be installed that allow examiners to get information even about the refused patent application and be able to save time on search to find relevant prior art if already done by another office elsewhere. One of the ways is to put the burden on the applicant to share that information, as imposed by the Indian Patent Office. However, the Indian system requires frequent and repeated updates which is unduly taxing on the applicant but that can be substituted by a single update by invitation just before the examination begins.
5. All countries should cause to globally harmonize and adopt the 'Third Party Preissuance Submissions' model, which has been seen to yield positive results in the USA. A report on the system's impact showed that it was regarded to be useful by ~52% of surveyed USPTO examiners. It also has shown to extend the benefit of
strong non-patent prior art references being highlighted to the examiners, which is not an area of strength with the databases used by them.66

Changes of deliberative and systemic nature:
1. The disclosure standard should be escalated beyond the ‘enabling’ and sufficient threshold to a working model equivalent. This could even be executed by encouraging virtual models submitted in forms of videos of working or computer simulations,67 which are likely to provide a more nuanced understanding of the invention clarifying the scope and working of the invention.

2. Extending recognition of patent grant in single country to all others subject to exceptions reserved by countries for local validation to help safeguard sovereign interests, similar to copyright. This will help eliminate duplication of examination thereby reducing pendency at the patent offices and substantially saving cost and time of the applicant. The apprehension of a weak patent granted by different jurisdiction can be addressed by creating controls such as substantive examination by local patent office before infringement litigation.

3. The world is observing a growing discussion over doctrine of equivalents/pith and marrow approach in patent litigation. If regulated and harmonized with clarity and detailing, it could enable a predictable approach in patent litigation and claim construction, thereby strengthening the patent system.

4. The governments must establish and harmonize a robust system involving standard essential patents and FRAND terms for licensing, not just for the ICT & advance technology industries but for others too.

5. The governments must also play a role in engineering and incentivizing models bridging the interests of both sides of the patent fence to balance the IP incentive and anti-trust principles. This is of particular relevance in the pharmaceutical industry, i.e. the branded/innovator drug companies on one side and the generics on the others, to ensure balance of rights. Some measures have been incorporated in legislation like compulsory licensing, price control etc. and some adopted within

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industry such as Gilead Pharma multi-non-exclusive licensing model, but none have translated into a solution-based model.

Whether one or more of the above suggestions are implemented, is secondary to the need of the political will required to be shown by those who can shape and influence policy for the better. If this need is disregarded, the dilution of the patent system will continue down the slope, every step of which can have a domino effect thereto. It is thus my hope that the concerns highlighted are taken up for deliberation and the patent system gets revised, significantly and soon.

Disclaimer: The opinions provided here are so done in personal capacity. If there are any differing views, errors or inconsistencies I request them to be pointed out.

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CASE COMMENT: CHRISTIAN LOUBOUTIN SAS V. ABUBAKER & ORS.

R. Parthasarathy?

A Single Judge of the Hon’ble Delhi High Court, vide order dated May 25, 2019,\textsuperscript{1} summarily dismissed a suit for trademark infringement and passing off, at the admission stage, on the ground that no legal cause of action was made out by the plaintiff, as use of a single colour does not qualify as a mark/trademark under Section 2(m)\textsuperscript{2} and Section 2(zb)\textsuperscript{3} of the Trademarks Act, 1999 (hereinafter referred to as “the Act”).

I. FACTS

The plaintiff company, Christian Louboutin SAS, pleaded that it was the owner of the registered trademarks “RED SOLE” under registration numbers 1922048, 2341890 and 2341891. The mark was a shade of the colour red applied to the soles of ladies’ footwear manufactured by the plaintiff.

The suit was initiated by the plaintiff as the defendants were using a shade of colour red on the soles of their ladies’ footwear, thereby allegedly infringing the registered trademarks of the plaintiff and passing off their goods as that of the plaintiff. The plaintiff also prayed for a decree against the defendants and a grant of Rs.1,00,00,000/- as damages for loss of sales, reputation and goodwill of the plaintiff’s trademarks caused by the unauthorized activities of the defendants.

II. CONTENTIONS OF THE PLAINTIFF

The plaintiff contended that it held exclusive ownership over the registered trademarks “RED SOLE”, which is not a word-mark, rather a shade of the color red applied to the soles of ladies’ footwear manufactured by the plaintiff. It was further contended by the plaintiff that the defendant No. 3 “M/S Veronica” was owned by defendant number 1 & 2, and they were carrying out their business from two outlets located in Mumbai. Defendant number 1 & 2 were using the “RED SOLE”

\textsuperscript{*} R. Parthasarathy is a Principal Partner at Lakshmikumaran & Sridharan.


\textsuperscript{2} S. 2(m), The Trademarks Act, (1999).

\textsuperscript{3} S. 2(zb), The Trademarks Act, (1999).
manufactured by them without the permission or authorization from the plaintiff. Thus, the defendants infringed the plaintiff’s registered rights, and were therefore liable to be injunctioned, and pay damages.

When the matter was listed for admission and issue of summons to the defendants, the Court was of the view that no legal cause of action was made out as per the averments of the plaint. Hence, the plaint was liable to be rejected, and the court was not inclined to issue a notice to the defendants. However, the plaintiff placed reliance on the judgment of the Division Bench in the case of *Bright Enterprise Pvt. Ltd. & Anr. v. MJ Bizcraft LLP & Anr.*,⁴ and pleaded that a commercial suit cannot be dismissed at the preliminary stage by the court without issuing notice to the defendant. In terms of Section 16⁵ of the Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 the CPC, 1908 has been amended in so far as it applies to a commercial dispute of a specified value. Accordingly, Order XIII-A has been inserted. Order XIII-A deals with summary judgment. Rule 2 of the abovementioned act provides that an applicant may apply for summary judgment at any time after service of summons on the defendant but before issues are framed in the suit. Rule 4 of the same deals with the procedure therefore and provides for giving at least 30 days’ notice to the respondent who has a right to file a reply. Therefore, in view of the above, it was submitted that the suit cannot be dismissed at the admission stage without issue of notice to the defendant.

The plaintiff further relied upon the judgment of the Appeals Court of USA in the case of *Qualitex Co. v. Jacobson Products Co., Inc.*,⁶ pleading that a single colour is recognized and awarded trademark status in USA and the same is entitled to trademark protection in India.

The plaintiff also placed reliance on the judgment in the case of *Deere & Company & Anr. v. Mr. Malkit Singh & Ors.*,⁷ for showing that a single colour is entitled to protection as a trademark and on the judgment of co-ordinate bench of the Delhi

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⁷ Deere & Company & Anr. v Mr. Malkit Singh & Ors., 2018 SCC OnLine Del 8527.
High Court in the case of Christian Louboutin SAS v. Mr. Pawan Kumar & Ors.,\(^8\) wherein the Learned Single Judge had passed a decree in favour of the plaintiff, by holding that the plaintiff was entitled to exclusive ownership of the trademark of red colour on the soles of its ladies’ footwear.

The plaintiff further relied upon Sections 31 and 32 of the Act\(^9\) to argue that distinctiveness can be achieved by use of the trademark even if distinctiveness did not exist at the time of registration, and if distinctiveness is acquired for the trademark because of its use in relation to the goods for which the trademark is registered, then such a trademark cannot be declared as invalid. Further, the issue of distinctiveness is an issue that can be tried, and the same can be decided only during the course of trial in the suit.

The plaintiff also claimed the RED SOLE to be a device mark. The plaintiff also argued that under Section 10(2) of the Trade Marks Act, a single colour would also qualify as a trademark.

### III. Decision by the Single Judge

The Court observed that the judgment of Bright Enterprise Pvt. Ltd. & Anr. v. MJ Bizcraft LLP & Anr\(^10\) was not applicable in the present situation as the court in that case was dealing with Order XIII-A\(^11\) of Civil Procedure Code and not Order XII Rule 6.\(^12\) Since there was no legal cause of action, the present suit lacked merit and was not maintainable. Accordingly, under Order XII Rule 6 of CPC, the court has the power to dismiss the suit, without even issuing summons in the suit. Order XII Rule 6 deals with the power of the court to make an order of give judgment having regard to admissions made in the pleadings or otherwise, whether orally or in writing. It is pertinent to note that admission presupposes notice to the other party, for without both parties, there cannot be admissions on fact.

Further, the court also noted that there was no legal cause of action as there was no valid trademark. It was observed that on a combined reading of Section 2(m) and Section 2(zb), a trademark means a mark including “combination of colours”. Thus,

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\(^8\) Christian Louboutin SAS v Mr. Pawan Kumar & Ors., 2017 SCC OnLine Del 12173.
\(^10\) Supra, note 4.
\(^12\) Order XII, Rule 6, Civil Procedure Code, (1908).
“combination of colours” is a *sine qua non*, and hence a single colour would not fall within the definition of a mark and cannot be claimed as a trademark.

The court distinguished the US judgment in *Qualitex Co. v. Jacobson Products Co., Inc.* stating that under the Trade Marks Act of USA, there was no prohibition in using a single colour as a trademark, and hence the said judgment was as per the laws of the US. In India, the legislature has mandated that a trademark must be a combination of colours, and hence a single colour cannot be adopted as a trademark. Thus, the said US judgment cannot be applied in the present case.

The court further placed reliance on *N. Bhargavan Pillai (Dead) by Lrs. and Another v. State of Kerala*, and stated that if a judgment passed by a court did not consider the direct provision of law, then the said judgment would have no binding effect. In light of the above-mentioned judgment, the Court observed that the judgments delivered in the cases of *Deere & Company & Anr. v. Mr. Malkit Singh & Ors.*, and *Christian Louboutin SAS v. Mr. Pawan Kumar & Ors.*, did not have any binding effect since they did not deal with the issue of using a single colour as a mark under the provisions of Trade Marks Act. Further, the Court held that in these judgments, the overriding provision of Section 30 (2)(a) was not discussed, and hence the same will not be binding.

The court was, however, of the view that the plaintiff was *prima facie* justified in raising arguments based on the provisions of the Act, that even if there was an absolute bar for registration of a trademark, if distinctiveness is achieved by using a trademark which ought not to have been registered as a trademark, then such a trademark on achieving distinctiveness, will become a valid trademark, and its registration cannot be cancelled. However, the court held that the said argument also does not hold good as the *sine qua non* of the definition of mark has to be complied with first.

The court further held that by simply applying a single colour to the sole of a footwear it would not result in the single-coloured sole as a device, as Section 10(2)

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13 Supra, note 5.
15 Supra, note 6.
16 Supra, note 7.
17 Supra, note 9.
has to be read in light of Section 10(1) which uses the expression “combination of colours”.

The judgment is extensively based upon the mandate of the supervening provision of Section 30 (2)(a) of the Act which contains the limitations of the effect of a registered trademark and held that a single colour applied to the goods would in normal circumstances pertain to the characteristic of the goods which is a feature of the product and hence a non-trademark function and thus, cannot be prevented from being used by other sellers in the market for their goods, even though the same is registered. Thus, in such circumstances, there would be no infringement.

Lastly, for passing off, it was held that no question of any deception and confusion arose as the defendants were selling their goods under word mark ‘VERONICA’ which was completely different from the plaintiff’s word mark ‘CHRISTIAN LOUBOUTIN’. Accordingly, the suit was dismissed for want of legal cause of action.

IV. Comments

This is perhaps the first Order/Judgment invoking Order XII, Rule 6 of the Civil Procedure Code, 1908, for dismissing a suit at the admission stage in a Trademark case even without issue of notice to the defendant/respondent. In all other cases involving Order XII Rule 6, it appears that it is only after notice to the defendants and after the defendants had joined the proceedings that the issue of admissions by either party had been raised and judgment on the basis of such admissions have been rendered.

In invoking Order XII, Rule 6, the Learned Judge had gone by the definition of “Mark” in Section 2(m) and “Trademark” in Section 2(zb). In addition, the Learned Judge has also relied on Section 10 & 30 (2)(a).

The plaintiff had relied on the judgment of the Division Bench of Delhi High Court in the case of Bright Enterprises Pvt. Ltd. However, the Learned Judge had distinguished this case on the basis that the said judgment was dealing with Order XIII-A of the CPC and not with Order XII, Rule 6. It is true that the decision in Bright Enterprises was a case under Order XIII-A wherein a suit was dismissed without issuing summons to the defendants. The Division Bench held that the Learned Single Judge could not have
dismissed the suit invoking Order XIII-A without issue of summons and without an application being filed by the respondents for a Summary Judgment.

Order XII relates to “Admissions”. Rule 6 thereunder, deals with the situation where a court may make such order or judgment as it may think fit, having regard to the admissions in the pleadings or otherwise. A perusal of the context of Order XII shows that it deals with admissions by any party to a suit. In this case, since the summons had not been issued to the defendants, the only admission on which Order XII, Rule 6 could be based is admission, if any, in the plaint. There is, obviously, no admission anywhere in the plaint that the impugned trademarks have been admitted to be not “Marks” or “Trademarks” as defined in Section 2(m) read with Section 2(zb) because the mark was a single colour mark, or that even if it was barred under section 9, it had acquired a distinctive character as a result of the use made of it.

Of course, there was a prayer in the plaint for recognizing it as a well-known trade mark. For, if such an admission were to be present in the pleading, the question of filing the plaint itself would not arise. Therefore, invoking Order XII, Rule 6 would appear to be incorrect and prima facie, open to challenge, and has been challenged before the division bench.

In Para 7 of the judgment, the Learned Judge had extracted Sections 2(m) and Section 2(zb). A discussion on these two definitions is at Para 8. The Learned Judge held that before a mark would become a trademark, it must be a “mark” which falls within the definition of Section 2(m). The Learned Judge then went on to conclude that the definition of “mark” uses the expression “combination of colours” with or without its combination with other ingredients like device, brand, label, ticket etc. Combination of colours is *sine qua non*, meaning thereby that obviously one single colour cannot be a mark. The Learned Judge accordingly held that a single colour cannot, under any circumstance, be given the benefit of an exclusively owned trademark.

The Learned Judge appears to have not noticed the word “includes” in Section 2(m). According to Section 2(m) “mark” *includes* a device,…, *combination of colours*, or........thereof. This inclusive definition has not been noticed and dealt with. It appears from the judgment that there was no submission by the plaintiff on the effect of the word “includes” in the said definition. Similarly, Section 2(zb) which defines trademark, also uses the words “*may include*...*combination of colours*...".
There is no doubt that the definition of the two terms—“mark” and “trademark”—are not exhaustive definitions. The general principle is that where a word is defined in an inclusive manner, the definition is prima facie extensive. So, the inclusion of “combination of colours” in the inclusive definition of “mark” cannot be prima-facie interpreted as excluding a single colour. The interpretation of the word “includes” and “may include” in these two sections is bound to be a major issue in the appeal before the Division Bench. While it is known that this judgment has been appealed against, the specific grounds taken are not known.

In this regard, the decision of the Hon’ble Supreme Court in the case of *Ramala Sahkari Chini Mills Ltd. v. Commissioner of Central Excise Meerut-I*, superscript 18 may be adverted to, where it has been held that the term ‘includes’ is generally used to expand the scope of the preceding terms. It is by way of extension and not with restriction.

Similarly, the Hon’ble Supreme Court in the case of *Regional Director, Employees’ State Insurance Corporation v High Land Coffee Works*, superscript 19 observed as under:

“The word ‘include’ in the statutory definition is generally used to enlarge the meaning of the preceding words and it is by way of extension, and not with restriction. The word ‘include’ is generally used in interpretation clauses in order to enlarge the meaning of words or phrases occurring in the body of the statute; and when it is so used, these words or phrases must be construed as comprehending, not only such things as they signify according to their natural import but also those things which the interpretation clause declares that they shall include.”

The Learned Single Judge has also distinguished the judgment in the case of the same plaintiff with another defendant Pawan Kumar on the ground that the said judgment did not consider the definitions in Sections 2(m) and 2(zb). It is true that in the decision dated 12.12.2017 involving Mr. Pawan Kumar and others as defendants despite service, no one appeared for defendants 1 to 3. Defendant Nos. 4 and 5 had filed their Written Statements but they also did not appear and all the defendants

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were proceeded ex-parte.

The Learned Single Judge had also distinguished the judgment in M/s. Deere & Co., on the same grounds. In addition to noting that sections 2(m) and 2(zb) have not been considered in the above two decisions, the Judge observed that these decisions will not have a binding effect because the overriding provision of section 30 (2)(a) has also not been discussed in these two judgments.

It may also be noted that another Learned Judge of the Hon’ble Delhi High Court in the case of Marico Ltd. v Mukesh Kumar & Ors.\(^\text{20}\) had held in paragraph 57, following the case of Colgate Palmolive Co. v Anchor Health and Beauty Care Pvt. Ltd.,\(^\text{21}\) that “another Coordinate Bench of this Court has held that colour in a trade dress can be so significant that in some cases even single colour can be taken to be a trademark…”

It may also be of interest to note the decision of the European Court of Justice (‘ECJ’) in Christian Louboutin v Van Haren Schoenen BV.\(^\text{22}\) This decision did not deal with the issue of whether a single colour can be a mark/trademark but rather whether it consists exclusively of the shape of the product under Art 3 (1) (e) (iii) of Directive 2008/95/EC. The ECJ held that a sign consisting of a colour applied to the sole of a high-heeled shoe does not consist exclusively of a ‘shape’ within the meaning of that provision. The ECJ’s decision is, therefore, not of much assistance here.

The Learned Single Judge had also relied on Section 30 (2)(a), for dismissing the suit at the admission stage, which reads as follows:

**30 (2) A registered trade mark is not infringed where –**

(a) *The use in relation to goods or services indicates the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of services or other characteristics of goods or services.*

This section postulates that the use of a registered trade mark in relation to goods,
inter-alia, to indicate the characteristics of the goods, is not an infringement. This aspect has been dealt with in Para 19 of the judgment. The Learned Judge had held that the characteristic(s) of the goods will include such functional aspects of the goods which would give an appeal or look to the product/goods. The Learned Judge went on to add that the red colour is applied for the purpose of appeal or for the look of the goods and hence it is a function which is non-trademark, and hence the use thereof by any other person would be covered under the exception. This is also relatively virgin territory, unlike other sub-sections of Section 30 where there exists body of case law. The Learned Judge concluded, “Without any material on record, the colour is only for appeal or looks.”

The Learned Judge had, therefore held that while by virtue of Proviso to Section 9 (1) and Section 32 the plaintiff can claim to be the owner of the trademark having red colour applied to the soles of the shoes, but by virtue of Section 30 (2)(a), other manufacturers/sellers are not prohibited from using the colour red on their footwear if the colour is serving a non-trademark function.

The Ld. Judge also negated the argument of the plaintiff that a single colour can be a trademark under section 10 (2) on the ground it has to be read in the context of section 10 (1) which uses the expression “combination of colours”, an expression used in the definitions of both “mark” and “trademark”.

These are very important aspects which could be decided only in a trial, based on evidence to be led by the parties to the suit. The conclusion that the application of a single colour is for the purpose of appeal or looks and has a non-trademark function, is on the basis of the Learned Judge’s view despite, prima-facie, agreeing with the plaintiff that even if the said mark is liable to be rejected under Section 9 dealing with absolute grounds for refusal of registration, it is still possible that a single colour is capable of acquiring distinctiveness, which is a triable issue. The negation is also on the ground that a single colour can never be a mark, and hence a trade mark. Therefore, a lot will depend on the appeal before the Division Bench on the inclusive definition of the two important terms “mark” and “trade mark”. In addition, the dismissal of the suit under Order XII, Rule 6, in limine, will also be an important point which is likely to go to the Hon’ble Supreme Court in case the Division Bench upholds the order of the Learned Single Judge.
This is an important judgment, wherein the Court examined the presence of a valid trade mark at the admission stage, before going into the issue of infringement. This is also the first judgment in India, which dealt with the issue of single colour being used as a trademark which has also held that the colour was used as a characteristic feature of the goods, i.e. serving a non-trademark purpose and hence would not be considered as an infringement.

On February 06, 2019, the Respondents entered appearance in the appeal before the Division Bench and requested for a short accommodation. While granting the same, the Division Bench ordered that the impugned judgment (May 25, 2018) of the learned Single Judge shall not be relied upon in other proceedings concerning Christian Louboutin i.e. the appellant. The order of February 06, 2019 was made absolute during the pendency of the proceedings on February 26, 2019, while disposing the appellant’s application for stay of the Learned Single Judge’s order. However, the Division bench of the Delhi HC by its order dated April 11, 2019 set aside the SJ order on the ground that admission under Order XII Rule 6 CPC could not have been adjudicated on the first date of hearing and that the SJ ought to have referred the matter to a larger bench since there was a contradictory SJ order.
SAFE HARBOUR IMMUNITY FOR INTERNET INTERMEDIARIES AND IP VIOLATIONS:
WHERE WE STAND TODAY AND THE WAY FORWARD?

