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EDITORIAL NOTE

The International Journal of Law & Management Studies has always sought to contribute towards the endeavour of strengthening and facilitating legal ease for businesses in India. The journal looks at development and evolution of commercial laws in light of judicial interpretation, authorities and other resources of value. Commercial Laws are the lifeblood of business in India and appropriate regulations and legislations should be in place in order to both facilitate and regulate business in India.

The Editorial Board of IJLMS seeks to place emphasis on the evolving commercial law landscape in India particularly over through the various contemporary developments of law and legal practice. Among these developments, notable ones remain the introduction of Goods & Services Tax, the activist garb of the Competition Commission of India and the merging of tribunals in India. The GST (Goods & Services Tax) replacing many types of taxes, bring them under one umbrella, in the Indirect Tax Regime has substantially changed India's taxation regime. The introduction of GST has in a way raised a constitutional aspect of Schedule VII (Division of Powers) and opened a new chapter in the Constitution paving way for Cooperative Federalism, a concept envisaged by the makers of the Constitution. The Competition Commission of India, a statutory body formed by the Competition Act, 2002 has enlarged its domain and dawned an activist role by penalizing businesses which do not correspond and attempt to impair free market spirit. Contributions from varied areas have been received in this edition. In the crucial field of Intellectual Property, contributions ranging from International landscape of IP, Trade Secrets, analysis of Judicial Interpretations and Standard Essential Patents. While in case comments, we have seen analysis of DU Photocopy Judgment and Aadhaar case. Finally, manuscripts have been published relating to Hostile Takeover (concerning Takeover Code) and Multilateral Investment Courts among others. We hope to receive contributions on the areas focused above in order to expand our reach. While we thank our authors for their valuable contributions, we would also be grateful to our readers for their continued support and hope it would be an enriching experience.

Sameer Avasarala

Editor-in-Chief

IP AND TRADE, BEYOND THE PACIFIC

Ramya Reddy¹

ABSTRACT

As the 45th President of the United States of America was being sworn in, Japan ratified the Trans Pacific Partnership Agreement. Years of negotiation led to the moment where USA formally withdrew from the 12 nation Trade pact, rendering the deals' coming into force impossible.

In a globalized world, international relations play a significant role at national and international levels in terms of how a country evolves. And so the idea of a modern trade deal which would enhance the scope of trade relations between nations, by inclusion of several aspects that had connections to trade, came into the picture. The idea was to create a market with a high degree of harmonization of laws governing trade rules and varied intricate specifications relating to services.

The Trans Pacific Partnership Trade Agreement (TPP) established a free-trade zone amongst the nation's party to the agreement, thus, creating the largest market for trade after the European Union². The scope of the agreement extends beyond trade, and envelops the responsibility of building a global economy. It seemed like an appropriate measure to adopt in order to foster collective growth.

Through this paper, I will analyze the provisions of the Trans Pacific Partnership Trade deal in relation to IP, its relation to recognized international instruments, and study the influence of its former key member nation, USA, on the future of the agreement.

Keywords: International Cooperation, Intellectual property, Trans Pacific Partnership, Free Trade Agreement

INTRODUCTION

The Trans Pacific Partnership Agreement is the successor of the P4 Trade Agreement. Signed by Brunei, Chile, New Zealand and Singapore, the Agreement came into effect in 2006. This later

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² The Single European Act (SEA), 1987, which introduced the term 'internal market' to indicate the removal of all obstacles to the free movement of goods, services, capital and persons; Article 4 of the Treaty on the functioning of the European Union (TFEU), the Lisbon Treaty, which addresses shared competence between the Union and the member states on matters relating to internal market.

evolved into the TPP agreement with other nations such as USA, Australia and Japan joining in. The countries within its scope account for 40 per cent³ of the world's economic output. The objective of the TPP agreement is to establish a comprehensive regional agreement that promotes economic integration to liberalise trade and investment, to bring economic growth and social benefits, to create new opportunities for workers and businesses, to contribute to raising living standards, benefit consumers, reduce poverty and to promote sustainable growth.⁴ Apart from removing tariffs on most goods, the agreement aims at cooperating between the countries on major issues such as intellectual property and opening opportunities in the field of investment and services. The nation's party to this agreement recognize their intension to coexist with the obligations and rights bestowed upon them by recognized international agreements.⁵ Amongst that, it includes the General Agreement of Trade and Tariff (GATT), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the mechanisms of the World Trade Organization (WTO).