Aditi Verma Thakur1 and Anju Srinivasan2

The Information Technology Act, 2000 (“IT Act”) and the Information Technology (Intermediaries Guidelines) Rules, 2011 (“Intermediaries Guidelines”) sets out a framework providing for conditional safe harbour immunity to internet intermediaries from being made liable for third-party Intellectual Property (“IP”) - infringing content. This article takes an objective look at the IP rights violations surrounding internet intermediaries and analyses the case laws where courts have interpreted the provisions of law concerning intermediaries’ liabilities for infringements in the cases of IP violations online, while transposing the principles of copyright, trademark and design infringements into the virtual space.

The Ministry of Electronics and Information Technology is currently in the process of amending the Intermediary Guidelines. A draft was released on December 2018 for comments from stakeholders and the public. The proposed amendments significantly alter the current framework vis-à-vis the process that should be followed by intermediaries to avail the conditional immunity made available to them. This article also takes a look at the implications that some of the proposed amendments would have on the intermediaries’ immunity from liabilities for infringements in the cases of IP violations online, and also suggests to remove the loopholes existing under the proposed framework.

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This article reflects the views of its authors only and should not be assumed to reflect the views of the firm.
I. **Introduction**

As internet intermediaries have become the checkpoint of online communication over the years throughout the world, their accountability regarding the content posted online through them has also become prominent. They attract liabilities for contributing to intellectual property rights violations, particularly copyright infringement.\(^2\)

The USA was the first country to adopt defences for internet intermediaries to avoid liabilities for contributory infringement in its copyright law. Under the Digital Millennium Copyright Act enacted in 1998 by the US Parliament, internet intermediaries can avoid liabilities provided they follow the notice and take-down procedures as prescribed under this law.

In India, the IT Act, 2000 established a legal framework that offered broad immunity or safe harbour to internet intermediaries from liability for illegal third-party content. The IT Act defines intermediary with respect to any particular electronic record as “any person who on behalf of another person receives, stores or transmits that record or provides any service with respect to that record, and includes telecom service providers, network service providers, internet service providers, web-hosting service providers, search engines, online payment sites, online-auction sites, online-market places and cyber cafes.”\(^3\)

Section 79 of the IT Act provides immunity to an internet intermediary from liability under all laws, provided the intermediary has not conspired, abetted, aided, or induced the commission of an unlawful act or upon receiving actual knowledge through any notification about a computer resource in the control of the intermediary being used for an unlawful act, and fails to expeditiously remove or disable access to that material. So, while Section 79 provides a defence to intermediaries in cases of IP violations, owing to its safe harbour nature, it also casts a duty upon them, especially upon online sites providing third-party digital content, to take suitable action against the infringing content, upon receiving the relevant information.\(^4\)

Considering that there has been a tremendous increase in online content transmission

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\(^2\) Title II, codified at 17 U.S.C. § 512, otherwise known as the Online Copyright Infringement Liability Limitation Act of the USA.

\(^3\) Section 2(w), The Information Technology Act, No. 21, Acts of Parliament, 2000.

\(^4\) *Id.* at Section 79.
through the World Wide Web, as well as a considerable rise in the number of e-commerce portals offering sale of third-party products, there has been a significant upsurge in online IP violation cases. Therefore, internet intermediaries are considered more and more accountable, and made parties in lawsuits concerning IP violations online.

In the recent past, a series of cases concerning IP violations have cropped up where internet intermediaries have been made parties for infringing content uploaded by third-parties. This article analyses the cases where intermediaries have been granted immunity under the safe harbour provision of Section 79 of the IT Act and where they have actually been held liable for infringements.

II. PROMINENT JUDGEMENTS IN IP MATTERS DISCUSSING SAFE HARBOUR IMMUNITY

A. MYSPACE INC. VS. SUPER CASSETTES INDUSTRIES LTD.\(^5\) (THE “MYSPACE CASE”):

The judgement in the Myspace case is one of the firsts that prominently dealt with the liability of internet intermediaries in a case of copyright infringement. Few noteworthy observations made in the Myspace case are listed below:

➢ Myspace was *a neutral online platform*, and it enabled users to freely exchange data *without* adding or contributing information on its own.

➢ An analysis of Section 79 of the IT Act provides that, in order to construe a valid claim, an intermediary should *be actually aware* of the infringing content, and that *the onus* of monitoring and conveying the infringing content is *on the original IP right owner*.

➢ Section 79 of the IT Act does not provide blanket immunity from liability to internet intermediaries. To impose liability on an intermediary, the conditions under Section 79 are required to be fulfilled, i.e., an intermediary *must have failed to take action* against infringing content upon receiving information for it to be liable under Section 79.

➢ The provisions of Section 79 of the IT Act, and Section 51(a)(ii) (that describes contributory copyright infringement) of the Indian Copyright Act,

\(^5\) Myspace Inc. v. Super Cassettes Industries Ltd., 2011 (48) PTC 49 (Del).
1957 are not inconsistent with each other, but are required to be read harmoniously.\textsuperscript{6}

\begin{itemize}
  \item Section 81 of the IT Act does not imply that the remedies under the Copyright Act and the Patent Act would completely out the applicability of Section 79 of the IT Act in cases of IP violations.\textsuperscript{7}
\end{itemize}

B. KR SYSTEMS LTD. VS. AMIT KOTAK & EBAY INDIA PVT. LTD.\textsuperscript{8} (THE “KENT RO CASE”):

In this case, the High Court of Delhi adopted the position of the Myspace case for a design infringement issue and held that an intermediary is not required to make a self-determination of infringing products sold on its website but is required to take down the same after a complaint is received from the original IP right owner.

The Delhi High Court opined that an intermediary will not be possessed with prowess to determine each case of design infringement, unless its attention is drawn to a particular instance.

C. FERMAT EDUCATION VS. SORTING HAT TECHNOLOGIES PVT. LTD. \textsuperscript{9} (THE “UNACADEMY CASE”):

Recently in the Fermat case, the High Court of Madras dealt with a copyright infringement dispute relating to educational materials uploaded online on an intermediary platform. Fermat Education offered an online course called ‘2IIM-CAT’ and exclusively owned the literary work in the same. Sorting Hat Technologies operated an online coaching platform ‘Unacademy’, on which third parties could upload study materials in literary and video modes and provide training to users of Unacademy. Fermat Education discovered blatant reproduction of their work on Unacademy and approached Sorting Hat Technologies to take down the same. However, the infringing content remained on the platform. The suit for infringement was filed by Fermat Education and subsequently, Sorting Hat Technologies was made liable for the violation.

The High Court of Madras was satisfied that a prima facie case was made out and thus,

\textsuperscript{6} See, Section 51, The Copyright Act, No. 14, Acts of Parliament, 1957 (explains ‘when copyright is infringed’).
\textsuperscript{7} See Information Technology Act, supra note 2, at Section 81, (provides for the Act to have overriding effect over other laws, except in case of IP violations).
\textsuperscript{8} Kent RO Systems Ltd. v. Amit Kotak & eBay India Pvt. Ltd., CS(COMM) 1655/2016.
granted an interim injunction against Sorting Hat Technologies and related parties.

It is noteworthy to mention that Sorting Hat Technologies had placed reliance on the case of Chancellor, Masters, & Scholars of the University of Oxford and Ors. vs. Rameshwari Photocopy Services and Anr.\(^\text{10}\) (the “University of Oxford case”) wherein the High Court of Delhi had held that reproduction by making photocopies of particular portions of books of various publishers and collating them into separate books for students, did not constitute infringement by Rameshwari Photocopy by virtue of a fair dealing provision under the Copyright Act.\(^\text{11}\) Rameshwari Photocopy operated a photocopy kiosk in the premises of the University of Delhi and made photocopies of the portions of the copyrighted works of international publishers, for educational purposes.

Sorting Hat Technologies claimed that its action came under fair dealings, was similar to Rameshwari Photocopy Services’ action as set out in the University of Oxford case and also sought exemption from liability as an intermediary. Fermat Education referred to the terms and conditions of Unacademy and contended that Sorting Hat Technologies cannot be categorised as an intermediary and cannot claim protection under the IT Act, as it regulated, and exercised considerable control over the nature of content on their online platform Unacademy.

The High Court of Madras concurred with Fermat Education’s stand and concluded that Sorting Hat Technologies is not an intermediary under the provisions of the IT Act. This was because, as per the terms and conditions of Unacademy, its users could create publishable content with the help of the software provided by Unacademy and publish the same only once approved thereby. Hence, Unacademy was not an intermediary as per the IT Act’s definition of intermediary, as it did not receive, store or remit publishable data on behalf of another person, but helped create and also approved the publishable data. On the fair dealing defence, the Madras High Court held that, what Sorting Hat Technologies was involved in was a commercial activity, as it paid consideration to educators who created and uploaded content on Unacademy and the fair dealing exemption was unavailable to them.

D. CHRISTIAN LOUBOUTIN SAS VS. NAKUL BAJAJ AND ORS.\(^\text{12}\) (THE “CHRISTIAN

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\(^\text{10}\) Chancellor, Masters, & Scholars of the University of Oxford and Ors. v. Rameshwari Photocopy Services and Anr, MIPR 2017 (1) 0039.

\(^\text{11}\) The Copyright Act, supra note 5 at Section 52(1)(i).

The Christian Louboutin case is a recent trademark infringement and passing off dispute, wherein it was noted that counterfeit products were listed on Nakul Bajaj’s website ‘Darveys.com’, using the image and the name of world-renowned fashion designer Mr. Christian Louboutin, who owns the international shoe brand under his name. It was alleged on behalf of Mr. Louboutin’s company that traffic was routed to the said website through the meta-tags “Christian” and “Louboutin”, and that the sale of the products on Darveys.com led consumers to believe that such products had originated from and were affiliated to the brand, Christian Louboutin. This resulted in trademark infringement, passing off and an infringement of the personality rights of Mr. Christian Louboutin. Nakul Bajaj defended his acts on Darveys.com by saying that they were not selling the infringing products but were merely enabling the booking of the orders placed by their customers through their online platform, and therefore, deserved immunity as an intermediary under Section 79.

The High Court of Delhi, after observing the terms of use of Darveys.com, concluded that it exercised complete control over the products being sold in so far as it was identifying the sellers, aiding the sellers actively, promoting the products and selling the products, which in turn accorded Darveys.com a more significant role than that of an intermediary. The High Court of Delhi stated that, “the obligation to observe due diligence, coupled with the intermediary guidelines which provides specifically that such due diligence also requires that the information which is hosted does not violate IP rights, shows that e-commerce platforms which actively conspire, abet or aide, or induce commission of unlawful acts on their website cannot go scot free.” Due to loopholes in its website’s terms of use, Darveys.com was directed to obtain certificates of genuineness of products from its sellers.

The High Court of Delhi also made the following noteworthy observations: “When e-commerce websites actively abet or aide in the commission of unlawful acts, it crosses the line from being an intermediary to an active participant. The activity in question would result in the trademark owner losing its customer base. If the products turned out to be counterfeit, the trademark owner’s brand equity would be diluted. The seller himself would not suffer. Such immunity is beyond what is contemplated to
intermediaries under the IT Act. They continue to remain intermediaries only as long as they are passive transmitters of records. Considering that Darveys.com represented the products being sold through its platform to be genuine while they are not, they could not be termed as an intermediary and be entitled to protection under the IT Act."

Like the Unacademy case, the Court took a strict interpretation in assessing whether Darveys.com was an intermediary as per the definition of the IT Act. Due to the way the owners managed the process of identifying and checking products being offered/sold at Darveys.com, it was not held to be an intermediary and refused the immunity granted to intermediaries under the IT Act.

III. Safe Harbour Immunity and Free Speech

By providing safe harbour immunity to internet intermediaries for unlawful content originating from third parties over which such intermediaries have limited to no control, the internet intermediaries have been given a reasonable defence in cases of online violations. The current legal framework which offers safe harbour immunities was championed as the “cornerstone of Internet freedom”; given its vital role in encouraging the development of Internet as a commercial and political resource.

A. Shreya Singhal vs. Union of India13 (The Shreya Singhal Case):

The Supreme Court of India in the landmark decision of the Shreya Singhal case highlighted the freedom of speech through the Internet, while laying emphasis on intermediary immunity under the IT Act.

In this case, the Supreme Court of India struck down Section 66A of the IT Act on grounds that it restricted online speech, was violative of freedom of speech and expression under the Constitution of India and wasn’t getting covered as a ‘reasonable restriction’ under Article 19 of the Constitution.14 Additionally, the Supreme Court also read down and interpreted Section 79(3)(b) to mean that an internet intermediary shall be made liable under Section 79 of the IT Act if upon receiving actual knowledge by way of a court order or on being notified by the appropriate government or its agency that unlawful acts relatable to Article 19(2) are going to be committed, and then fails to take

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13 Shreya Singhal v. Union of India, AIR 2015 SC 1523.
action against the material expeditiously.\textsuperscript{15} Thus, it was laid down that the actual knowledge referred to in this provision must be only through the medium of a court order or through an agency established by the government.

The Supreme Court’s reading down of Section 79(3)(b) of the IT Act in the manner mentioned above in the Shreya Singhal case, has been explained later to apply in cases relatable to Article 19, and definitely not to apply to the cases of infringement under the Indian Copyright Act, 1957.\textsuperscript{16}

\textbf{B. SABU MATHEW GEORGE VS. UNION OF INDIA\textsuperscript{17} (THE SABU MATHEW GEORGE CASE):}

The protection for intermediaries has also proven to be ripe for exploitation and fostering offending activities. This is the flipside of safe harbour immunities granted to intermediaries under the IT Act. It is for this reason that very often, internet intermediaries are called upon to be judicious themselves, to exercise their rationale in assessing information on their resource and to block offending or infringing content. This was also seen in the recent Sabu Mathew George case.

This was a writ petition by an activist for banning online advertisements (displayed through the search engines of Google, Yahoo and Microsoft) related to pre-natal sex determination, an offence under Preconception and Pre-natal Diagnostic Techniques (Prohibition of Sex Selection) Act, 1994 (the “PCPNDT Act”). The PCPNDT Act prohibits the detection of the gender of the child during the conception stage.

By this ruling, the Supreme Court, first of all, directed the Government of India to form a nodal agency to alert the intermediaries about any site that contained offending material so that the same could be blocked by the intermediary and be deemed inaccessible. Furthermore, the three intermediaries viz. Google, Yahoo and Microsoft, were directed to auto-block advertisements using their technologies containing specific words, that were in violation of the PCPNDT Act. Additionally, they were also directed to appoint internal expert committees to review and block content by themselves that could constitute offences under the PCPNDT Act.

\textsuperscript{15} See Information Technology Act, \textit{supra} note 2, at Section 79(3), (essentially lays down the requirement to be complied with for an intermediary, for not being made liable under Section 79(1) of the IT Act).

\textsuperscript{16} Myspace Inc. \textit{supra} note 4, at 49, 50.

\textsuperscript{17} Sabu Mathew George v. Union of India, [W.P. (C) No. 341/2008].
The intermediaries strongly argued that they can take action against the offending material once they receive intimation about it from the nodal officers, as is the requirement of law under Section 79(3)(b) of the IT Act. Another argument raised by the intermediaries was that blocking (whether upon receiving actual knowledge from the Government’s nodal agency or auto-blocking by their internal committees) of information generally on pre-natal diagnosis on the world wide web would violate freedom of speech and expression on this subject under Article 19(1)(a) of the Constitution of India, which includes the right to know, right to receive and right to access information or content. However, the Supreme Court noted that the freedom of speech under Article 19(1), which includes the right to know and right to receive information, cannot be violative of the provisions under the PCPNDT Act.

The directions under the Sabu Mathew George case seem to have gone beyond what has been provided in Section 79(3)(b) of the IT Act.

IV. Proposed Amendments to Information Technology Rules and IP Violations

The recent draft of the Information Technology [Intermediaries Guidelines (Amendment)] Rules, 2018 (the “Draft Amendment Rules”) issued by the Ministry of Electronics and IT for public comments and consideration, propose to amend the Information Technology (Intermediaries Guidelines) Rules, 2011 (the “Original Rules”). Among various amendments in the Draft Amendment Rules that have been proposed, two proposed amendments of the rule concerning due diligence to be followed by intermediaries are significant for IP violations.¹⁸

1) By way of the Draft Amendment Rules, the sub-rule that provided for intermediaries to take steps for disabling content upon acquiring actual knowledge by an affected person in writing or by an email digitally signed by him about infringement of IP rights or other offending actions specified in sub-rule 3(2) of the Rules, has been deleted; and a new sub-rule has been introduced whereby intermediaries are to take steps for disabling content upon acquiring actual knowledge in the form of a court order, or on being notified by the appropriate Government or its agency, for the content

constituting unlawful acts relatable to Article 19(2) of the Constitution.\textsuperscript{19} Other offending acts (apart from unlawful acts relatable to Article 19(2)), as specified in sub-rule 3(2) of the Rules, which include IP infringements, are beyond the scope of the new sub-rule. There is no other rule or sub-rule that provides for simply sending intimations to intermediaries about the above-mentioned actions, which are beyond the scope of the new sub-rule.

Indian courts have time and again recognized the fact that sending take down notices to intermediaries containing intimation about IP-infringing content and relevant IP rights should be sufficient for an intermediary to act on the notices, as it would be considered \textit{‘reasonable actual knowledge’} by them.\textsuperscript{20} However, the proposed amendment takes away an important right of IP owners, which would allow them to send take down notices to intermediaries, and have the infringing content disabled by intermediaries without any court or government order.

2) It has been proposed in the Draft Amendment Rules that an intermediary shall deploy technology based automated tools or appropriate mechanisms, with appropriate controls, for proactively identifying and removing or disabling public access to \textit{‘unlawful information or content’}.\textsuperscript{21} The proposed amendment fails to define the term \textit{‘unlawful information or content’}. As a matter of policy, while this may reinforce the trust that users place on intermediaries and their online platforms, it would be extremely challenging for intermediaries to assess and block any IP infringing material \textit{suo moto}, because creation and enforcement of IP rights could be subjective and technical in nature. The use of such automated tools will also arbitrarily, excessively and disproportionately pre-censor information and content, and have a detrimental effect of the right to freedom of speech.

V. \textbf{Concluding Remarks}

Since the MySpace case, many e-commerce companies have sought refuge under the safe

\textsuperscript{19} Rule 3(8), Information Technology [Intermediaries Guidelines (Amendment)] Rules, 2018.
\textsuperscript{20} Myspace Inc. \textit{supra} note 4; Kent RO Systems Ltd. \textit{supra} note 7.
\textsuperscript{21} Intermediaries Guidelines \textit{supra} note 19, at Rule 3(9).
harbour provisions under the current framework for IP violation cases. It was reasoned by the High Court of Delhi in the MySpace case that the provisions of the IT Act have been enacted keeping in mind, a digital economy and newer technologies, whereas the Copyright Act, on the other hand, was enacted solely for the purpose of protecting specific IP rights. The Court held that the only logical and harmonious manner to interpret the law would be to read them together.

As mentioned in the foregoing paragraphs, the MySpace case also clarified that in case of online IP violations, a notice has to be directed to intermediaries regarding the actual infringing content along with details of the IP rights in question; the infringing content should be removed within 36 hours of receiving the said notice by intermediaries. This is what was different from the standard set out in the older Shreya Singhal case, which required a court/ executive order for ‘actual knowledge’ to be constituted under Section 79.

The decisions in the recent cases, namely the Unacademy case and the Christian Louboutin case are a step forward for providing a clear distinction between “intermediaries” and “active participants”, and also in clarifying to what extent safe-harbour immunity under the current framework are available to websites like Unacademy and Darveys.com. These decisions are significant as they impose an absolute obligation on e-commerce websites and online marketplaces to structure their intermediary business appropriately, draw suitable website terms of use and policies, exercise due diligence as intermediaries and take action on infringement reports that they receive from IP owners, in order for them to make use of the benefits provided to them under the IT Act. In both the cases, the Courts have interpreted the provisions of law relating to intermediaries and transposed the principles of copyright and trademark infringements into the virtual space. The judgements serve caution to online businesses that render services relating to the hosting and provision of information online on behalf of others. The two judgments essentially classify “active participants” who will be considered the controller and manager of online content or data, as they determine the goal and the means of content creation or data processing. They hold a shared responsibility for data processing along with the creator/uploader of the data. For this reason, intermediary immunity in cases of IP violations cannot be invoked for active participants. The two rulings are significant for assessing liabilities of web-portals in
cases of IP violations online.

While the current framework provides that intermediaries are required to take action in cases of IP violations upon receiving actual knowledge from the IP owners, a contrary view that surfaces often is that intermediaries should be made to appoint a gatekeeper-like body for doing a preliminary check of the offending material uploaded on their platforms. Since surveillance on online data using technology is a model adopted by nearly every internet intermediary, intermediaries are able to track and to a limited extent, analyse the material uploaded on their resource using their technology features. This was observed and highlighted by the Supreme Court in the Sabu Mathew George case as well. This ruling along with the ruling in the Shreya Singhal case may have given a way to the legislating bodies to develop the law and the statutory provisions relating to internet intermediaries, which is clearly reflecting in the Draft Amendment Rules. Although the Draft Amendment Rules have been framed with the intention of curbing the misuse of online intermediaries, the loopholes in the current version need to be removed by bringing in more clarity in the language used, as the current version may have a far-reaching consequence in cases of online IP violations. The law should specifically clarify the current position of Section 79 and its applicability in cases of online IP infringements and violations.

Separately, intermediaries should also be defined under the IP laws, particularly under the Copyright Act, 1957, the Trade Marks Act, 1999, the Patents Act, 1970 and the Designs Act, 2000 as under the IT Act, and provisions must be introduced in such IP laws to clarify the scope of intermediary liability for IP violations specifically. The IP laws may also provide that the responsibilities of intermediaries for preventing online violations of IPs would be governed by the provisions of Section 79 of the IT Act.
DATA RIGHTS 2.0: SHIFTING SANDS OF USAGE RIGHTS IN USER-DATA

Abhinav Shrivastava

With the recognition of a right to privacy as a fundamental right, and the proposed introduction of a data protection regime recognizes the user’s right and interest to retain control over the processing of his/her information, the technology industry is placed at an inflexion point.

This article examines current practice with user-information and profile databases and the manner in which current law has facilitated the growth of opaque analytical and profiling practices and thereafter considers the likely impact that the proposed data protection regime would have on current aggregation and profiling practices with user-data.

The article also considers current value-models for technology enterprises, which are premised on user-data aggregation and assertions of database ownership, and projects the likely changes to such modelling that would be occasioned by the implementation of the proposed data protection regime.

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I. Introduction

Technology enterprises have long derived their enterprise value through their accumulation of user data and profiles – to the extent of user data being the principal strategic asset for pure tech/online enterprises such as Google and Facebook.¹

With user data driving value, business models and business processes within the ecosystem itself are geared towards acquiring users and accumulating data-banks of user-profiles with information ranging from names and contact information to browsing histories and spending patterns,² and with the advent of ‘Big Data’ analytical models, even mundane matters such as routines and habits.³

For example, purchases of milk through an online supermarket can be tracked to create a model for household consumption and drive suggestions and advertisements for milk at the opportune time as determined by the model. With the available storage and processing capacity levels, this can be replicated across product purchases and user-accounts.

With the increasing pervasiveness of mobile telephony and wearables, even unit level experiential user data such as moods, interactions and physical/intellectual activities,⁴ is capable of collection and profiling. For example, with real-time geo-positioning data tracking, having similar travel patterns or having two devices in close proximity for an extended period, may cue a social media platform to suggest introducing the profiles associated with each device into their respective networks.

A favourable ecosystem with limited legal impediments and oversight has allowed for greater expansion of both the quantum and the quality of user-data undergoing collection and processing, and facilitated assertions of ownership by the data processor based on notions of authorship and reduction to a tangible form under intellectual

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property laws. However, such practices stand to conflict with the user-centric approach and grant of greater autonomy and determinative rights to an individual user in relation to his/her personal information proposed by the new privacy and data protection regulatory paradigm.\(^5\)

This article seeks to examine this potential scenario and address the question of how the current intellectual property regime would be reconciled with the emerging framework of privacy and informational self-determination in the matter of user-data.

II. **User-Data rights in the current legal framework**

The intellectual property rights framework has long recognised propriety rights in databases within the scheme of copyright, particularly in the case of customer-lists.\(^6\) Even with the shifting of the Indian legal position on copyrightable content from ‘time and effort’ to ‘exercise of skill and judgement’ as the determinative standard,\(^7\) as the expectation of judgment to qualify for copyrightability has been kept to a ‘minimal level of creativity,’\(^8\) databases continue to be copyrightable if their compilation involves some amount of intellectual effort evident in the manner of selection, co-ordination and arrangement of underlying data.\(^9\)

As copyright is designed to determine and assign ownership in creations and work products,\(^10\) such recognition attributes ownership and title in the database or compilation to the entity that creates the database, either by collating the information itself or commissioning its compilation, i.e., the data-controller.

In the case of user-databases, with the range of behavioural and interactional information undergoing collection across multiple touch-points, the act of processing and reducing this information into a user-profile requires the expending of intellectual effort in selecting information for inclusion and rendering the raw-data into a form that

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\(^8\) *Id.* at ¶ 34.

\(^9\) *Id.* at ¶ 38.

suits the analytical purposes and ends of the data-controller. In this manner, the act of processing the data serves to satisfy the minimum level of creativity expected for copyrightability and serves to support claims of copyright in the user-database.

Also, the collection of behavioural information itself involves the observation of user conduct and its reduction into machine-readable form, where reduction itself involves analysing and drawing inferences from the conduct to create a record that is distinguishable from the underlying observed behaviour. Thus, the record itself stands to be copyrightable with ownership attributed to the creator (i.e. the data-controller) of the same.

In contrast to the copyright framework, the current rights framework on privacy and data protection is fairly rudimentary and lacks clarity on the assertible rights of the data provider. A data provider’s privacy rights and expectations against private (non-state) actors are currently defined by the rules prescribed under the Information Technology Act, 2000 (“IT Act”). These rules are contextually placed within liability safe-harbours provided under the IT Act to processors of sensitive personal data and intermediaries, and are limited in ambit, to information of a sensitive nature concerning an individual, i.e. information such as passwords, financial information and medical records.

Within these constraints, the rules seek to implement norms of consent and disclosure for the collection, use and transfer of sensitive personal information, and generally an obligation to maintain a privacy policy with disclosures on the nature and purpose of collection of personal information by a user-data processor. Even in this matter, the rules limit personal information to information that identifies an individual, leaving behavioural information or derivative data outside of this purpose disclosure requirement.

While these norms were intended to provide procedural safeguards in the matter of the

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13 Id. at Section 43A, ; Rule 3, Information Technology (Reasonable Security Practices and Procedures And Sensitive Personal Data Or Information) Rules, 2011.
16 Rule 2(i), Information Technology (Reasonable security practices and procedures and sensitive personal data or information) Rules, 2011.
collection, use and disclosure of personal and sensitive personal information, and thereby grant greater oversight and some control to a data-provider in relation to his/her personal and sensitive personal information, in the absence of an umbrella data protection regime, these norms were reduced to the practice of drafting wide purpose declarations and obtaining widely framed user consents for current and potential uses.

The cumulative effect of having a mature and defined copyright framework with ownership attribution to the data-controller, and a rudimentary consent-and-disclosure mandate that is limited to sensitive personal information, is that data-controllers are effectively able to collect and aggregate personal data to create user profile databases independent of user-preference or expectation of privacy, and engage in unrestricted unit-level and mingled user-data processing and analytics for insight and derivative data generation.

### III. Evolving Privacy Norms and Their Impact on the Current Legal Framework

The right of privacy has historically been an under-served right within Indian jurisprudence, with it recognition limited to a right against intrusive or excessive surveillance by State agencies, and a right to seek damages for unjustified invasions of one’s private space. These pronouncements have symptomatically addressed intrusions into a person’s expected private sphere, but avoided the subject to the ambit of the private sphere and the actionable rights exercisable by a person in relation to his/her person and personal information.

This matter was finally addressed by the Supreme Court in the case of Justice K.S. Puttaswamy (Retd.) v. the Union of India, where the Court definitely found the right to privacy to be fundamental right under Article 21 (Right to Life) of the Constitution.

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21 Justice K.S. Puttaswamy (Retd.) v. the Union of India, WP Civil No. 494 of 2012.
22 *Id.* at 262.
The Court defined the right of privacy as the reservation of a private space for the individual comprising of those intimate matters over which the individual has an expectation of privacy, these intimate matters have been worded in terms of aspects of personality such as thoughts, beliefs, preferences and behavioural patterns which are personal to the individual.

In the context of the informational age, with its ability to track and aggregate user conduct to create user-profiles that detail interests, habits and preferences, the Court also recognised an individual’s right and interest in protecting his/her identity, and thereby determine access and use of his/her personal information. Proceeding from such recognition, the Court also directed the State to put in place a robust legal regime and framework designed to secure an individual’s right of privacy and informational determination, with due regard to the: (i) centrality of consent and (ii) non-discriminatory data processing.

In line with the Supreme Court’s direction, both the State appointed Committee of Experts chaired by Justice B.N Srikrishna and the Telecom Regulatory Authority of India presented their reports and recommendations on the core principles and proposed structure of a Data Protection Regime in India. The Report of the Committee of Experts (“CoE Report”) is wider in scope and provides recommendations and a draft bill for a Data Protection statute applicable across industries, while the Telecom Regulatory Authority of India’s Recommendations (“TRAI Recommendations”) seek to provide telecom sector-specific recommendations to secure a user’s privacy expectation.

The CoE Report fundamentally recasts the relationship between the data provider and the data collector by rendering the data-provider as a data principal and the data-controller as the data-fiduciary in relation to the provider’s personal information. In essence, this reorders the role of the data-controller from an entity in control of the personal information to an entity that holds the information in trust for the data

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23 Id. at 263.
24 Id. at 242-43.
25 Id. at 252.
26 Id. at 252-254.
27 Id. at 252.
29 COMMITTEE OF EXPERTS, supra note 5 at 7,8.
provider, and impliedly attributes to the data provider the right to determine the manner in which his/her personal information may be held and processed. The use of principal-fiduciary in referring to the relationship also attributes a duty of care, and probity of a higher degree than an ordinary contractual relationship.

With respect to the ambit of ‘personal information’, the CoE Report places identifiability as the determinative means of categorisation, with any information that serves to identify an individual, either by itself or in association with other information, comprising of such person’s ‘personal information’. Thus, alongside the name of the individual, information such as his/her contact information, registration and identification numbers, online avatar name(s), profile code (whether internally employed or publicly assigned) and records containing personal information (like birth certificate, mark-sheets and educational qualification certificates) would also qualify, as they can be employed to trace the identity of the individual.

Proceeding from the paradigm of the data-provider being the data-principal in relation to his/her personal information, the CoE Report proceeds to place consent as the primary means of undertaking the collection and processing of personal information, with the added qualification of it being free and informed, specific to the purpose and capable of being withdrawn. The CoE Report also vests the data-provider with continuing rights in the manner of processing of his/her personal information, including the right to withdraw consent or any specific part of the consent granted for processing of personal information.

Alongside affirmative user rights, the CoE Report recommends purpose limited processing and data-minimisation, norms of fair and transparent processing in relation to personal information, and mandates the ceasing of processing on withdrawal of consent by data-processors. The CoE Report also stresses on

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30 Id. at 8.
31 Id. at 27, 28.
32 Id.
33 Id. at 36, 37.
34 ‘Purpose limited processing’ mandates that any processing of personal information be limited to activities and purposes for which the user has granted consent and purposes allied to the same, and any further processing be undertaking only with additional consent for such purpose; ‘Data-minimisation’ is the principle that the collection of personal data be limited only such information that is strictly necessary to achieve the purpose for which consent is granted, and no extraneous information be collected under such consent.; Id. at 52, 53.
35 Id. at 51, 52, 58, 59.
36 Id. at 36, 37, 42.
anonymisation and irreversible de-identification of data to continue processing and analytical modelling after the completion of the consented purposes or withdrawal of user-consent.\footnote{Anonymisation’ and ‘irreversible de-identification’ are practices where records containing non-personal information like purchase history and ‘likes’/preferences data are de-linked from the underlying individual by irretrievably expunging any personal information or information that allows for linkage with a person from such record.; \textit{Id.} at 56, 57.}

While the CoE Report reorders the relationship between the data-provider and data-collector/processor and prescribes usage-controls and limitations on data-processors, it leaves the question of ownership of the record open and unaddressed. The TRAI Recommendations, while building on the Committee of Experts’ thoughts and recommendations on the subject, espouse similar principles on purpose limited and consent-based processing and anonymisation of data,\footnote{Telecom Regulatory Authority of India \textit{supra} note 28 at14,15, 25, 30-34.} but more importantly, they also attribute the ownership of personal data to the data-provider with the data-controller rendered as custodian of data without any primary proprietary rights over personal data.\footnote{\textit{Id.} at 15.}

The CoE Report and TRAI Recommendations emerged out of extensive consultation and provide substance to the right of privacy recognised by the Supreme Court. They represent the likely formulation of a privacy and data protection regime for India. As these recommendations strike at the fundamental relationship between a data processor and data-provider, their implementation will materially impact the conventional practice amongst data-controllers.

\section*{IV. Conclusion: Impact of the Proposed Data Protection Regime}

The intellectual property rights regime is concerned with determining ownership, with usage rights flowing from such ownership. However, the proposed data protection regime is designed to apply usage limitations housed in the consent framework, immaterial of ownership over the underlying record.

While current practice on user-data aggregation and processing has flourished within the rudimentary data protection regime prescribed by law and the favourable and mature intellectual property framework, this stands to materially change with the introduction of a user-centric and user-consent driven data protection regime as an
The addition of purpose-limited data processing and reordering of the relationship of the data provider and data controller along the lines of a principal-fiduciary relationship also strike at the practice of wide-ranging data collection and aggregation and make the data-controller responsible for disclosing the purpose of collection of each data-stream and remaining transparent about these purposes.

While the CoE Report has stayed away from determining ownership, the TRAI Recommendations have specifically sought to attribute non-transferrable and non-assignable ownership, in the record of personal information to the data-provider. Such attribution of ownership with the user-data provider would effectively override current convention and lead to a delineation of ownership rights in the profile record, i.e. with personal data ownership resting with the data-provider and any non-personal profile data resting with the data-processor. For example, taking the example of milk purchase record analytics used on the first page of this article, the delineation of ownership rights in the user profile record would leave the data-processor as the owner of analytical profile generated from milk purchase transactions and the data-provider as the owner of the name and identifying information contained in the user profile.

The cumulative effect of the proposed usage and processing constraints on user-data will be a recasting of the attributable value of a user-database and a fundamental shift in the value attribution of enterprises that rely on user-data, such as technology enterprises and advertisers.

With the introduction of norms on consent-based processing and purpose-limited usage, the presence of continuing engagement with a user will remain key to retaining the right to process user data and understand the user better – making (daily) active user engagement a more relevant and legally tenable value driver than user-data aggregation and the building of profile databases. In the scheme of interlaced ownership and usage rights, it would render the retention of processing rights stemming from user consent and engagement as having greater value and utility than assertions of copyright over records of user-profiles and user-data.
DOES TRADE IN DISEMBODIED KNOWLEDGE PROMOTE TRADE IN GOODS?

- SOME EMPIRICAL EVIDENCE FOR MIDDLE-INCOME COUNTRIES AFTER THE TRIPS AGREEMENT

Sami Rezgui

ABSTRACT
Many studies have theoretically and empirically investigated the impact of Intellectual Property Rights (“IPR”) strengthening on high-tech exports from developed to developing countries. However, little empirical research has addressed the question of the impact of IPR reform on export promotion notably in middle-income countries. This paper tries to fill that gap. It examines the empirical link between IPR strengthening, disembodied knowledge demand, and export promotion by estimating a simultaneous equation model (“SEM”). The results obtained confirm the significant impact of IPR reform in middle-income countries on their demand of disembodied knowledge measured by payments for Intellectual Property (“IP”) use. These results also illustrate the positive impact of IP use on export promotion in these countries despite complex mechanisms underlying access to the international market for technology.

Keywords: Disembodied Knowledge, Intellectual Property Rights, Licensing, and North-South Trade.

JEL Codes: F14, O33, O34

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I. INTRODUCTION

The TRIPS Agreement has defined the minimum standards of regulation of IP that all developing countries are called to comply with. Despite constraints and costs imposed by stronger IPR regulation, several studies have proposed to evaluate its contribution in terms of innovation, economic growth and development for these countries.\(^1\) However, while benefits of IPR strengthening in developing countries are expected in the long run, medium-term impact on technological capabilities of these countries is nonetheless to be proven.\(^2\)

On the other hand, it is often considered that international diffusion of technology can play a role in improving technological capabilities of developing countries provided that IPRs are strengthened. Knowledge dissemination channels that are assumed to have a positive effect on technological capabilities are mainly international trade, foreign direct investment ("FDI") inflows and use of IP.

Wide empirical literature offers converging estimates of the positive impact of IPRs on trade. Under the assumption that the market expansion effect dominates the monopoly power effect,\(^3\) international dissemination of knowledge can be achieved through technology embodied in tradable goods. In this regard, several studies confirm the impact of IPRs strengthening on knowledge intensive exports to developing countries.\(^4\)

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3 Helpman and Krugman (1985) distinguished two effects of IPRs on trade: the first one is a monopoly power effect explained by restrictions on export supply due to the risk of imitation. The second one is a market expansion effect. This effect is explained by innovative firms willingness to increase their exports to countries where IPRs strengthening reduces imitation. Deardorff (1992) argued that the market expansion effect is more likely when IPRs are strengthened. Indeed, stronger IPRs stimulate innovation in Northern countries that meet the specific needs of consumers in the South. This favours export flows to southern countries.

4 Keith E. Maskus & Mohan Penubarti, How trade-related are intellectual property rights?, 39, Journal Of
However, empirical researches on the impact of IPRs strengthening on exports originating from developing countries are comparatively few.\textsuperscript{5} To conclude, IPRs do not have direct effects on developing countries’ exports. However, they suggest that IPRs could have an indirect effect on exports when innovation capabilities of these countries improve. Shin and al. are more explicit about the influence of IPRs on developing countries’ exports.\textsuperscript{6} The authors show that the IPR gap between developed and developing countries affects exports from the latter to the former. Indeed, exports from developing countries would be even smaller when the IPR gap between these countries and developed importing countries is large. Hence, the IPR gap would become a "regulatory" barrier to trade.

Dissemination of technological knowledge through FDI has been also examined in several studies within the IPR framework. Mansfield considers that weak IPRs protection limits the transfer of sophisticated technologies by multinational firms.\textsuperscript{7} For transition countries, Javorcik shows that multinational firms choose between producing in those countries and simply distributing goods according to the strengthening of IPR.\textsuperscript{8} McCalman proposes to examine how the IP system can lead to a trade-off between arm's length licensing and FDI.\textsuperscript{9} By highlighting a non-monolithic relationship between IPRs and FDI, McCalman concludes that the choice of subsidiary creation is predominant when intellectual property regimes are either strong or weak. Licensing is the

\textsuperscript{5} Walter G. Park & Douglas Lippoldt, The Impact Of Trade-Related Intellectual Property Rights On Trade And Foreign Direct Investment In Developing Countries, TD/TC/WP(2002)42/ Final, OECD.
\textsuperscript{6} Wonkyu Shin et al, When an Importer's Protection of IPR Interacts with an Exporter's Level of Technology: Comparing the Impacts of the Exports of the North and South, 39(6), THE WORLD ECONOMY, 772-802 (2016).
\textsuperscript{7} Edwin Mansfield, INTELLECTUAL PROPERTY PROTECTION, FOREIGN DIRECT INVESTMENT, AND TECHNOLOGY TRANSFER (1994).
alternative chosen only when a moderate protection of intellectual property is observable.

Based on a North-South model, Branstetter and al. assume that IPR reforms in Southern countries induce production transfer from the North to the South through FDI.10 This transfer leads to a reallocation of resources towards research and development ("R&D") and innovation activities in the North. At the same time, a “production shifting” takes place. Some productive activities cease in Northern countries and begin to develop in the South.

Southern countries then end up exporting goods that are no longer produced in the North. For the authors, gains from inward FDI following IPR reform in the South do more than offset losses due to the decrease of imitation opportunities in these countries.11

This paper supports the idea that IPR reform and enforcement increase possibilities of access to disembodied knowledge. Unlike technological knowledge embodied in tradable goods, disembodied knowledge is defined by blueprints, patents, collaborative R&D services and other technical services, which are not directly incorporated into goods. These forms of disembodied knowledge are tradable on the market for technology. Licensing agreements correspond to a particular form of disembodied knowledge traded on this market. The definition adopted in this work is therefore consistent with the one proposed by Arora and al.12

The idea supported in this research also relies on statistical evidence. Indeed, access to disembodied knowledge has become widespread after the TRIPS agreement as evidenced by the increase of payments for IP use. These payments grew by an average

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11 In the absence of any IPRs reform in Southern countries, these countries would rely mainly on imitation to produce goods that they could not export especially to Northern countries due to IP infringement. However, as Southern countries reform their IP systems, they could attract more FDI and their production could be legally exported to the North.