TPP AND ITS RELATION TO THE INTERNATIONAL IP FRAMEWORKS

GATT acts as WTO's principle rule book for trade in goods. The members of WTO are part of a non-discriminatory trading system wherein each country's exports will be treated fairly in other international markets, in return for the same treatment for the imports from other countries in its own market. GATT created rules for dealing with trade in services, relevant aspects of intellectual property, dispute settlement, and trade policy reviews.

The Trans Pacific Partnership Agreement recognizes that foreign markets may not always have available the instruments to furtherance technological innovation, which becomes necessary when the aim is to collectively build a market that benefits all. However, the agreement simultaneously recognized the need to protect the contributors of these innovations beyond their respective national boundaries when dealing internationally. And so, for this purpose, the agreement recognized the general provisions of several conventions, protocols and treaties in order to protect and enforce the rights in relation to intellectual property. This includes the implementation of

³ Baker BK (2016): Trans-Pacific Partnership Provisions in Intellectual Property, Transparency, and Investment Chapters Threaten Access to Medicines in the US and Elsewhere. PLoS Med 13(3): e1001970.

⁴ Preamble, Trans Pacific Partnership Agreement.

⁵ Article 1.2: Relation to Other Agreements, Chapter 1, The Trans Pacific Partnership Agreement.

multilateral intellectual property agreements, such as those concluded or administered under the auspices of WIPO⁶.

Under TPP agreement, the provisions of GATT and functions of WTO are flexibly incorporated. It not only has a WTO-style dispute settlement process, but also recognizes the enforcement and relief mechanisms under the TRIPS agreement. A criterion for becoming a member of the TPP agreement is the affirmation by the respective states of accession to the Berne Convention, Paris Convention and the Patent Cooperation Treaty. This requirement promotes the objective that the TRIPS agreement tried to achieve through its provision under Article 2⁷. And TPP goes further to promote ratification of various international agreements such as the Madrid Protocol, Budapest Treaty, Singapore Treaty, WPPT et cetera as a mandatory requirement to be fulfilled by the date of the agreements' entry into force⁸. By tying the issues that the TRIPS agreement addresses to a trade deal, it is more likely that countries under the TPP agreement will actually fulfill their commitments and obligations in the international intellectual property market.

The aim of TPP, which is identical to the TRIPS agreement⁹, was to promote technological innovation and distribution of technology while protecting the rights and obligations of the producers and users in a manner conducive to social and economic welfare.¹⁰ Within its scope, it calls for measures to prevent abuse of intellectual property rights by right holders and prevent practices which unreasonably restrain trade or adversely affect the international transfer of technology¹¹. To adopt these measures is within the discretion of the parties in the way they deem fit within their national legislations¹².

The guiding principle of *cooperation*¹³ was the key to building one international market that benefited all.

⁶ Article 18.13 (f), The Trans Pacific Partnership Agreement

⁷ Article 2.2 of the TRIPS agreement states: Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

⁸ Article 18.7, The Trans Pacific Partnership Agreement.

⁹ Article 7, TRIPS agreement.

¹⁰ Article 18.2, Chapter 18, The Trans Pacific Partnership Agreement.

¹¹ Article 18.3, Chapter 18, The Trans Pacific Partnership Agreement.

¹² Article 18.5, Chapter 18, The Trans Pacific Partnership Agreement.

¹³ Article 18.13, coordination, training and exchange of information between the respective intellectual property offices of the Parties to the agreement, TPP.

SCOPE OF TPP IN THE FIELD OF INTELLECTUAL PROPERTY

The agreement went above all in regard to protecting intellectual property rights of nationals of another country by according them a treatment no less favourable than it accords to its own nationals¹⁴, following the same protection provided under the TRIPS agreement¹⁵. The agreement would make accessible public databases of registered intellectual property rights, emphasizing on the importance of transparency¹⁶.