12 The definition proposed by the authors is closed to the definition of market for technology proposed by the U.S Department of Justice in the Antitrust Guidelines for the Licensing of Intellectual Property. See, Ashish Arora, Andrea Fosfuri, & Thomas Roende, Managing Licensing in a Market for Technology (National Bureau of Economic Research, Cambridge MA, working paper no. 18203, 2012).
of 12% over the 1995-2015 periods, rising from 99.3 to 961.2 billion of U.S dollars.

However, while access of middle-income countries to disembodied knowledge has grown since the TRIPS agreement, this access remains limited as shown in Table 1. A larger access of these countries is conditional on further IPR reforms to be undertaken, particularly with regard to patent rights. Moreover, middle-income countries would be able to bridge their technological gap through IP use to the extent that IPRs are enforced.

Table 1: Patent Right Index (PRI) and payments for IP use before and after the TRIPS agreement: classification by income groups (121 countries).

<table>
<thead>
<tr>
<th>Income groups***</th>
<th>PRI index* (mean)</th>
<th>Use of IP ** (payments share, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High income</td>
<td>2.33</td>
<td>2.84</td>
</tr>
<tr>
<td>Upper middle income</td>
<td>1.56</td>
<td>1.65</td>
</tr>
<tr>
<td>Lower middle income</td>
<td>1.16</td>
<td>1.41</td>
</tr>
<tr>
<td>Low income</td>
<td>1.41</td>
<td>1.66</td>
</tr>
</tbody>
</table>

*Ginarte and Park index ** IMF (BoP) *** World Bank classification

This paper also suggests that use of IP by these countries would increase their exports, which would place them on a higher growth path. Far from recommending a disengagement from R&D and local innovation activities, use of IP and notably licensing contracts would be an appropriate choice if it avoids waste of R&D resources on technological fields where it is difficult to invent around. Moreover, to the extent that strengthening of IPRs is unavoidable in the context of free trade agreements, use of IP offers an opportunity to reduce technological asymmetry vis-à-vis developed trading partners. Finally, use of IP could be a solution to the middle-income trap, that some Two major studies have focused on the middle-income trap problem in recent periods. This research refers to
middle-income countries are experiencing in recent periods.

Before examining the viability of IP use for development purposes, it is firstly important to deepen mechanisms underpinning the functioning of the market for technology. Theoretical foundations to the relationship between IPRs, use of IP, and export promotion will be then exposed (Section 1). Starting from empirically estimable forms, econometric investigations will be realized as part of an econometric protocol adapted to the estimation of simultaneous equations (Section 2). Thereafter, conclusions will follow.

II. SECTION 1: THE MARKET FOR TECHNOLOGY AND THE PROMOTION OF INTERNATIONAL TRADE IN GOODS: THEORETICAL LITERATURE.

Despite the increase in value of transactions on international market for technology ("MfT"), statistics relating to these transactions must be interpreted with some caution. Indeed, these statistics often provide an aggregated estimate of disembodied knowledge. This concerns, notably, those available in the World Development Indicators ("WDI") database where fees and royalties paid or received relate indiscriminately to licensing contracts, trademark, copyright, industrial processes, etc.\(^{14}\)

Moreover, as an important component of disembodied knowledge traded on MfT, licensing transactions deserve a careful interpretation. In fact, even if an overall evaluation of these transactions is available, such an evaluation gives no idea about individual prices of licenses, number of licensing agreements concluded, and conditions under which these licenses have been negotiated. Yet, such details are crucial for at least two reasons. First, they allow us to better appreciate the possibilities of access to the definition proposed by Paus (2017). According to the author, The middle income trap captures "a situation where a middle income country can no longer compete internationally in standardized labour-intensive goods because wages are relatively too high, but it can also not compete in higher value added activities on a broad enough scale because productivity is relatively too low. The result is slow growth and less potential for rising living standards for more people". See, Indermit S. Gill & Homi Kharas, H. The Middle-Income Trap Turns Ten (World Bank Group, Policy Research Working Paper no. 7403, 2015). See also, Eva Paus, Escaping The Middle-Income Trap: Innovate or Perish (ADBI Working Paper Series no. 685, 2017).

\(^{14}\) Without a distributional key, it is difficult to have accurate information on the value of transactions specific to licensing contracts. Note also that even if other databases allow to get disaggregated data, they are often limited to disembodied knowledge traded between developed countries (OECD's Technology Balance of Payments; Survey of Current Business, U.S Department of Commerce) and large companies (Thomson Financial SDC Platinum database).
licenses. Second, they can mostly provide relevant insights on the functioning and efficiency of the market for licenses (1). It would be also useful to identify factors that determine supply and demand of licenses (1.2). Finally, with respect to the interest of this work, it is to see whether use of IP and particularly licensing agreements promote export in developing countries (1.3). To analyze these different points, a review of related theoretical literature is necessary.

1.1 The functioning of the market for licenses: theoretical observations. In a broader context, K. Arrow provided main reasons of the imperfection of markets dealing with exchange of information. These reasons essentially revolve around the collective good character of information. However, Caves argued that the institutional approach initiated by Williamson proposes more decisive explanations for understanding the limits of contractual relationships when it comes to licensing contracts. The basic idea that stems from this approach is to highlight the difficulty of contractual relations between agents likely to adopt opportunistic behaviors. When such behaviors are predominant, agents organize their activities in the context of contractual relations in order to avoid transaction costs. This situation reflects in itself a problem of market imperfections.

Regarding licensing contracts, Arora considers that these contracts may raise a double moral hazard problem. Knowing that knowledge transferred by a licensor to a licensee relates to codified knowledge and tacit knowledge, opportunistic behaviors adopted by both agents are specific to tacit knowledge. Indeed, the licensor may be tempted not to reveal all the tacit knowledge. For its part, the licensee may be tempted to downplay the importance of tacit knowledge he has received. This situation increases the complexity

17 Tacit knowledge is the most intangible form of knowledge which may take the form of rules of thumb, or heuristics. It may concretely consist of technical assistance or a sharing of licensor's cumulative experience on the use of a technology]. See, Ashish Arora, Contracting for Tacit Knowledge: The Provision of Technical Services in Technology Licensing Contracts, 50, JOURNAL OF DEVELOPMENT ECONOMICS, 233-256 (1996).
of contractual relationships between licensors and licensees and raises problems of licensing contract enforcement.

More recently, Gans and Stern proposed to analyse the efficiency of the MfT referring to three market efficiency criteria established by Roth.\(^\text{18}\) These criteria are market thickness, lack of congestion and market safety. For the authors, the more complementary are innovative ideas available on MfT, the greater will be the number of potential users of these ideas. This would increase transactions on innovative ideas and contribute to the thickness of the market for ideas. However, market thickness could be compromised when hold-up problems exist or if the renewal of innovative ideas is so fast that it would prevent potential users from evaluating them at their right price.

MfT may also experience low efficiency if transactions on innovative ideas face congestion problems. These problems are essentially related to the rival use of those ideas.\(^\text{19}\) Knowing that the value of an innovative idea depreciates if it is used by many potential users, the best choice for the seller of such an idea is to negotiate it in secret and with only one potential user. Therefore, congestion problems lead to restricting access to innovative ideas. For Gans and Stern, while exclusive contracts are optimal private solutions, they are, nonetheless, socially inefficient. Indeed, exclusive contracts prevent multilateral negotiation of innovative ideas that can bring their price at an optimum level.

Efficiency of MfT also depends on security of transactions involving innovative ideas. Security of transactions requires a rigorous control on ideas reproduction. If reproduction is realized at a lower cost, the supplier of an innovative idea may lose control on its future sale and use. This risk is even more likely when the supplier is not able to discern between potential buyers of its idea, i.e., those who will reproduce it and those who will not. Such a situation could also have an impact on the pricing of ideas.\(^\text{20}\)


\(^{19}\) Rival use of ideas must be distinguished from non-rival access to ideas.

\(^{20}\) Given the risk of reproduction, the supplier of the original idea is tempted to increase its price. However, with higher prices, the original idea may not be sold. The setting of a low price does not solve the problem too because it induces strong competition between users of the same idea. Ultimately, reproducing original ideas
Finally, Gans and Stern conclude that a safe MfT is only possible if institutional guarantees are offered to producers of innovative ideas. These guarantees mainly concern IPR protection.

1.2 Supply and demand of licenses.

It would be evident to consider that innovators accept to sell licenses because they are mostly motivated by the benefit of royalties. Yet, whether the innovator is himself producer or non-producer of goods incorporating his invention, sale of licenses often results from other strategic choices. Indeed, licenses supply is sometimes determined by the choice of an innovator (producer of goods) to discourage entry of new competitors on the market.\textsuperscript{21} Licensing may also be selective as it sometimes involves only minor innovations.\textsuperscript{22}

However, for innovators who are non-producers of final goods, offering technology licenses is almost systematic. The aim of these innovators, called technology specialists, is to avoid two types of risks: a risk of contracts established to get additional assets (such as production and marketing) and a risk of sunk costs on investments in such complementary assets.\textsuperscript{23} Rockett states that some innovators grant licenses to previously selected potential competitors.\textsuperscript{24} Targeting of potential licensees is made such that once the patent expires; the innovator will find himself faced with weak competitors that he would be able to dominate. In another context, Arora and Fosfuri highlighted the limits of the innovation monopoly model.\textsuperscript{25} For the authors, licensing is a strategic choice when several firms hold substitutable technologies.\textsuperscript{26} Moreover, Arora considers that the

\textsuperscript{24} Katharine Rockett, The Quality of Licensed Technology, 8, INTERNATIONAL JOURNAL OF INDUSTRIAL ORGANIZATION, 559-574 (1990).
\textsuperscript{25} Model supported by Teece (1986).
\textsuperscript{26} Taking into account the two effects of income and dissipation of profits related to licensing, the authors show that when the number of innovative firms is greater than two, dissipation of profits induced by licensing is collectively better internalized.
supply of licenses would be the result of an arbitrage between income from royalties and income from the production of final goods.\footnote{27} According to the authors, granting of licenses would depend essentially on the choice of the innovative firm’s management between centralizing and decentralizing licensing decisions.\footnote{28}

Regarding the demand for licenses, Arora and Gambardella consider that this demand is not systematic.\footnote{29} Indeed, use of externally developed technologies may be limited by the ‘not invented here’ (‘NIH’) syndrome. Hence, a limited recourse to licenses could be explained by the firm’s willingness to better manage internally the R&D, production and marketing interfaces. This is particularly the case for developed countries.

The nature of absorptive capacities is another factor determining demand for licenses. As underlined by Arora and Gambardella, absorptive capacities could be either capacities of utilization or capacities of evaluation of technology.\footnote{30} Capacities of utilization could be defined as the firm’s ability to produce through the acquired technology, whereas capacities of evaluation would refer to firm’s ability to predict the contribution of the technology to be acquired. For developing countries, demand for licenses will be all the more important as their capacities of utilization (production and marketing) grows. Moreover, since capacities of evaluation in these countries are comparatively lower than those available in the developed world, this would explain their greater dependence on licensing.

### 1.3 Licences access and developing countries export promotion.

The above analysis shows that access to and use of licenses are mainly conditioned by the strengthening of IPRs and by absorptive capacities. In addition, there is still

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\footnote{27}{Ashish Arora et al, supra Note 13.}
\footnote{28}{Arora et al analyzed the agency problem affecting the relationship between top management of the firm (centralized unit) and the production unit (decentralized unit). In one hand, top management of the firm is tempted to centralize licensing decision to maximize royalties. On the other hand, the production unit, which is better informed about opportunities and threats of licensing, could have an aversion for this choice. Such aversion is justified by the risk of declining income from production of final goods as a result of intensified competition. Thus, the authors conclude that decentralization of licensing decisions could reduce the supply of licenses.}
\footnote{29}{Ashish Arora, & Alfonso Gambardella, Ideas For Rent: An Overview of Markets for Technology, 19(3), INDUSTRIAL AND CORPORATE CHANGE, 775-803 (2010).}
reluctance to grant licenses to potential competitors on the market for final goods. In this respect, Razgaitis indicates that only 25% of technologies pave the way for licenses negotiation and that conclusion of definitive agreements concerns only 3% of those technologies.\textsuperscript{31}

Given these multiple constraints, there is reason to question conditions and opportunity for developing countries to access licenses. The first necessary condition is IPRs strengthening in these countries. For Maskus, stronger IPRs could be a vector for development, particularly through imports of high-tech goods.\textsuperscript{32} However, the question is to what extent strengthening IPR in developing countries facilitates their access to licenses while enabling them to enhance their export capacities. Yang and Maskus offer relevant theoretical insight on this point.\textsuperscript{33}

In a North-South model, Yang and Maskus define variables explaining innovation efforts in the North and specify factors affecting Northern countries decision for selling licenses to Southern countries. Licensing is explained by variables defined in structural form \([1]\):

\[ n = f(L_N, L_S, a_L, a_L(k, G), \delta(k, C)) \tag{1} \]

Variable \(n\) corresponds to the number of licenses granted to Southern firms. Labour factor endowments in Northern and Southern countries, respectively denoted \(L_N\) et \(L_S\), play a particular role. Indeed, if \(L_S\) is high, this would imply low wages in the South, which justifies the production of final goods in these countries.\textsuperscript{34} Condition on wages is nevertheless insufficient because production in the South can only be realized if Northern firms accept the granting of licenses.

According to the authors, granting of licenses by Northern firms to Southern ones depends on the cost of innovation, the cost of licensing \(a_L(k, G)\) and the sharing of rents between licensors and licensees \(\delta(k, C)\). Moreover, cost of licensing and sharing


\textsuperscript{32} Keith E. Maskus, Intellectual Property Challenges For Developing Countries: An Economic Perspective, UNIVERSITY OF ILLINOIS LAW REVIEW, 457-474 (2001).


\textsuperscript{34} An increase of \(\delta\) has two possible effects. If \(\delta\) is allocated to R & D sector, it will boost innovation efforts in the North and help increase the number of licenses granted to the South. However, when \(\delta\) feeds final goods production sector in the North, Northern countries would be more competitive to produce these goods and licensing to southern countries would cease.
of rents depend on IPR protection in the South measured by parameter . These variables are further affected respectively by the cost of knowledge transferred and the cost of imitation.

However, unlike Yang and Maskus\textsuperscript{35}, the model proposed by Yang and Maskus\textsuperscript{36} examines more explicitly the relationship between exports and licensing. Indeed, the authors assume that in order to produce and export to Northern countries, Southern firms have to choose between imitation and acquisition of licenses. Through licenses, they would be able to reduce their production costs while avoiding any blockage of their exports to Northern countries. Taking into account other alternatives, relation [2] allows a comparison of production costs between Northern and Southern firms:

\[
C_S > C_N > C_S - i(a) > C_S - l(x, a) \quad [2]
\]

$C_S$ and $C_N$ respectively represent Southern and Northern firms marginal costs in the absence of imitation and licensing. According to (2), Southern firms marginal cost could be reduced either through imitation or licensing.\textsuperscript{37} In both cases, absorptive capacities, denoted are decisive. However, cost reduction through licensing also depends on the level of tacit knowledge transferred by Northern firms (licensors), denoted . An equilibrium with licensing derived from the model lead to two major theoretical findings:

- Tacit knowledge transferred through licensing would be all the more important if: patent rights protection in Southern countries is reinforced, Southern and Northern markets are large, $C_S$ is low and $C_N$ is high post-transfer, and Southern firms absorptive capacities are important.

- Under the assumption of systematic blocking of Southern firms exports to Northern countries due to imitation, equilibrium with licensing depends on a minimum threshold of IPR protection in Southern countries. This minimum threshold deters imitation by making it very costly. At the same time, it gives Southern firms substantial cost advantage through sustained tacit knowledge transfer. By this way, Southern firms would be able to export to Northern countries without being legally blocked.

\textsuperscript{35} Yang & Keith (2001), supra Note 33.

\textsuperscript{36} Yang & Keith (2009), supra Note 34.

\textsuperscript{37} $i(a)$ and $l(x, a)$ respectively represent the contribution of imitation and licensing to the reduction of Southern firms marginal cost.
III. Section 2: Empirical Analysis

The theoretical developments presented above suggest the existence of links between IPRs, access to disembodied knowledge through IP use, and export promotion. Since these links are described in the context of simultaneous relations, empirical estimates of those relations require a particular econometric protocol. Before exploring this protocol, variables and data used will be presented.

I. 2.1 Data and description of variables

Most of the studies propose to measure strengthening of IPRs through patent rights index ("PRI") constructed by Ginarte and Park and updated by Park. This index, which takes values ranging from 0 (low protection) to 5 (high protection), is based on the following dimensions: extent of patent rights coverage, membership in IP related international treaties, duration of patent protection, enforcement mechanisms and restrictions on patent rights. For the purpose of this work, use of PRI seems more appropriate compared to IPRs measures proposed by the Global Competitiveness Index, because patent rights are more directly related to the granting of licenses.

Chen and Puttitanum explain strengthening of IPRs by the level of technological capabilities or country's development. These criteria are approximated by Gross Domestic Product per capita ("GDPC"). However, other variables should be taken into account such as innovation activity at the local level, pressures exerted by more openness to trade, education and the institutional environment specific to each country.

Innovation activity at the local level is approximated by the number of patents filed by residents ("PATR"). WDI database provides data on this variable. Regarding openness to trade, studies cited in introduction have largely confirmed the relationship between

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39 Lesser (2011) proposes a weighted index of patent rights (Cortez Patent Index) where the criteria of duration of protection and patent protection restrictions are removed. These criteria are replaced by patent office efficiency and the cost of patent protection. The index is however only available for the year 2009 and for a more limited sample of countries.
40 Chen & Puttitanum (2005), supra Note 5.
41 GDP per capita constant 2010 U.S dollars$ is considered.
IPRs and trade. Indeed, when IPRs are strengthened in developing countries, imitation of imported products decreases in these countries. This encourages exports by firms located in developed countries. Data from *UNCTAD Trade Statistical Year Book* are used to measure imports from high-income countries (“IHIC”).

Measures related to education and institutional environment are compiled from data coming from WDI and the EFW dataset available on the Fraser Institute’s website. Education is approximated by gross enrolment ratio in tertiary education (“ERT”). Approximation of the Institutional environment variable is based on the Economic Freedom Ranking Index (“EFI”) which takes values between 0 and 10. This index is defined with respect to five criteria size of government, legal system and property rights, sound money, freedom to trade internationally and regulation.42

Factors determining use of IP are inspired by Maskus,43 and Yang and Maskus.44 IPRs are one of those factors. However, other factors are to be considered such as market size approximated by population (“POP”) and GDPC. These variables allow control for demand characteristics. When use of IP relates to acquisition of licenses, specific variables should be taken into account. Assuming that licenses are used for production of intermediate or final goods, real production measured by real Gross Domestic Product,45 (GDP) is considered.

Theoretical explanations also suggest that as a form of IP use, licensing agreements require enhanced absorptive capacities. These capacities could be associated with the presence of high-level skills. For a reliable measure of high skills, ILO classification seems to be the most appropriate. However, as this classification has been performed since 2004, skills will be approximated by gross enrolment ratio in tertiary education defined above. Finally, as a form of trade in disembodied knowledge, granting of licenses would be sensitive to the institutional context specific to each country. Considering this assumption, Economic Freedom Index (“EFI”) variable is again

42 Other relevant variables, such as government effectiveness or control of corruption, would have helped to further define the institutional environment. However, data on these variables provided by the WGI dataset start in 1996.
43 Supra Note 33.
44 Supra Note 34.
45 GDP constant 2010 U.S dollars$ is considered.
incorporated as a factor that could potentially influence licensing agreements.

This research also addresses the relationship between use of IP measured by fees and royalty payments (“FRPAY”) and developing countries’ exports of high-tech goods. Starting from theoretical state of the art, there would be two types of trade-off operated by patent holders located in developed countries. The first one is whether to opt for direct exports of manufactured goods or granting of licenses. The second one is whether to opt for FDI or granting of licences.

If granting of licences happens, it is supposed that the licensee does not necessarily sell its products only on its local market but may export part or all of its production to the licensor’s market or to tiers markets. It is further assumed that licensee’s export sales may relate to intermediate or final high-tech goods. Data on high-tech exports (“THE”) is provided by WDI database, and UNCTAD Trade Statistical Year Book. The impact of foreign direct investment in high-tech exports is also taken into account by considering net FDI inflows (FDI) statistics available on IMF’s Balance of Payments database. Table 2 provides a complete description of the variables to be used in the estimations.

Table 2 : Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>No. of Observations</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI</td>
<td>124</td>
<td>3.618</td>
<td>0.888</td>
<td>1.233</td>
<td>4.875</td>
</tr>
<tr>
<td></td>
<td>2790,000</td>
<td></td>
<td></td>
<td>1432,5</td>
<td>3280,000</td>
</tr>
</tbody>
</table>

48 According to WDI database, exports of high-tech goods concern R & D-intensive goods (aerospace, computers, pharmaceuticals, scientific instruments, electrical machinery). This classification is fairly close to UNCTAD’s classification based on 3-digit level SITC Rev. 3 product codes. It should be noted that data on high-tech exports provided by WDI database are available only as a percentage of manufactured exports. Calculations make it possible to transform percentages to values expressed in U.S dollars.
Given constraints on data availability, our empirical analysis is based on a sample of 31 countries including 17 high-income countries and 14 middle-income countries. All the variables listed in Table 2 have been observed for the years 1995, 2000, 2005 and 2010. As shown in this table, there are missing values for ERT variable. Regarding PRI, it was possible to get data until 2010.

II. 2.2 Econometric Method

The relationships between IPRs, payments for IP use and exports of high-tech goods could be described by the following functional forms:

\[ PRI = f(PATR, GDPC, MHIC, EFI, ERT) \]  \[ (3) \]

\[ FRPAY = g(PRI, POP, GDP, EFI, ERT) \]  \[ (4) \]

\[ HTE = h(FRPAY, FDI) \]  \[ (5) \]

To estimate the Structural Equation Model (SEM) based on the functional forms (equations) \[ (3) \], \[ (4) \] and \[ (5) \], a particular econometric approach is needed. Indeed, the model assumes dependencies between observed response (endogenous) variables PRI, FRPAY and HTE. Therefore, it is a structural model having paths between response variables. It should also be noted that all exogenous variables (PATR, GDPC, IHIC, EFI, ERT, PRI, FRPAY and HTE) have been observed for the years 1995, 2000, 2005 and 2010.

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*Thousands of U.S dollars  **Thousands of people

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49 The list of countries and the correlation covariance matrix of all variables are available in annex.

50 I would like to thank Professor Walter G. Park for providing me with updated data on patent rights index.
ERT, GDP, POP, FDI) included are observed. Moreover, the model does not rule out the hypothesis that error terms $\varepsilon_{i}$ ($i = 1, 2, 3$) specific to each equation are correlated ($Figure 1$).

**Figure 1: Path diagram**

In addition, the structural equation model corresponding to $Figure 1$ is recursive and over-identified.\(^5\) Therefore, the model to be estimated is stable by definition. However,

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\(^5\) Over-identification is based on a checking for rank and order conditions.
because of the possibility of errors correlation, full information maximum likelihood ("FIML") method is recommended for coefficients estimation. SEM also allows for a decomposition of direct and indirect effects, which makes it possible to analyze mutual influences exerted by each variable on the others.52

Before presenting the empirical results, it would be useful to observe graphs relative to direct links between endogenous variables specified in the model. The graphical analysis covers both the full sample (31 countries) and the reduced sample of middle-income countries (14 countries). Graph 1 and Graph 2 respectively plot the relationship between payments for IP use (in log values) and patent rights index and the relationship between high-tech exports and payments for IP use.

**Graph 1: Payments for IP use and Patent Rights Index**

![Graph 1: Payments for IP use and Patent Rights Index](image)

**All Sample**

**Middle Income Countries**

**Graph 22: High tech Exports and payments for IP use**

These graphs suggest that the relationship between endogenous variables seems rather linear when it comes to the full sample. In contrast, linear adjustment seems less obvious for middle-income countries. At first glance, increase in patent rights index is associated to a greater use of IP. At the same time, a greater use of IP would stimulate high-tech exports. However, these findings remain more evident for the full sample and

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2.3 Econometric results

Econometric results are shown in Table 3. All coefficients are estimated equation by equation. Model 1 and Model 4 provide estimates without the variable representing absorptive capacity as measured by enrolment rate in tertiary education. Model 2 and Model 5 include estimated coefficients for all variables selected. Model 3 and Model 6 allows a comparison with the state of the art on the determinants of IP use. Table 3 presents estimations for the entire sample and for the reduced sample of middle-income countries. Before commenting on the results, it is necessary to check for model goodness of fit. A Likelihood Ratio (“LR”) test is applied for this purpose. Results of this test are shown in the last row of Table 3. Chi2 statistic provides acceptable values at conventional thresholds. In what follows, econometric estimations will be interpreted equation by equation.

Thus, equation 3 shows that local innovation activity measured by residents’ patents does not explain strengthening of IPRs. It would seem, therefore, that causality between innovation activity and IPRs only works in one direction as it was evidenced empirically by Chen and Puttitanum. However, development measured by GDPC has a significant impact on IPRs strengthening as it is confirmed by Model 2 and Model 3 for the full sample and by Model 5 and Model 6 for middle-income countries. A linear relationship characterizing the link between these two variables is rather evidenced. This linearity seems at least more evident for observations made since the TRIPS agreement as it is shown in Graph 3.

Chen & Puttitanun (2005), Supra Note 5. Graph 3: Patent Rights Index and GDP per capita

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53 Stata 12.0 is used for econometric results.
54 Stata 12.0 is used for econometric results.
55 Surprisingly, the sign and significance of the coefficients associated to GDPC and GDPCSQ (GDPC squared) do not confirm the U-shaped form characterizing the relationship between development and PRI index as shown in Chen and Puttitanum (2005). , supra Note 5.
Regarding trade, IHIC’s coefficient confirms theoretical predictions. Indeed, imports from high-income countries are clearly correlated to IPRs in all countries. This positive correlation has a lesser effect in the case of middle-income countries, although it remains significant (Models 5 and Model 6). EFI and ERT variables are also significant in Model 1 through Model 3, which confirms predictions about the importance of institutional environment and education for IPRs strengthening. In middle-income countries, however, the effect of EFI does not seem to be strong except in Model 4. In addition, ERT does not have significant effects on IPRs strengthening as reflected by Model 5. This result would mean that education level improvement in middle-income countries does not necessarily increase the incentive for IPRs promotion.

Estimates for equation 4 are also conclusive for both the full and reduced sample of middle-income countries. The relationship between the use of IP and PRI index appears to be rather monolithic.\(^5\) With the exception of Model 4, it seems that strengthening of IPRs allows more broad benefit from use of IP and probably in part from licensing contracts.

The sign of coefficients relating to EFI are however counterintuitive. This result is not really surprising since EFI index does not take into account an important criterion, namely the effectiveness of regulation on contracts enforcement. The same applies to real GDP variable, which is statistically significant while it takes an unexpected sign. The negative coefficient associated to this variable can be explained by the fact that real GDP

\(^5\) The sign of PRISQ (PRI squared) is not significant in model 3.
measures real production at the macro level. As such, it may be of less relevance compared to firms’ production capacities or firms’ sales that could have more direct influence on IP use.

However, market size as measured by POP has a positive and significant effect on IP use (Model 1 through Model 3 and Model 6). This result would confirm theoretical predictions about market size influence, especially on licensing demand. Finally, the negative sign and non-significance of ERT are quite surprising. This finding which contradicts theoretical predictions could be explained by an inappropriate approximation of absorptive capacities.

Regarding Equation 5, the coefficient associated to FRPAY is in all cases positive and statistically significant which corroborates predictions about the positive role of IP use on high-tech exports. This result is of a particular importance as it is confirmed for middle-income countries. However, coefficients associated to FDI are apparently counterintuitive in Models 4 through Model 6 for the reduced sample. Yet, the negative and significant sign of these coefficients would provide information on multinational firms’ choices. In case of high-tech goods, multinational firms may prefer granting licences rather than investing directly in middle-income countries, particularly if setup costs are high. It should also be noted that available data on net FDI inflows does not distinguish between FDI intended for local production and FDI intended for exporting activities.

Table 3: Structural Equation Model (SEM) estimations with Full Information Maximum Likelihood (FIML) method

<table>
<thead>
<tr>
<th>Equation</th>
<th>Full Sample (High and Middle Income countries)</th>
<th>Reduced Sample (Middle Income Countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>n°</td>
<td>Model 1</td>
<td>Model 2</td>
</tr>
<tr>
<td>3 : PRI</td>
<td>0.033 (0.021)</td>
<td>0.006 (0.021)</td>
</tr>
<tr>
<td></td>
<td>0.779***</td>
<td>0.488*** (0.166)</td>
</tr>
<tr>
<td>Variable</td>
<td>Coefficient (Standard Error)</td>
<td>Coefficient (Standard Error)</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>PATR</td>
<td>0.567*** (0.163)</td>
<td>-0.089 (0.151)</td>
</tr>
<tr>
<td>-</td>
<td>0.338**</td>
<td>-0.169 (0.151)</td>
</tr>
<tr>
<td>GDPC</td>
<td>0.169</td>
<td>0.190*** (0.073)</td>
</tr>
<tr>
<td>-</td>
<td>0.242***</td>
<td>0.232*** (0.061)</td>
</tr>
<tr>
<td>GDPCSQ</td>
<td>0.056</td>
<td>0.190***</td>
</tr>
<tr>
<td>-</td>
<td>(0.073)</td>
<td>0.896</td>
</tr>
<tr>
<td>HIICHIIC</td>
<td>0.278*** (0.063)</td>
<td>0.184**</td>
</tr>
<tr>
<td>EFI</td>
<td>-</td>
<td>(0.083)</td>
</tr>
<tr>
<td>ERT</td>
<td>-</td>
<td>4.922***</td>
</tr>
<tr>
<td>Constant</td>
<td>0.164</td>
<td>0.160**</td>
</tr>
<tr>
<td></td>
<td>6.643*** (1.069)</td>
<td>(1.17)</td>
</tr>
</tbody>
</table>

**Equation 4:**

**FRPAY**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient (Standard Error)</th>
<th>Coefficient (Standard Error)</th>
<th>Coefficient (Standard Error)</th>
<th>Coefficient (Standard Error)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRI</td>
<td>2.785*** (0.782)</td>
<td>-0.262 (0.215)</td>
<td>2.271</td>
<td>-</td>
</tr>
<tr>
<td>PRISQ</td>
<td>-</td>
<td>-0.497 (0.300)</td>
<td>(1.284)</td>
<td>-0.298 (0.406)</td>
</tr>
<tr>
<td>EFI</td>
<td>-</td>
<td>1.365** (0.548)</td>
<td>2.340**</td>
<td>0.638*** (0.096)</td>
</tr>
<tr>
<td>POP</td>
<td>-</td>
<td>0.612** (0.292)</td>
<td>-1.265** (0.616)</td>
<td>(0.944)</td>
</tr>
<tr>
<td>GDP</td>
<td>-0.494* (0.287)</td>
<td>-</td>
<td>-</td>
<td>-0.932 (0.617)</td>
</tr>
<tr>
<td>GDPC</td>
<td>1.344*** (0.482)</td>
<td>-0.415 (0.301)</td>
<td>-</td>
<td>0.23*** (0.041)</td>
</tr>
<tr>
<td>ERT</td>
<td>1.338*** (0.516)</td>
<td>5.478 (2.84)</td>
<td>-</td>
<td>3.325 (6.056)</td>
</tr>
<tr>
<td>Constant</td>
<td>-</td>
<td>1.329** (0.545)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>1.233** (0.584)</td>
<td>0.567</td>
<td>(0.516)</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-0.173</td>
<td>(0.347)</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>0.401 (0.29)</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Equation 4:

**Equation 4:**

**FRPAY**
<table>
<thead>
<tr>
<th>Value</th>
<th>Standard Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.466***</td>
<td>(2.842)</td>
</tr>
<tr>
<td>6.045**</td>
<td>(2.715)</td>
</tr>
<tr>
<td></td>
<td>(1.119)</td>
</tr>
<tr>
<td>1.519</td>
<td>(0.942)</td>
</tr>
<tr>
<td></td>
<td>(1.102)</td>
</tr>
<tr>
<td>0.781</td>
<td>(0.853)</td>
</tr>
<tr>
<td></td>
<td>(0.467)</td>
</tr>
<tr>
<td>7.508</td>
<td>(7.508)</td>
</tr>
<tr>
<td></td>
<td>(5.294)</td>
</tr>
<tr>
<td></td>
<td>- 0.359</td>
</tr>
</tbody>
</table>
Equation 5:
HTE

<table>
<thead>
<tr>
<th></th>
<th>FRPAY</th>
<th>FDI</th>
<th>Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.050*** (0.086)</td>
<td>1.106*** (0.084)</td>
<td>-0.074 (0.089)</td>
</tr>
<tr>
<td></td>
<td>-1.127 (0.088)</td>
<td>-0.21 (0.684)</td>
<td>-0.130 (0.090)</td>
</tr>
<tr>
<td></td>
<td>1.316*** (0.148)</td>
<td>1.599*** (0.137)</td>
<td>-0.303** (0.142)</td>
</tr>
<tr>
<td></td>
<td>1.11***(0.079)</td>
<td>1.127 (0.088)</td>
<td>-0.196 (0.694)</td>
</tr>
<tr>
<td></td>
<td>-0.074 (0.089)</td>
<td>-0.130 (0.090)</td>
<td>-1.184** (0.604)</td>
</tr>
<tr>
<td></td>
<td>1.591*** (0.136)</td>
<td>1.599*** (0.142)</td>
<td>-2.794* (1.665)</td>
</tr>
</tbody>
</table>

No. of Observations | 124 | 98 | 56 | 41
LR test | 32.41
Prob. > chi2 | 0.0000

Estimated coefficients are shown together with the standard errors in parentheses. *** Significance at 1% level, ** Significance at 5% level, * Significance at 10% level. Wald test confirms that all estimated coefficients are significantly different from zero. All variables are in log form except PRI, EFI and ERT. SEM estimates ultimately confirm the relationships between IPRs strengthening, use of IP, and exports of high-tech goods in middle-income countries. However, beside estimation of direct effects examined earlier, SEM method makes it possible to refine results by highlighting indirect effects defined in the path diagram described above.57 In fact, Figure 1 clearly shows that PRI variable

57 For technical details on indirect effects measurement in structural equation models, see See Bollen, supra Note 53.
has an indirect effect on high-tech exports (‘THE’). In addition, GDP per capita (‘GDPC’), IHIC, EFI and ERT are supposed to have indirect effects both on the use of IP (‘FRPAY’) and on high-tech exports. Table 4 provides the most significant indirect effects deduced from estimates of Model 5 and Model 6 presented in Table 3.

### Table 4: SEM Indirect effects estimations for Middle Income Countries

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 5</th>
<th>Model 6</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Coefficients</td>
<td>Standard Errors</td>
</tr>
<tr>
<td>FRPAY &lt;-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDPC</td>
<td>6.678***</td>
<td>2.310</td>
</tr>
<tr>
<td>IHIC</td>
<td>0.610***</td>
<td>0.121</td>
</tr>
<tr>
<td>IHICMIHIC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HTE &lt;-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRI</td>
<td>15.743***</td>
<td>6.197</td>
</tr>
<tr>
<td>GDPC</td>
<td>16.332***</td>
<td>5.659</td>
</tr>
<tr>
<td>ERT</td>
<td>1.492***</td>
<td>0.297</td>
</tr>
<tr>
<td>IHIC</td>
<td>0.061***</td>
<td>0.012</td>
</tr>
<tr>
<td>ERT</td>
<td></td>
<td>1.989***</td>
</tr>
<tr>
<td>POP</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** Significance at 1% level.

Several observations stem from Table 4. First, even if it is not directly explained by absorptive capacities, middle-income countries’ use of IP is significantly correlated with their level of development, the latter also having an indirect effect on high-tech exports. Second, imports from high-income countries indirectly explain disembodied knowledge demand through the impact of IPRs strengthening. In addition, IPRs also have an indirect impact on high-tech exports to the extent that these exports are not blocked by regulatory barriers. Regarding market size measured by population, its relative indirect impact on exports derives essentially from its stimulating effect on the use of IP especially through licensing agreements. Finally, the indirect role played by tertiary education (‘ERT’) on high-tech exports promotion seems evident. Thus, even if ERT variable does not seem to be a good approximation for absorptive capacities, tertiary
education remains a strategic choice for export promotion in middle-income countries.

IV. CONCLUSIONS

This research proposes the opening of a debate on the contribution of disembodied knowledge and more specifically of IP use to export promotion in middle-income countries. Despite the complex mechanisms underlying the market for technology, there is evidence of a growing recourse of middle-income countries to disembodied knowledge in its different forms and presumably in the form of licensing contracts. Estimates resulting from the application of SEM method show that strengthening of IPRs in these countries increases their possibility of access to disembodied knowledge through IP use. This access also has a significant impact on their high-tech exports.

The econometric results obtained should nevertheless be interpreted with caution. First, data constraints prevented validation of results across a larger sample of middle-income countries. Second, approximation of disembodied knowledge demand by payments for IP use does not allow us to distinguish the specific contribution of licensing agreements to export promotion in middle-income countries. Traceability of licensing contracts involving these countries would certainly contribute to interesting extensions of this research. These extensions would also make it possible to take into account sector specificities and disaggregated values of exports in a bilateral trade scheme.

As policy implications, this research suggests that middle-income countries need to adopt a policy mix. The first component of this policy-mix is a credible choice of IPRs reforms and a consolidation of scientific and technical skills. These are two necessary conditions for an optimal exploitation of tradable disembodied knowledge and more specifically licensing contracts. The second component of this policy mix concerns trade-off between opportunity to invest in licenses and opportunity to invest in R&D. This trade-off involves defining a targeted innovation policy that takes into account comparative technological advantages to be identified sector by sector.

Finally, this research proposes to deepen reflections on international trade of disembodied knowledge. With regard to the imperfection of the market for licenses,
these reflections should focus on two aspects. The first one concerns FRAND access to non-compulsory licenses to the extent that these technology licenses represent an important part of trade in disembodied knowledge. The second one concerns actions to be taken against abusive licensing practices in accordance with section 8, article 40 (paragraphs 1 and 2) of the 1995 TRIPS agreement. Reflections conducted during UNCTAD (2016) conference are already important steps in deepening the debate to address the problem of unfair access to licenses and licensing market imperfections.

Annexure

List of Countries

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SEEKING A PROPER APPROACH TO TRANSFORMATIVE USE OF COPYRIGHTED WORKS

Mukul Rani Parajuli*

ABSTRACT

This paper presents a modest proposal to adopt an “observer approach” to transformative use of copyrighted works. The case of adoption of an “observer approach” is made by identifying the merits of the said approach, juxtaposed with an anticipated argument against it. This paper seeks the proper approach by discussing the defects in the traditional approaches and the new approaches to transformative use adopted under the fair use doctrine in the United States of America and the fair dealing doctrine in Canada.

Key Words: Copyright Law, fair use doctrine, fair dealing doctrine, transformative use, transformative use approach, user right approach, observer approach, the United States of America, Canada

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I. INTRODUCTION

What is transformative use? Transformative use is ‘a type of creative activity in which previously existing expressions are re-used for a new purpose, with new an interpretation or with new meaning’.¹ The international standards for transformative use as secondary works are under the scrutiny of the Berne Convention, which sets out a general principle for exceptions under Copyright Law, under the three-step test. The three-step test provides that ‘any exception must be confined to certain special cases, which do not conflict with the normal exploitation of the work in question and which do not unreasonably prejudice the legitimate interest of the author’.² This general principle is a core standard in the ‘Copyright governance’ and has become a model for exceptions to copyright law.³

Transformative use also forms part of the first factor of the fair use doctrine in the United States of America and the fair dealing doctrine in Canada, which are referred to as ‘balancing doctrines’⁴ in this paper. According to Judge Leval,⁵ the court inquires and analyses, whether a particular use is a fair use by examining the first factor of the fair use doctrine, i.e., the purpose of the use. Judge Leval refers to this first factor as ‘the heart and soul of a fair use case’, under which the defendant must ‘demonstrate that their secondary use fulfils the objective of the copyright law which is ‘to stimulate creativity in the advancement of the public interest’. Similarly, Professor Rees’,⁶ in a study and survey of the thirty-seventh circuit court opinions on fair use doctrine starting from the Campbell case in 1994 until 2007; provides that the court ‘recognized transformative use as a vital indicator of the fair use’. Canada adopted the principles of fair use in the landmark case of CCH v. Law Society of Upper Canada.⁷

⁴ Fair use or Fair dealing doctrine.
⁵ Pierre N. Leval, supra, note 1.
The Canadian Supreme Court interpreted the research factor very broadly and held that the photocopying service to a researcher is an integral part of the Copyright Act. Chief Justice MacLaine noted that fair dealing is an integral part of the Copyright Act and a user’s right that must balance against the rights of copyright owners, rather than merely being a defence. This case strengthened fair dealing doctrine, but at the same time created uncertainty as the court raised a narrow exception of private use to the level of a general principle.

The definition of the transformative use is not quite set in stone. This paper concurs with the two explanations of transformative use. The first explanation to be taken into account is Judge Level’s, wherein, he states that ‘the transformative use must be productive and must employ the original work in a different manner or for a different purpose and where the secondary use adds value to the original work’. He further explains, ‘if the quoted matter is used as the raw material, transformed in the creation of new information, new aesthetics, and new insight and understanding, this is the very type of activity which the fair use doctrine intends to protect for enrichment of the society’. Secondly, the definition of the Australian Government Law Reform Commission (“ALRC”), whose definition of transformative use closely sums up the definition intended in this paper. ‘Transformative use is the use of pre-existing works to create something new that is not merely a substitute for the pre-existing work’.

The Transformative use of copyrighted works has been promoted for copyright reforms in the United States of America, and Canada. Accordingly, the respective courts in these jurisdictions have adopted different approaches regarding the transformative use of the copyrighted works. This paper divides these approaches as the traditional and the

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8 Pierre N. Leval, supra note 1
9 Pierre N. Leval, supra note 1
11 The United States of America emphasizes for a comprehensive review of the Copyright law in order to advance the transformative use of the copyrighted materials by liberally interpreting the fair use doctrine. AUSTRALIAN LAW REFORM COMMISSION, THE COPYRIGHT AND THE DIGITAL ECONOMY INQUIRY (2016).
new approaches to the transformative use of copyrighted works. The traditional approach takes ownership of copyright as a standard and overlooks the critical role of transformative use in serving the goals of copyright law and fulfilling the goals of progress. On the other hand, the courts under the new approaches have adopted a broad interpretation focusing solely on the purpose and nature of transformative use. The objective of the paper is to propose an observer approach and it aims to answer the question: Is the Observer approach to transformative use of copyrighted works a proper approach? This paper incorporates ‘doctrinal legal research’, and is an argumentative paper seeking a proper approach to the transformative use of copyrighted works.

This paper proceeds in five chapters. The Introductory section I, defines the transformative use of copyrighted works and its existence in fair use and fair dealing doctrine. Section II discusses the defects of the traditional approaches to transformative use and categorizes the traditional approach into two groups: “affirmative defence and classified approach” & “restrictive and the legal transplant approach.” Section III discusses the defects of the new approaches to transformative use and divides the new approach into two categories: “transformative use approach” and the “user right approach.” Section IV discusses an observer approach as the proper approach to transformative use of copyrighted materials. Section V summarises and concludes the paper with the observer approach that aims to provide a useful guide to courts, the copyright drafters and reformers.

II. Defects of Traditional Approaches to Transformative use of Copyrighted Works

This Chapter discusses the traditional approaches adopted by the courts of the United States of America and Canada. Firstly, this part discusses the origin of the transformative use under fair abridgement by the Chancery Court of England, as a liberal approach and how eventual adoption of fair abridgement as fair use doctrine in USA imposed an affirmative defence and classified approach to transformative use.

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13 Mathias Siems, Legal originality, 28 OXFORD J. LEGAL STUDIES 147 (2008). Richard Posner describes the merits of doctrinal work as a work, which studies the ‘work product of the judges and legislator which requires a good deal of analysis, restatement and critique. The task of analysis these work under the theoretical breath is the doctrinal research and methodology used in academic fields and are of inestimable importance to legal system and of greater value’. 

Secondly, how the Supreme Court of Canada under the fair dealing doctrine adopted a restrictive and a legal transplant approach by referring to a case under the fair use doctrine in the United States of America.

A. Affirmative defence and classified approach

Under the Fair abridgement doctrine, the copyright owner's right is subjected and defined as the public fair use right. The Chancery Court of England established the fair abridgement that became an important doctrine under the Copyright Law.14 Lord Hardwicke explains that a true abridgement of a published book could be an entirely separate and a new work, 'if the abridgement reflects the labour, originality, education and judgment of the editor on the secondary work.'15 This case laid down the grounds for fair abridgement and set a precedent for liberal interpretation of secondary works. This opinion also advanced the position that Copyright law should serve public interest by promoting the creation of secondary works.

The Fair use doctrine originated from the fair abridgement doctrine recognizing transformative use in which the English court took a liberal view on how a person other than the author could abridge a work without the permission from the author. The subsequent development of the fair use doctrine in the United States of America witnessed an affirmative defence and classified approach to transformative use, which completely overturned the origin of liberal construction and approach to the doctrine recognizing transformative use of copyrighted works.

In the United States of America, the origin of the fair use doctrine and the transformative use of copyrighted works is observable in Justice Story's opinion in Folsom v. Marsh.16 In this case, he stated the factors for considering 'a fair and a bona fide abridgement' which are the nature and objects of selection, the quality and value of the works used and the degree in which the use may prejudice the sale, or diminish the profits or whether the secondary work supersedes the object of original work. Patterson,17 refers to this decision as, the worst intellectual property opinion ever

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14 In Gyles v. Wilcox, (1740) 26 E.R. 489 (Eng.).
16 Id.
17 STANLEY LINDBERY, NATURE OF COPYRIGHT: A LAW OF USERS RIGHT (1991). This book offers a new perspective on copyright law and legal right of individual to use copyright materials. The author discusses how most American that the primary purpose of copyright is to protect author against the theft of their property.
written while commenting on the strict construction of the fair use doctrine. After this
decision, the court reasoned and defined the nature of the fair use doctrine as a defense,
to an act that would otherwise constitute infringement and codified the fair use doctrine
as a statutory provision under section 107 of the Copyright Act 1976.\textsuperscript{18} In \textit{Sony
Corporation of America v. Universal City Studio Inc.},\textsuperscript{19} the Supreme Court rejected a fair
use defence based solely on a single factor, which is the ‘productivity of the secondary
use’. Although the court recognized the utility of such a distinction, it held that the
productive use test could be wholly determinative in a court’s fair use inquiry. However,
these approaches adopted by the Supreme Court invited discussion for an appropriate
approach to transformative use, under the fair use doctrine. And, Judge Pierre Leval
explained that the ‘Supreme Court decision in the Sony Case left the copyright lawyers,
judges and publishers in a state of chaos’.\textsuperscript{20} Judge Leval argued for a framework in
which the fundamental enquiry about the fair use should be an examination of the
existence and extent of a transformative use in the secondary work. Under the Leval’s
test, the courts determined whether the secondary work used the original works as raw
material for creation of a new socially illuminating work. Judge Leval insisted that a
considered approach to transformative use would revive the jurisprudence on
secondary works.

Six years since the \textit{Campbell Case},\textsuperscript{21} the Supreme Court applied the transformative use
as a factor in approximately thirty-eight fair use opinions. These opinions suggest that
in considering transformative use in a secondary work, the court classifies defendants’
work into three groups. The secondary work that adds no originality to the existing
work, an original secondary work that is not a criticism or commentary, and an original

\textsuperscript{18} Campbell v. Acuff- Rose Music Inc. 510 U.S 569, 577 (1994); The fair use doctrine under this statutory
 provision was set to ‘limit the scope of the copyright monopoly in furtherance of the utilitarian objective. In
designing section 107, Congress intended to restate the existing judicial doctrine regarding fair use and offer a
uniform framework for the courts to decide issues related to transformative use and secondary work. The
supreme Court in the year 1994 observed that court analyses under section 107 are not only simplifying the
bright line rule under the four factors: the doctrine recognizes and calls for case-by-case analysis based on four
factors.


\textsuperscript{20} Pierre N. Leval, supra note 1.

\textsuperscript{21} Campbell Case, supra note 17
secondary work which constitutes criticism or commentary. Among these three classifications, only the third group of secondary works passed the transformative use test. This classified system for transformative use, further resulted in three major difficulties. Firstly, lack of guidance for the lower courts regarding the distinction between transformative works and other works. Secondly, no per-se transformative finding for secondary use, which does not add original expression or creative modification to the original work as stated in the Leval's test. Thirdly, after the Harper & Row;\textsuperscript{22} opinion and Congress report citing and approving the opinion in Campbell v. Acuff-Rose Music, Inc., which is a seminal fair use decision fully, established the fair use doctrine as an affirmative defence. In Campbell, the court ruled that the musical group 2 Live crew’s appropriation of certain elements of Roy Orbison’s song “Pretty Woman” is a parody of the song constituting fair use. The Court further held that, since fair use is an affirmative defence the proponent would have the burden of demonstrating fair use. The Supreme Court reaffirmed the approach to the fair use doctrine as an affirmative defence.

From the cases discussed above, it is evident that the fair use doctrine under the traditional approach under the United States of America has classified and affirmative defence approaches. Although, the fair use doctrine is uncertain and criticized as nothing more than the right to hire a lawyer.\textsuperscript{23} The recent empirical studies\textsuperscript{24} have demonstrated that the adjudication of fair use doctrine adopts a restrictive and classified approach based on the first factor, the purpose and nature of the secondary work. Judge Leval’s idea was to introduce a standardized framework for defining the fair use doctrine as predictable and measurable, but it ultimately led to a classified and affirmative defence approach to transformative use.

\textit{B. Restrictive approach and Legal transplant approach}

\textsuperscript{22} Harper & Row Publisher Inc. v. Nation Enterprises, 471 U.S 539, 546 (1985).
The Supreme Court of Canada traditionally took a restrictive approach to transformative use of copyrighted works under the fair dealing doctrine.\(^{25}\) The two prominent cases that show the restrictive approach to fair dealing are *Bishop Case* and *Micheline case*. The first leading pronouncement of copyright law by the Supreme Court of Canada is the decision that involved the recording of a song without permission. In this case, Mc Lachalan J.,\(^{26}\) observed that since the Copyright Act, a single objective is the benefit of authors, whether the work is literacy, dramatic or musical.

The second pronouncement in *Michelin case*,\(^{27}\) related to a suit against a union distribution of leaflets during a labour dispute, which included the image of the Michelin logo. In this case, the defendant argued that the use of the logo was a parody and qualified as criticism under the fair dealing exception. The Federal Court rejected the argument emphasizing on the strict interpretation of the fair dealing provision and maintained that parody was not an enumerated exception within the Copyright Act and was not synonymous with criticism. The Bishop and Michelin perspective ruled the Canadian fair dealing doctrine for ten years until the court shifted the approach with the *Theberge case*,\(^{28}\) this case features explicit support for a copyright balance and due consideration for effect of copyright on innovation. In this case writing for the majority, Binnie J., states ‘the proper balance with public policy objective lies not only in recognizing the creators’ right, but by giving due weight to their limited nature.

The court reasoned that ‘once an authorized copy of a work is sold to a member of the public, it is generally for the purchaser and not the author to determine what happens to it’. Binnie J emphasized on the ‘danger of copyright that turns too far towards the copyright holder at the expense of both the public and the innovation process’. The court further noted that excessive control by copyright holders might unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interest of the society as a whole and create a practical obstacle for the proper utilization of Copyrighted works.

Canada has historically taken a livelier interest in American copyright development, even though the Canadian Law is rooted in British Law instead of United States

\(^{25}\) Ariel Katz, infra, note 38.

\(^{26}\) Bishop v. Stevens, (1990) 2 S.C.R. 467 (Can.).


Copyright Law. The legal Transplant approach is evident from the Canadian Court’s approach while deciding the issues related to transformative use of copyrighted works. A legal transplant approach is a method of adopting some laws of another country, by some other country on the same line of provisions existing in the adopted country. This borrowing of laws or enactment or inspiration is a legal transplant. 29 Three important decisions of the Supreme Court of Canada are evidence of the legal transplant approach wherein the Canadian Court relies on the approaches adopted by the Court of the United States of America to decide cases under the fair dealing doctrine. In Compo Co. Ltd v. Blue Crest Music Inc.,30 the plaintiff sued the music company for making a sound recording infringing their copyright. The Court laid down a rule and exception in order to rely on American Copyright Precedents. Firstly, based on the similarities between the Copyright Act of United States of America and Canada and secondly, based on similar factual situation of the case, which makes it pertinent to scrutinize the case decided in the United States of America. The court observed that fundamental differences between legislations of both countries do not debar from finding some assistance from the experience of the United States Federal Courts. 31 The second case CHH Canadian Ltd v. Law Society of Upper Canada,32 the court, citing Compo case indicated that United States copyright case may not be easily transferable to Canada. Although, the court reasoned that Canadian copyright protection is similar to the United States Copyright Protection, which does not extend to facts or ideas, but is limited to the expression of ideas. The court observed that the Fair use doctrine’s improper extension of copyright over facts also resonates in Canada and that the Canadian test of originality lies between the British and United States of America.33

Unlike the United States, Copyright law on fair use doctrine, Canada’s list of allowable fair dealing purposes is closed, and the statute contains no fairness criteria. Nonetheless, the federal court of Appeal, referring to the Compo case has found some

30 Compo Co. Ltd. v. Blue Crest Music et al., (1980) 1 S.C.R. 357 (Can.). The court decided that the US concept of manufacture was similar enough to Canadian concept of making for record pressers like their American and British counterpart, to be liable for infringement if they lacked the copyright owners’ consent.
31 Id.
32 Supra, note 7.
33 Id.
assistance in examining the experience in the United States and compiled a list of non-exhaustive factors drawn from section 107 of the Copyright Act 1976. The Supreme Court of Canada summarized these factors as-the purpose of the dealing, the character of the dealing, the amount of dealing, the alternative of the dealing, the nature of the work and the effects of the dealing on the work and approved them generally as ‘useful analytical framework to govern the determination of fairness in future cases’.\textsuperscript{34}

After analysing the origin and the traditional approach of the fair use doctrine in the United States of America and fair dealing in Canada, it is clear that the courts have focused on the authors or right holders as the centre for deciding the transformative uses. It is also evident that the Canadian court refers to the approaches adopted by the Supreme Court of United States of America for deciding the transformative use under fair dealing, which lays a baseline for adopting new approaches by the court to advance the transformative use of copyrighted works.

The Court has tied the transformative use inquiry to fair use doctrine and the fair dealing doctrine, which are the balancing doctrines in copyright law. Under this balancing doctrine, the courts focus on the traditional approaches and pose questions regarding what the author intended or hoped to achieve in secondary work. Rather, the proper approach would be the observer approach, which would pose a question as to whether a secondary work has contributed a new expression to the original work from an observer’s perspective. Under the traditional approach, the question wholly relies on the single factor, the purpose and nature, while making other statutory factors less significant when determining transformative use under the balancing doctrine.

\textbf{III. \textbf{Defects of the New Approaches to Transformative use of Copyrighted Works}}

The Court in the United States of America shifted from affirmative defence and classified approach to the transformative use approach. Similarly, the Canadian court shifted from a restrictive approach to the user’s right approach. As discussed in Chapter 2, the transformative use was largely, Judge Level’s aim to standardize the fair use doctrine. In order to articulate transformative use, the crucial question to be asked was whether, and to what extent, new work was transformative. The courts adopted a broad approach to transformative use, which resulted, in diverse interpretation of

\textsuperscript{34} Supra, note 30.
transformative use based solely on the nature or the purpose of the secondary work and the object of the transformation. Now, transformative use ranges from use such as parodies to purely technological empowerment use like thumbnail images.

A. Transformative use approach

The judicial trend of transformative use approach started with the *Campbell case*,\(^{35}\) and with the influence of Levels analysis that the transformative elements found in the parodic use were theoretically powerful enough to overcome factors that usually are against a finding of fairness. In *Kelly v. Arriba*,\(^{36}\) a photographer sued a company for using an internet search engine to compile a database of images in the form of thumbnails. The court held that Arriba’s use of photographs was an activity, ‘enhancing information gathering techniques on the internet’. The court’s finding on public benefit was enough to outweigh the commercial nature of transformative use. In *Perfect 10 v. Amazon*,\(^{37}\) the subject of dispute was the activity of Google search engine, which located images on the website stored as a thumbnail with an index enabling easy access. Perfect 10 was in the business of supplying online images of models to its customers. They brought action against Google for infringement. Unlike the *Kelly case*, Perfect 10 had a market for reduced six images through another company, which had authority to license the use of those images on mobile phones. It is pertinent to mention here, that this factual departure from the principle precludes the fulfilment of the fourth factor and governs that there was a market for the original work that might suffer.

Instead, the court held that there was not enough evidence that members of the public had downloaded thumbnail via Google for use of their mobile phones as a result, this potential harm to Perfect 10 market remained hypothetical. The court praised the public benefits resulting from Google activity a goal that is sufficiently powerful to overcome a considerate interpretation of the fourth factor of statutory fair use doctrine. It was, according to this line of reasoning under which the court’s opinion that Google’s use of thumbnails is highly transformative. The court explained highly transformative

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\(^{36}\) *Kelly v. Arriba Sift Corporation*, 336 F.3d 811 (9th Cir. 2003).

\(^{37}\) *Perfect 10 v. Amazon.com*, 508 F.3d 1146 (9th Cir. 2007).
use as a social benefit by incorporating an original work into a new work such as an electronic reference tool. Indeed, such a search engine provides an entirely new use for the original work, while a parody typically has the same entertainment purpose as the original work. Therefore, this finding of the court makes it clear that transformative use depends on how the notion of the purpose of a work is construed liberally based on transformation.

The *IParadigms Case*,\(^{38}\) laid down an exemplary open-ended construction of the term ‘purpose’. The term purpose was associated with the functional elements that go beyond any expenditure of creative input in the secondary work. IParadigms owned and operated an online plagiarism detection service Turnitin to compare students work against a large database of essays used by schools and colleges. In this case, a student brought an action against IParadigms for using the paper. The Appellate court observed it is not necessary that the use of copyrighted work alter or augment the original work to be transformative in nature rather, ‘it can be transformative in function or purpose without actually adding to the original work.’\(^{39}\) The court stated that IParadigms’ use of the student course was completely unrelated to expressive content. Instead, it aimed at detecting and discouraging plagiarism. The social utility arising from this use and substantial public benefit through the network of educational institutions using Turnitin played a paramount role in the court’s decision.

Under the transformative use approach, the secondary use needs to modify the use of the original work with the employment of a new technology and with a new function of how the work is used. The activities that carried the content under a technological innovation have found protection under the fair use doctrine, which is evident from the *Hathi Trust*,\(^{40}\) wherein, the District Judge Harold Baer held, that the use of copyrighted works by the partnership of the University was fair; irrespective of the fact that it involved the wholesale copying of those works. The court emphasized that the transformative use is superior and advances the search capabilities, giving rise to new

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\(^{38}\) AV ex rel. Vanderhye v. iParadigms, LLC, 562 F.3d 630 (4th Cir. 2009).

\(^{39}\) Id.

\(^{40}\) Authors Guild, Inc. v. HathiTrust, 755 F.3d 87 (2d Cir. 2014).
research methods such as text mining, which facilitates access for prints and use of copyrighted works by the disabled person. *Hathi Trust case* is another example of how the concept of transformative use in a secondary work takes a different meaning by referring to the objects and purpose of transformative use. It is evident that the transformative use is differently conceived when a new message, new meaning or new expression is governed to a work and it bears a different connotation when a new purpose is invented by the use of the work, through the use of new technologies. The court in the United States of America has adopted the standard of transformative use approach for transformative use of copyrighted works and under the fair use doctrine.

Under this approach, the court has identified transformative use based solely on the purpose and object of the secondary work. The above cases show how enhancing accessibility to books and making them more useful, facilitating the search engines and access to print has found a strong base and protection as transformative use of copyrighted works. Even though the courts assess the potential benefits arising from a technological transformative use, the courts need to adopt a balanced approach and not unreasonably expand the scope of potential public benefits determined in the interest of the right holder.

B. User’s Right Approach

The Supreme Court of Canada in the *Pentalogy case*, has set a framework for a user’s right approach to transformative use under the fair dealing doctrine. The court decided 'the framework for the user’s right approach on the ground of growing technological innovation, which empowers the transformative use of the copyrighted works on the participative web'. These cases are landmark decisions that have a broad interpretation of the fair dealing doctrine. The two special features of these approaches are, firstly that these approaches provide an unequivocal affirmation that copyright exception such as fair dealing doctrine is a user’s right and second, that the court raised

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the notion of balancing creator’s right and the user’s right. Professor Ariel Katz,\(^{43}\) supports the user’s right approach and suggests that the court has not expanded fair dealing doctrine but has aligned the treatment to the exception with the historical records. Professor Michale Geist,\(^{44}\) argues that the court’s fair dealing analysis has effectively turned the Canadian fair dealing clause into a fair use provision.

In the *Pentalogy case*, the Canadian Supreme Court emphasized on the need for balance between copyright holder rights and user’s right. These cases have shifted the court’s approach from a two-stage fair dealing test towards a single analysis based test on the fairness and purpose of the use. This approach lacks the balanced approach and creates uncertainty for transformative use of copyrighted works. During the research on feasibility of this approach, it has come to notice that the user's right approach is not entirely new for American lawyers. It was Patterson and Lindberg, who proposed this approach and published in a monograph in the year 1991.\(^{45}\) They proposed a user’s right approach that is particularly in context of the fair use doctrine. Later the courts in the United States of America adopted the conceptualized fair use doctrine as a user’s right in some cases. Judge Birch,\(^{46}\) observed that 'the fair use doctrine would be better viewed as a right granted by the Copyright Act 1976 rather than an excuse for infringement. However, the court in the *CHH case*,\(^{47}\) did not refer to the observation made by Judge Birch, while adopting the user right approach.

The *CHH* is the first case that reached the Supreme Court with issues related to the fair dealing doctrine.\(^{48}\) This approach lays a strong foundation for a shift from a mechanistic treatment of copyright issues to a balanced treatment between author and a user.


\(^{45}\) Supra, note 17.

\(^{46}\) In Bateman v. Mnemonic Inc. F.3d 1532, 1542, (11th Cir 1996).


\(^{48}\) Id. The SC rejected the argument in terms that apply to all statutory defense to infringement. Procedurally, defendant is required to prove that his or her dealing with a work has been fair. However, the fair dealing exception is as an integral part of the copyright than simply defense. Any act falling within the fair dealing exception will not be an infringement t of copyright. The fair dealing exception like other exception in the Copyright act is a user right. In order to maintain the proper balance between the rights of a copyright owners and users’ interest and must not be interpreted, restrictively.
interest. The Court observed that ‘Copyright protection is a balance between promoting the public interest by encouraging the dissemination of works of the arts and intellect for obtaining a just reward for the author’.\textsuperscript{49} The case strengthened fair dealing but at the same time created uncertainty, as the court raised a narrow exception of private use to the level of a general principle. Defendants who claim ‘fair dealing’ must show that the dealing was for the purpose of research or private study and that it was fair. Justice McLachlan examined the fair dealing factors to test whether the dealing was fair, they are (1) the purpose of the dealing; (2) the character of the dealing; (3) the amount of the dealing; (4) alternative to the dealing; (5) the nature of the work; and (6) the effect of the dealing on the work. This useful list of factors provides an analytical framework to determine fairness in future cases.

The Supreme Court of Canada emphatically reaffirmed the observations made in the \textit{CHH case}. The court continued the user’s right approach for the transformative use under the fair dealing doctrine. In the \textit{Bell case},\textsuperscript{50} the court held thirty-second song previews as a consumer research under the fair dealing doctrine. The Supreme Court observed that limiting research for creative purposes would run counter to the ordinary meaning of research, which can include any activity such as demand to establish new facts or conclusion. Similarly, in \textit{Alberta (Education)},\textsuperscript{51} the Supreme Court adopted an expansive view of private study to include teachers’ instructions. The Court observed that the user’s right approach in copyright law was here to stay. The user’s right approach adopts a liberal way to interpret copyright from the user’s interest and the public interest.

All these decisions represent a shift from an author-centric view to user’s rights. However, the courts’ user’s right approach with broad and liberal interpretation creates

\textsuperscript{49} Id.

\textsuperscript{50} Entertainment Software Association v. Society of composer Authors and Music Publisher of Canada, 2012 S.C.R. 34 (Can.). The Court concluded that the internet delivery of a Permanent copy of a video game containing musical works constitute a reproduction of musical work but does not amount to communication of musical works.

\textsuperscript{51} Alberta (Education) v. Canadian Copyright Licensing Agency (Access Copyright), (2012) 2 S.C.R. 345 (Can.); Id. The court broadly interpreted private study under the fair dealing to include,’ copying by teachers, explaining that teachers share a symbiotic purpose with the students who engage in private study’.
uncertainty for transformative use of copyrighted works. Besides, the fair dealing doctrine based on these decisions reaffirms user’s right approach as a possible approach for transformative use of copyrighted works under the new provision of Canadian Copyright Act 2012. Since section 29.21 provides a broad exception to copyright infringement for making the use of copyrighted content in the creation of new content. The term ‘use’ in the section is broad enough to include the reproduction of copyrighted works.

The traditional approach takes ownership of copyright as its baseline. These approaches overlook the critical role of the transformative use in serving the goals of copyright law and fulfilling the goal of progress. On the other hand, the court under the new approaches has adopted a broad interpretation outside the statutory factors, focusing solely on the purpose and nature of transformative use.

IV. A Proper approach to transformative use of copyrighted works: An Observer Approach

This section of the paper proposes an observer approach for transformative use by identifying the merits and by arguing against the anticipated arguments to the observer approach and attempts to answer Is the Observer approach to transformative use of copyrighted works a proper approach? The inquiry under the traditional and the new approaches for the transformative use of copyrighted works focuses on whether a secondary work is a transformative use of the original work. Under the observer approach, this paper proposes the formation of an Observer Panel and correct queries by the observer panel.

This paper proposes the Copyright Office of the respective jurisdictions to constitute the Observer Panel. The Copyright Office is an office of record, which scrutinizes the Copyright application throughout the application process, administers, studies and provides expert assistance on law. Constituting an observer panel under the copyright office would be in consonance with the United States of America Copyright office
mission and objective to provide ‘expert, impartial assistance to Congress, the courts, and executive branch agencies on questions of copyright law and policy.’

And, mission of the Canadian Intellectual office which plays an active role in implementing Canada's Intellectual Property Strategy.

The Copyright Office can prepare an observer panel list by conducting an exam or interview. The Observers are persons with knowledge of the subject related to copyrighted works and their appointments are based on their experience in the field of Copyright, publications and commentaries. These qualifications ensure their knowledge in all aspects of copyright and the broadening field of copyright, including digitization and licensing that has encouraged transformative use of copyrighted works. The Observer has to be an independent person who has no private interest in the subject matter of copyrighted works in issue before the Court. The listed observers get authority and power to assist the court as an observer only when the party on Appeal to the Supreme Court submits miscellaneous application for the assistance of Observer Panel. After the approval of the Supreme Court, the court directs the Copyright Office to invite the Observer from the Observer list. In addition, the Observer panel is given copies of all relevant documents of the case.

The function of the Observer panel is to analyze and assist the courts by submitting the report titled ‘The Observers Approach Report’ (‘OAR’) and the reports submitted by the observer panel to the court would introduce an observer approach through the court and become part of the findings of the Supreme Court of the respective jurisdiction.

The correct query would be whether the Observer perceived the transformative use as signifying something different from the original work. This approach focuses on how the observers perceive and interpret the distance between transformative use and original work, under the three major roles as an educator, curator and researcher to the Supreme Court. They accordingly provide their analyses in their report. Firstly as an

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educator, they educate the court on the intricacy of the traditional and new approaches to transformative uses of copyrighted works while deciding the issue at the Appellate stage. Secondly, under a curative role, they provide a remedy by emphasizing the role of transformative use in serving the goal of copyright law and find a balance between the copyrighted work and transformative use. They provide an answer and correct query in the Observer Panel Report for the case. Third, as researcher, they keep records of the transformative work. They inquire and give critical analysis on the transformative use under the close review and scrutiny of the balancing doctrine (The Fair use and The Fair dealing doctrine).

Although the Observers have the knowledge and proficiency, the Observer Panel Report comes under strong scrutiny of the Supreme Court. The Supreme Court can reserve the right to decide the relevance of the Observer Panel report, while including it in the findings of the judgement. This Observer approach has the potential as a proper approach to transformative use and cures the defects of the traditional approach which takes ownership of copyright as its baseline by overlooking the critical role of the transformative use in serving the goals of copyright law and fulfilling the goal of progress. Further, it cures the defects of the new approaches that have solely focused on the purpose and nature of transformative use under the balancing doctrine that aims to provide a balance between the original work and the transformative use.

A. Merits of the Observer approach

The proposed observer approach as the proper approach to transformative use has a number of merits and has the potential to cure the defects under the traditional and the new approaches. The observer approach to transformative use of copyrighted works would focus on:

1. Creation of new knowledge
2. Use of copyrighted works as raw material for transformative use
3. Balancing the original work and transformative use by intricately reviewing the new meaning and expression of the transformative work
4. Communicates a strong message that transformative use is a legitimate use
5. Clarifies the uncertainty associated with the fair use doctrine and the fair dealing doctrine in the respective jurisdiction

Firstly, an observer approach focuses on the creation of new knowledge, which involves human capital and individual engagement in the copyrighted materials. The Observer Panel will be able to assess whether the transformative use generates new output by involving the copyrighted works. Secondly, an observer approach focuses on the Copyrighted works as an increment for the transformative use. The approach presumes that the author does not create out of thin air, but in fact, all authors use the pre-existing copyrighted works.

Thirdly, the observer approach balances between the author and transformative work through doctrines such as the fair use doctrine (or fair dealing doctrine). These doctrines are incremental for transformative use that ensures the freedom to use copyrighted works, which is crucial for achieving copyright goals. The dynamic process of transformative use generates a new expression and meaning that occurs through interaction among human beings by using and developing the pre-existing copyrighted works. Fourthly, an observer approach communicates a strong message that the transformative use is a legitimate use. This legitimacy offers guidance to the public to use without the copyright holder's permission which is the nature of the fair use (or fair dealing) doctrine. An observer approach recognizes the interdependency between authors, copyright works and transformative use. This approach studies the respective role of each contribution made in the creative transformation.

Fifthly, the uncertainty associated with the balancing doctrine (the fair use or the fair dealing doctrine) affects the right holder and the transformative use equally. The transformative use not adjudicated by a court falls either inside or outside the copyright owner’s rights. However, if the court decides that a particular use is fair, the use falls within the exception for the use of the copyrighted materials. Under observer approach, an Observer Panel will examine all the aspects of the transformative use meticulously and adjudicate upon the issue under it to restore a balanced approach to an owner’s right over the pre-existing work and transformative use.
An observer approach gives more prominence to the merits of transformative use in applying copyright law in general and fair use in particular. This approach will convey a normative message that might shape legal interpretation by expanding the locus of copyright law from the confines of the author rights to a broader sphere of transformative use by addressing both authors and transformative use of the copyrighted materials. The research and discussion in Chapter 2 and 3 reveal that the traditional and the new approaches only excuse the use of pre-existing copyrighted works. Therefore, in order to encourage transformative use, copyright law must focus on the ability to promote transformative use.

B. Anticipated Argument for the Observer approach

The anticipated argument is how the Observer Panel through observer approach will cure the defects of the approaches adopted by the courts. This paper claims that the issues and defects of existing (Traditional and new) approach remedy this anticipated problem of the observer approach as to how the Observer Panel through the observer approach cure the defects of the existing approach.

In the chapter above, we discussed how courts in two jurisdictions in the United States of America and Canada have adopted traditional and new approaches to transformative use of copyrighted works. Under the traditional approach, we identified the defects, which are:

Affirmative defence and classified approach by the United States of America, the affirmative defence assumes that copyright law grants the owner of the copyrighted work absolute property right under the context of exclusive rights. Such an approach may excuse a particular use or impose liability for a use that would be transformative use, other than an infringement of the pre-existing copyrighted works. The classified approach limits the scope of the copyright protection as a mere exception. Further, under this approach the fair use doctrine wholly puts to rest the burden of proof demonstrating fair use application on the defendant. This approach tends to limit the transformative use as a tolerated use, under the grounds of the economic incentive to create a copyrighted work rather than an incentive to create a transformative and creative
work that copyright law aims to promote.

Whereas, Observer approach to transformative use of copyrighted works, gives a constructive method to the transformative use of copyrighted works. This approach conceptualizes the transformative use as permissible rather than an excuse. In the zest of innovation and economic development, the drafter of the copyright law reform and the court must consider the merits of an observer approach and benefits of scrutiny of the Observer Panel that will communicate a strong message that transformative use are legitimate use. This message from an Observer Panel may offer guidance to the public on transformative use, which ultimately promotes the goals of copyright law to promote progress.

Under the Restrictive approach, a preventive measure was adapted to the rights of the author and rested it on the purchaser of copyright works. Whereas, the Observer approach ensures to permit the transformative use not only ‘after the use’ but also ‘before the use’, with the major role of an educator, curator and researcher. Education and research on ‘before the use’ would influence behaviours to use the copyrighted works and incentivize new ideas to use the existing works. Under the legal transplant approach by Canada, the court relied and took inspiration from the cases decided by the court of the United States of America. Whereas under the proposed observer approach, the panel creates data and research for assisting the Court while deciding cases on appeal based on the laws and policies of the country. Further, sensitize and improve the balancing doctrine construction of transformative works.

Under the transformative use approach, the United States of America identified the use based solely on the purpose, object of transformative use of work use, and expanded the scope of the transformative use. The User’s right approach to transformative use of copyrighted works in Canada lacks a balanced approach and creates uncertainty for transformative use. Whereas under the observer approach, the observer’s role of a curator will ensure the balance and create certainty, they will lay emphasis through their research on how the copyrighted work and the transformative use of the work are alike and are two sides of the same coin which actively engage and promote progress.
Therefore, the observer panel provides a governing standard for fair use and fair dealing doctrine as a balancing doctrine. This paper lay emphasis on the merit of the observer approach as discussed above and reiterates that the query of the transformative use of copyrighted works should rest on the observer panel

V. Conclusion

This paper presents a modest proposal for the courts to adopt an observer approach to transformative use of copyrighted works. Even though, the traditional approaches and the new approaches adopted by the court in these jurisdictions suffer from defects. The defects in these approaches have sown seeds for proper approach to the transformative use of the copyrighted work as an Observer approach, which will balance between the restrictive and broad approaches adopted by the courts. Under the observer approach, the Observer Panel would assist the court by taking into consideration and supporting the copyright goals to promote progress and advancement in the public interest. An observer approach to transformative use of copyrighted works will be one of the key reforms in harmonization of the current copyright reform measures discussed in different jurisdictions and not confining copyright law merely to designing a proprietary regime in informational works.

The proposed Observer approach to transformative use under the balancing doctrine is a proper approach to advance the transformative use. The transformative use promotes learning absorption, transformation and dissemination of knowledge. It supports the goal of copyright, to promote the creation of new works for the benefit of the public and consequently focuses on stimulating activity that fosters creativity, learning, intellectual enrichment and progress. The transformative uses actively take part in these processes and are not parasites which benefit unjustly from the copyrighted works of other authors.
TRADITIONAL KNOWLEDGE AND INDIA’S BACKBEND ON YOGA

RASHMI RAGHAVAN

ABSTRACT
One of the biggest global trends of the 21st Century is that of practising Yoga, due to its physical, mental and spiritual benefits. Developed in India almost two millennia ago, its spread to the West has increased the number of practitioners as well as made it a commercially successful business. Any business can grow only in a strong intellectual property regime. The appropriate categorization of Yoga in any IP regime is highly disputed when it becomes the subject of copyright and trademark infringement lawsuits. Yoga, by and large is traditional knowledge, as it is an informational system giving a well-defined procedure in terms of postures, breathing techniques and a holistic philosophy to raise the standard of mankind. However, the law in terms of traditional knowledge has been sui generis because the WIPO Negotiations of the Intergovernmental Committee (’IGC’) on Traditional Knowledge (’TK’) has been unable to create an international instrument for the protection and exercise of rights of indigenous communities who claim to be collective owners of these types of TK. The situation becomes extremely precarious when knowledge like Yoga becomes widely diffused outside the community where it originated to claim monetary or moral rights over them.

The author argues that Yoga as a comprehensive system fits well within the current definition of Traditional Knowledge as an Intellectual Property. However, due to its widespread nature and easy accessibility, it cannot gain as high a ground for protection as secret or sacred traditional knowledge is currently granted. It’s defensive protection in terms of injunctioning private persons from claiming exclusive copyrights over Yoga is justifiable in the interests of a vibrant public domain, but this domain is highly exhausted if the State itself tries to gain positive protection by asserting moral rights of attribution and integrity over new forms of yoga or its commercialization or demands economic incentives for its stride in protecting TK through a centralized database. Furthermore, that such protection has a huge effect of diminishing the public domain and the natural process of hybridization and development of trends and cultures with respect to Yoga. Finally, the author feels that such extreme protection for an IP by a State in the absence of any indigenous community to represent Yoga, is a mockery of the social justice movement of

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appropriation of cultural identities being led by various African and Asian countries at the global level.

I. INTRODUCTION

Yoga was developed up to 2,500 years ago in India as a comprehensive system to go beyond worldly desires. This was attained by training the wavering mind to reach a state of pure consciousness.\(^1\) While Yoga is often equated with *Hatha Yoga*, the well-known system of postures and breathing techniques, Hatha Yoga is only a part of the overall discipline of Yoga. Other popular forms include Iyengar Yoga, Vinyasa flows, Power Yoga and even the sweat inducing Pilates Yoga.\(^2\) Today, millions of people use various aspects of Yoga to help raise their quality of life in diverse areas such as fitness, stress relief, wellness, vitality, mental clarity, healing, peace of mind and spiritual growth. The current number of Yoga practitioners is estimated at 200 million people and the market has the potential to reach almost 80 billion dollars by 2020.\(^3\) Everything from Yoga mats, belts, bricks to Yoga wear have helped make this ancient spiritual exercise a commercially successful business. For instance, Lululemon, the internationally popular yoga athleisure brand sells yoga beads for about $108.\(^4\)

At the outset it seems ridiculous to believe that something so spiritual as Yoga can come under the ambit of Intellectual Property (“IP”) Law. However, as our Prime Minister, Mr. Narendra Modi, remarked at a speech in the US Congress rather jovially, “No, Mr. Speaker, *India has not yet claimed IP rights over Yoga.*”\(^5\) Although made lightheartedly, India is trying its best to get its traditional knowledge (“TK”) protected through its Traditional Knowledge Digital Library (“TKDL”) to prevent mishaps like the turmeric and basmati rice patenting incident.\(^6\) It has documented Ayurveda, Siddha and Unani medicinal plants, as

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well as almost 900 yoga, poses in this library to protect them from being wrongfully exploited.7

Yoga being such a dynamic storehouse of information, this paper tries to locate it within the domain of Traditional Knowledge. This also warrants a discussion about whether Yoga can be called to be a part of the Public domain and whether India, as a State, can have any controlling rights over it. This paper also draws in various terms from the current negotiations for an international instrument for the Protection of Traditional Knowledge and Traditional Cultural Expressions by the Intergovernmental Committee (hereinafter “IGC”) at WIPO and tries to locate whether India, as the State can claim to be a valid beneficiary under the proposed instrument for such widely spread TK. It finally tries to locate the effect of such claims of new and emerging forms of Yoga in our world of cultural assimilation and on the richness of the public domain.

II. Yoga as Traditional Knowledge

The Western IP regime has since its inception attached value of raw materials at 0 whilst building the ground for innovation in terms of Patents, Copyrights and the like.8 Thus, the debate in many IP circles from the turn of the 21st century is to try and recognize the rights of indigenous communities in preserving this resourceful traditional knowledge and build systems where benefits acquired from their commercial exploitation could be shared with such communities.9 However, the WIPO itself has been unclear as to how far the domain of traditional knowledge extends. It defines “Traditional knowledge,” as including the intellectual and intangible cultural heritage, practices and knowledge systems of traditional communities, including indigenous and local communities. It includes skills, know-how, practices and innovations. This knowledge should have been preserved by communities and should be passed on in an inter-generational context.10 Currently, WIPO discussions conclude that this knowledge should be at least 50 years old.11

7 See Traditional Knowledge Digital Library (India), available at http://www.tkdl.res.in.
8 See Madhavi Sunder, The Invention of Traditional Knowledge, 70 LAW & CONTEMP. PROBS. 97, 103 (2007).
9 Id.
The origins of yoga can be traced back to Patanjali’s *Yogasturas* written almost in the 4th BCE. Decoding the current although debated definition, Yoga can be recognized as a knowledge system; as it includes *asanás*, *pranayáms* and a rich philosophy for sustained well-being. This system has been passed on for centuries among Indians and even outsiders who have sought the trove of this knowledge. Thus, Yoga perfectly ticks all the boxes in the context of traditional knowledge. Since traditional knowledge usually encompasses all the traditional domains of IP law; a system like Yoga; which has the possibility of being patented, trademarked or copyrighted ought to fit within the scope of Traditional Knowledge.

### III. YOGA AND THE PUBLIC DOMAIN

It is a firm belief that not all IPs are entirely products of the mind and that they derive their inspiration from a rich and vibrant public domain. For instance, although patents are inventions which are novel and have never seen the light of day before, in actuality, a lot of them derive inspiration from their surroundings to better pre-existing systems in order to bring about efficiency in the present society. Thus, IP survives not only on the basis of creative minds but also on a robust public domain because people are free to copy from these sources and keep the cycle of innovation alive. Thus, the Public domain can be roughly categorized into three parts:

- **IP Free Material**: Products which couldn’t claim intellectual property rights due to lack of sufficient novelty or originality. E.g. adaptations similar to Macbeth or Othello.
- **Material unavailable for Private Ownership**: Those things which IP law does not protect by Policy e.g. plants, scientific elements etc.
- **Material that is available and accessible**: This includes products which form the common heritage of man and are free for use by all. It also includes those products over whose IP rights expire, e.g. patents post 20 years, copyrights post 60 years etc.

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15 Id.
However, during the IGC negotiations, there was a huge uproar over what knowledge already existed in the public domain and whether it ought to be protected. Indigenous communities debated that the current viewpoint by Western countries where the public domain is that knowledge which does not already have IP protection and therefore is freely accessible to build on has led to a huge appropriation of the cultures and practices of the natives.\textsuperscript{16} Thus, in the famous case of \textit{Quassia Amara} (bitterroot), researchers patented the molecules of the said plant which had a cure for Malaria by justifying traditional doctrines of Patent law which grants patents for an inventive step on the existing stock of knowledge. Following this incident, the local Paliku people of French Guiana were highly offended at the misappropriation of the traditional knowledge that they so tightly held for generations. They also claim that this has led to a blatant disregard towards their voice in how this knowledge should be utilized or their shares in their commercialization.\textsuperscript{17} Usage of their knowledge to claim IP rights like in the case of \textit{Tibetan rugs}, which have become commercially successful home décor, is a sign of injustice towards such communities.\textsuperscript{18} Thus, these communities claim that even though in status quo, such skills are in the public domain, such knowledge should not be freely accessible to all. These systems must constitute protected TK, and cannot be exploited by the loopholes in the current IP regime.

Therefore, indigenous communities argue that not all knowledge that is in the public domain is automatically free for use by all. This has given rise to the concept of “Publicly available” which separates TK in the public domain versus that which is publicly accessible. This includes traditional knowledge that has lost its distinctive association with any indigenous community and that as such has become generic or stock knowledge, notwithstanding that its historic origin may be known to the public.\textsuperscript{19} This concept tries to separate those forms of knowledge that are secretly or sacredly held among such aboriginal communities to those which have widely dispersed into the global culture.

Turning back to Yoga, firstly, there are no descendants of Patanjali who can solely claim that they are an indigenous community (unlike the Paliku people) who are the only ones with the know-how of Yoga and that it is essential for this system to be secret for their


\textsuperscript{17} \textit{Id}., at 4.

\textsuperscript{18} \textit{Id}., at 17.

\textsuperscript{19} \textit{Supra}, note 14.
community’s spiritual and cultural well-being. Secondly, Yoga is not closeted knowledge. It is accessible in a multitude of ways. To the ones who want to learn this practice and can afford the fees, it is a Bikram Yoga or Iyengar Yoga tutorial; whereas for others it is reference to yoga journals or magazines and for the ones who want to spend the least, it is special Yoga channels curated on YouTube by urban and elite millennials which surprisingly do the trick too. Thus, although the historic origin of Yoga can be traced back to India and it has great spiritual value in our philosophy, due to its geographical expanse and its lack of touch with any indigenous community in India, it cannot come under the strict sense of protected traditional knowledge. This system of information is publicly accessible and is indeed a part of our vibrant public domain.

IV. DEFENSIVE PROTECTION OF YOGA

Since there hasn’t been an international framework governing the exchange of TK within communities, lawmakers have created *sui generis* regimes governing traditional knowledge. Examples include the Indigenous Peoples Rights Act of the Philippines and Guatemala’s Cultural Heritage Protection Act. For instance, in New Zealand, all Maori art is excluded from the domain of Trademark law. In India, TK and its derivations are denied patent protection by virtue of Section 3(p) of the Patents Act, 1970.

For the most part, these rules only apply within the countries setting them. The net result is that, globally, the treatment of traditional knowledge varies radically by jurisdiction, and the governments of nations from which traditional knowledge is taken have little or no power to control uses of that knowledge in other nations. In this respect, the law governing traditional knowledge today resembles the law governing patents and copyrights in the mid-nineteenth century, when each country set the rules applicable in its own territory—and, in shaping those rules, typically favoured its own citizens and incorporated locally dominant ideologies. In this view, India has set up a defensive protection mechanism to safeguard the exploitation of Yoga by IP rich countries. Since Yoga cannot be attributed to a single community, it is India as the State which takes upon itself the responsibility for

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21 Supra, note 16.

22 Section 3: What are not inventions:
The following are not inventions within the meaning of this Act.
(p) An invention which in effect, is traditional knowledge or which is an aggregation or duplication of known properties of traditionally known component or components.

23 Supra, note 16.
protection of its TK compared to indigenous communities who take upon this stance by themselves without any government intervention for the protection of their rights.

This defensive stance can be attributed to the outcome in the Bikram Yoga Copyright\textsuperscript{24} case. Bikram Choudhury, who is one of the most successful Yoga instructors in the U.S, runs his business by replicating the temperature conditions in India. Thus, his yoga classes ran at a temperature of 40°C designed in a manner to improve the results of traditional yogic poses. Bikram tried to assert Copyright over a sequence of 26 asanas and 2 breathing postures as a compilation of his original choreographic authorship based on his book ‘Bikram’s Beginning Yoga Class’. When he tried to injunct fellow competitors (Evolution Yoga) from applying the same technique and asserted his copyright, the Court held that while copyright to a sequence of yoga poses was unheard of; it was “theoretically possible”. After this judgment, the US Copyright Office had to come out with an official clarification that Yoga and other exercise routines were not envisioned to be a part of the ambit of Copyright Law by Congress.\textsuperscript{25} On appeal, the Court of Appeals held that the sequence was not protected by copyright as it was a system designed to develop the health of individuals.\textsuperscript{26} Secondly it held that the subsisting copyright existed only to the book and not the sequence of poses ‘compiled’ in that book. Moreover, copyright law protected the expression of ideas, i.e., the manner of their expression and not the ideas themselves and everyone was free to develop on them. Although Bikram Yoga claimed that the sequence had grace and an aesthetic appeal attached to it, the Court found it to be different from a choreographic work because such a work requires dance movements and patterns to be presented as an organic whole. Bikram’s sequence was fairly simplistic and did not meet the threshold of choreographic authorship in the Court’s eyes.\textsuperscript{27} Finally, it was held that Bikram’s claims over the 26 asanas and 2 breathing techniques were areas that were excluded from copyright protection.

As if this wasn’t enough, in the Charlotte Anderson case,\textsuperscript{28} the plaintiffs sought to restrain the defendants from teaching techniques of Pranic Healing as they claimed to have inherited the copyright over the book on the same subject. Here, the Delhi High court

\textsuperscript{24} Bikram’s Yoga College v. Evolution Yoga, No. 13-55763 (9th Cir. 2015).
\textsuperscript{26} Supra, note 24.
\textsuperscript{27} Supra, note 25.
\textsuperscript{28} Institute of Inner Studies v. Charlotte Anderson, 2014 SCC Online Del 136.
applied that the copyright claim extended only to the manner in which the Pranic Healing techniques were expressed in the book and not to their practice in daily life. It also clarified that such poses do not rise to the level of dramatic works under Indian Copyright law, because, to constitute a dramatic work, the work must not only have a capacity of being performed but also should be done with the intention of being performed. Yoga and Pranic Healing have been considered to be simplistic in nature and due to lack of sufficient choreography; they do not fit into protected areas of dramatic works. Moreover, the Court clarified that names like Pranic Healing found their source in ancient Indian Yogic texts, and thus lacked the distinctiveness for granting of trademark. Such terms were *publici juris* in the eyes of law and did not distinguish the maker's products from the rest.

Thus, the Courts have continuously ruled for the need to keep Yoga outside the reach of existing IP regimes unless sufficient novelty or originality can be proved. All of these untoward developments towards the encroachment of Yoga led the Indian Government to maintain a public database of almost over 900 yoga poses in the TKDL to prevent them from being trademarked or patented. However, the Indian government has not stopped at this point and is pushing for positive protection in the field of TK.

### V. Positive Protection for Yoga

Apart from ensuring that researchers, artists or conglomerates do not encroach on the practices that are sacred to them; indigenous communities have also sought to confer certain positive rights over works that belong to them. The UN Declaration on the Rights of Indigenous People bears evidence to this. Article 31 of this Declaration states “*Indigenous peoples have the right to maintain, control, protect and develop their cultural heritage, traditional knowledge and traditional cultural expressions, as well as the manifestations of their sciences, technologies and cultures, including human and genetic resources, seeds, medicines, knowledge of the properties of fauna and flora, oral traditions, literatures, designs, sports and traditional games and visual and performing arts. They also have the right to maintain, control, protect and develop their intellectual property over such cultural heritage, traditional knowledge, and traditional cultural expressions.*”

Although there is no binding value of such an instrument, it recognizes the right of such communities to positively assert control over knowledge that originated from them and

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attain any intellectual properties over such fields. Thus, the defensive stance of maintaining the vibrancy of the public domain goes away when nations like India can assert the right to control the manner of dissemination of such information. The larger looming threat is that of the State itself claiming IP over such knowledge which it sought to prevent against people who wanted to gain wrongfully off the conservation efforts of natives. The question of whether one would need a license to have a Yoga studio because of its commercial aspect is scary because traditional knowledge rights cover the entire domain of a particular art and thus effectively restrict the entry of any new practitioners and innovators.\textsuperscript{30} This would effectively mean that the entire branch and not just one \textit{asana} or one \textit{pranayama} could come under the control of the state. No other IP protection poses the threat of diminishing the public domain as far as this right does, especially when for generations this knowledge has been widely disseminated and the benefits have been enjoyed by all. Although this provision of exclusive control for widely disseminated knowledge has not been entirely upheld for Yoga by the Draft Articles because it is neither secret nor is it narrowly diffused, the threat of economic benefits in the form of royalties for knowledge that may be publicly available looms over the WIPO discussions where no consensus has yet been reached.\textsuperscript{31}

The second issue is that of attribution and integrity or moral rights claimed by the communities for knowledge that is widely disseminated yet, it holds spiritual significance for them. Moral rights can be claimed over works that damage the reputation of the original work or against their destruction or selective portrayal.\textsuperscript{32} This right was effectively exercised by the \textit{Mowanjum} tribe over the \textit{Wandjina} spirit image. The tribe believed that the Wandjina were spirits that descended onto the Earth and created all forms of human life making them highly sacred amongst them. Gradually, when an artist started painting graffiti of the Wandjina image along the walls of Perth and another commissioned its statues for public display, the community was outraged as it was disrespectful to their beliefs to portray such images in public and photograph them. Under pressure from the tribe, the artist then agreed to stop making the graffiti and the statue commissioned was taken away by a litigation proceeding.\textsuperscript{33}

\textsuperscript{30} \textit{Supra}, note 13.
\textsuperscript{31} See Initial Draft Report, available at WIPO/GRTKF/IC/37/17 PROV.
\textsuperscript{32} \textit{Amar Nath Sehgal v. Union of India}, 2002 SCC Online Del 390.
Considering the case of Yoga, Indian philosophy already values it as highly sacred as it is essentially a way to attain consciousness and meet God. The physical postures and breathing techniques are designed to control and discipline the mind, thereby keeping it away from any distractions. Apart from this, Yoga adds a huge value to our rich cultural heritage when hundreds of foreigners, including the Beatles, came to India to seek the bliss of Nirvana from ancient and wandering yogis. Contrasting this to the new and upcoming forms of yoga, like Pot-Yoga, Beer-Yoga and Nude-Yoga, India could affirmatively restrict such people in different lands from teaching and earning off of such type of Yoga if it does not fit within the philosophical doctrines and cultural overtones surrounding its practice.

The effect of moral rights should also be evaluated from their effect on the possible natural course of evolution of such knowledge and democratic cultural hybridization. The popular dance form Tango, actually sees its origins in African slave migrants to Latin America during the 18th Century. This dance form called Cadombe was very aggressive and violent then, but post the slavery movement, its popularity among the natives declined. The poor whites living in the slums mixed Cadombe with other dance forms calling it ‘Canyengue’. Canyengue then faded in the 1930s and the revival of this dance by wealthy Uruguayans is what we call Tango today. This tells us that cultural assimilation and hybridization plays a huge role in the evolution of any traditional practice. Similarly, Yoga in itself is not the same as it was 2000 years ago. For instance, Iyengar Yoga introduced the concept of artificial instruments like belts and blocks, to extend stretches in poses which could not be done by only the limbs of the body. Vinyasa flows are a type that evolved in

34 Chatterjee, supra, note 1.
36 Janel Chatraw, Did the Beatles introduce yoga to the Western world?, (last visited on 29/12/2018),https://people.howstuffworks.com/beatles-yoga.htm.
the 1980s that involve yogasanas not in stances but in flows with the aim of improving agility, whereas Power Yoga and Pilates Yoga combine aspects of Cardio workouts and Pilates to strengthen the body's core.\textsuperscript{41} Therefore, the evolution of Yoga to what it is today has been dependent on the free flow of the knowledge of Yoga among different people and their ability to improvise on this traditional practice to make it an interesting workout choice for most youngsters. Thus, India practically cannot claim rights over a practice which has seen much innovation in terms of the aim of practice as well as the method of performing it. Moreover, in countries like the U.S, Yoga is also treated as a lifestyle choice. Thus, yoga, veganism, minimalism and other such values go hand in hand and have become a part of the daily routine of many Americans.\textsuperscript{42} Giving moral rights over such areas where a state could determine which practices of an exercise are morally correct or incorrect and which ones are allowed is subjective and will depend on what levels of mutilation, selective portrayal or offensive depiction of this form would harm the sentiments of the State. Given the intermingling of Yoga with politics in India, Yogic leaders or Parliamentarians could very well dictate terms of morality that the State should follow. This could mean a chest-thumping approval for \textit{Sattvik} (moral) Yoga and prosecution for \textit{Tamasic} (immoral) types of Yoga practised abroad. Such subjective stances could very well stifle the knowledge we as Indians so freely disseminated.

\section{VI. India’s Claims at the IGC}

The Intergovernmental Committee on Intellectual Property and Genetic Resources, Traditional Knowledge and Folklore was formed by the WIPO in the year 2000, to facilitate negotiations between countries to build a binding international instrument to protect traditional knowledge, traditional cultural expressions and genetic resources. While turning to India, it is important to understand the context surrounding India’s past with traditional knowledge. Apart from the specific debacles with respect to Yoga by Bikram Choudhury and Charlotte Anderson - household items like \textit{Turmeric} and \textit{Neem} were also sought to be patented for their medicinal uses. Here, India had to spend a lot of time and resources proving the benefits of such items to be a part of India are TK and passed down knowledge making the patent claims fall for being non-novel and non-inventive. Thus, India has demands to protect knowledge that is publicly available but finds its origins in

\textsuperscript{41} Id.

and is a part of the everyday life of its citizens. This is reflected by India's statement to the UN which reads as "India welcomes the incremental progress made in the work of IGC and looks forward to an early finalization of an International legal instrument for effective protection of Traditional Knowledge, Traditional Cultural Expressions and Genetic Resources. India would like disclosure, prior informed consent and equitable access and benefit sharing based on mutually agreed terms to be included in the international instrument/instruments. From India's perspective it is important to find adequate ways to protect freely available traditional knowledge and traditional cultural expression, which may subsist in codified and non-codified forms." Thus, India's demands range from Prior Informed Consent ("PIC"), Mutually Agreed Terms ("MAT") and equitable benefit-sharing for people who want to exploit their traditional know-how's. India's patent system already requires that prior disclosure of any use of traditional elements should be made to the patent office. However, PIC, MAT and equitable access give it an opportunity to claim remuneration similar to license fees over any new intellectual properties built on the basis of its documented or undocumented TK.

The justification that India provides is that, although many indigenous communities have built and improved various skills that form today’s TK, the State has made a major stride by documenting most of them. Thus, even if the local communities have died down or aren't locatable; the State must be rewarded as a beneficiary like any other community. This argument runs on the basis of Locke’s labor theory, which rewards man for efforts put into creating a socially beneficial product. However, this does not have a strong foundational ground in terms of the effort put into “preservation” rather than “creation”. The original authors of such intellectual property like Yoga have already created the property and others have already built it into different forms resulting in its form as today. Therefore, the State’s claim for reward for their documentation and subsequent preservation seems like asking for a reward for a merely manual exercise.

This concern was equally shared by other nations at the negotiations. They believed that rewards to the State for documentation of know-how’s of, say pizza which was traditional

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43 Statement by India, Delivered by H.E. Mr. Ajit Kumar, Ambassador/Permanent Representative of India to the United Nations Offices in Geneva, on the occasion of 56th Series of the Meetings of the Member States of WIPO.
44 See Guidelines for Processing of Patent Applications Relating to Traditional knowledge and Biological Material, last seen on 29/12/2018), http://www.ipindia.nic.in/writereaddata/Portal/IPOGuidelinesManuals/1_39_1_5-tk-guidelines.pdf.
45 World Intellectual Property Organization, supra, note 112.
to Italy(393,122),(463,155), could create an anti-IP atmosphere, where every commercial entity could end up asking for prior permission and paying compensation to Italy. This would ultimately mean that there could be an IP-Tax for something that was earlier common and free. Thus, almost every practice could end up asking for PIC & MAT, like Greece for the use of the Pythagoras Theorem, even though it is widely available because it was documented as TK in Greece’s database as an informational system of mathematics. Thus, although protection and benefits seem viable for knowledge that is closely restricted to certain communities, rewards to nations for practices originating there and documented by them would end up creating a hostile environment for any IP to grow and flourish.

VII. Conclusion

The IP system has always tried to balance innovator’s rights for their beneficial contributions to society with the rights of access to such contributions to the people at large. In this process, while recognizing innovators, a lot of their research which depended on researching the lifestyle of tribal people and learning about their medicinal herbs and arts came across as merely a preliminary stage in the ultimate process of innovation. Thus, towards the 21st century, there was a prominent campaign in the international community to recognize the rights of these poor and deprived tribes. Prior disclosure and benefit sharing were seen as measures to alleviate the conditions of the global poor. Now indigenous communities have also demanded to have the right to restrict access to any of their systems and injunctions and damages for violations of the same. Even if these demands are considered justifiable for closely-knit TK, the allocation of rights for widely spread TK to nations seems unjustified when these rights are being thought of to alleviate poverty and as a means of social justice. Monetary claims by states like India in the absence of such communities seems like an overstretch to compensate someone (here, the State) instead of those who may have deserved them if they were still around. A claim to benefits from TK seems overdone when no specific efforts can be attributed to the State in terms of revival and rejuvenation of systems other than those of documenting them into a database. Even if it is conceded that such digitization takes a lot of decoding of ancient literature and texts, it cannot justify why the benefits for such efforts become automatically transferable to the State for digitization of previously scattered traditional knowledge.

As discussed in one of the negotiations at the IGC, the level of dissemination of the knowledge to the outside world would be a decisive factor when TK became a part of the

46 Id.
public domain. In this sense, Yoga has not been confined to any native community in India, and its practices have been widely accessible to others by means of other practitioners, publications and the internet. The public domain character of Yoga is valuable as it allows for its regeneration and revitalization. Neither members of an indigenous community nor others would be able to create or innovate based on the intangible cultural heritage if exclusive private property rights were to be established over it. These property rights could be claimed by Yogis like Bikram Choudhury or even states like India by demanding rights of attribution and integrity for Yoga commercialized by third persons. By overprotecting cultural expression, the public domain diminishes, leaving fewer works to build on. Therefore, indigenous artists wishing to develop their artistic traditions by reinterpreting traditional motifs in non-traditional ways, and wanting to compete in the creative arts markets, may be inhibited by these regimes.

The same goes for Yoga when the sentiments of a State, say their opinions on the “correct” way to perform Yoga would depend upon political views and agendas, which could be backed by certain yogic gurus. Thus, popular sentinels like Baba Ramdev could influence the government on their stand towards modern Yoga. This could inhibit further research and improvisation to this age-old system to improve health and general wellbeing because it does not conform to their ideas of morality or cultural pride. The consequence is that these rights to States may freeze the culture in a historic moment and deny the modern generation a contemporary voice.

Yoga today hardly confines to the doctrines of Maharishi Patanjali. Yoga poses, done either in flows or by holding a pose for several minutes, using of high-quality yoga wear and yoga gear accompanied by Sanskrit incantations, nature music and lit candles are prominent features of modern-day Yoga. In the contemporary world, traditional knowledge techniques survive only in this way, not as static but as continuously evolving as humans innovate around them to meet current needs and solve contemporary problems. Knowledge requires constant human ingenuity to sustain it. Traditional knowledge, WIPO tells us, “is being created every day and evolves as individuals and communities respond to

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the challenges posed by their social environment". Today's Yoga tries to combat modern evils like obesity, PCOD, hyper stress, heart disease and the like by either conforming to traditional forms like Hatha Yoga while many others try experimental forms like Weed-Yoga and Beer-Yoga. Thus, traditional knowledge in Yoga has become a part of the evolution of culture and lifestyle of people across the world. Asking for a fee for commercializing Yoga, seems like being penalized for reviving, modernizing and running a successful business out of traditional knowledge. Yoga is a system for everyone's benefit, even commercially successful entities. It must be freely left to be and grow as a part and parcel of 21st century traditions without any State trying to monopolize it on the claims of heritage or culture.