TPP provides broad trademark protections, including for sounds, collective marks, and certification marks, as well as specific procedural protections for trademark owners. In addition, TPP requires Parties to provide for “appropriate measures¹⁷” to refuse or cancel trademark registrations if the use of that trademark is likely to cause confusion with an identical or similar well-known trademark¹⁸. In this process, it provides protection for brand owners.

The agreement extended the scope of protections guaranteed under the TRIPS agreement. The TPP extended the protection for copyright from +50 years from the life of the author, to +70 years for works created by individuals, and 70 years after publication or after creation for corporate owned works.¹⁹ This strengthened the right holder’s protection, as opposed to the protection of public interest. The agreement adopted criminal sanctions for copyright infringement done without commercial motivation. Users could be jailed or charged heavy fines over file sharing, and may have their property or domains seized or destroyed even without a formal complaint from the copyright holder.

TPP affirms long-standing international obligations to grant patents in all fields of technology for inventions that are new, involve an inventive step, and are capable of industrial application²⁰. However, TPP doesn’t specify the term of a patent, and hence the minimum term of 20 years from the date of filing²¹, as specified under the TRIPS agreement, would have likely prevailed. There

¹⁴ Article 18.8, Chapter 18, The Trans Pacific Partnership Agreement.

¹⁵ Article 3, National Treatment, the Trips Agreement.

¹⁶ Article 18.9, Chapter 18, The Trans Pacific Partnership Agreement.

¹⁷ Article 18.22 (4) : Well-Known Trademarks, The Trans Pacific Partnership Agreement.

¹⁸ Article 18.20: Use of Identical or Similar Signs under Section C, The Trans Pacific Partnership Agreement.

¹⁹ Article 18.63: Term of Protection for Copyright and Related Rights, The Trans Pacific Partnership Agreement.

²⁰ Article 18.37: Patentable Subject Matter under Section F Subsection A, General Patents, TPP.

²¹ Article 33, the TRIPS agreement.

are provisions under TPP that are not available under the TRIPS agreement, that provide for an extension of patent term in certain circumstances. While the article requires the Parties to provide for patent term adjustment to compensate for unreasonable delays in a Party's issuance of patents²², it also permits a party to exclude from the determination of such delays, periods of time

- -that do not occur during the processing or examination of patent application by the granting authority
- -that are not directly attributable to the granting authority
- -that are attributable to the patent application.

It is very important to note that the very purpose of rationalizing patent terms to twenty years under the TRIPS agreement was to factor administrative and regulatory delays²³.

In order to take action against infringement of intellectual property rights, parties to the agreement are required to adopt effective remedies to prevent infringements. These procedures need to be adopted in a manner which doesn't create barriers to legitimate trade and provides for safeguards against future abuse²⁴.

While some would argue that the adoption of the TPP agreement would lead to broader regional and international cooperation, some are celebrating the in-admittance of the trade deal by the USA.

ANALYSIS AND CONCLUSION

The TPP agreement has been criticized for several reasons.

Firstly, it was accused of catering only to the rights of right holders instead of the needs of the public. The TPP's provisions that recognize the rights of the public are non-binding, whereas almost everything that benefits rights holders is binding.

For instance, as per the strategy followed by the TRIPS agreement, TPP has provisions in place not permitting member states to exclude patents on pharmaceutical products²⁵. This position has been held by nearly 50 countries, including India. Although it can be argued that it is necessary to have such a provision in place for minimum IP protection standards, by granting exclusive

²² Article 18.46: Patent Term Adjustment for Unreasonable Granting Authority Delays.

²³ Crouching Tiger, Hidden Dragon: THE TPP'S IPR Chapter – WP/CWS/200/16/Rev.

²⁴ Article 18.71: General Obligations, The Trans Pacific Partnership Agreement.

²⁵ Section F: Patents and Undisclosed Test or Other Data, The Trans Pacific Partnership Agreement.

patenting rights to the inventors or creators, this system commercializes affordable and flexible access to public health care. Thus, defeating the moral purpose of protecting the legitimate interest of public at large. Further, the protection of investments in relation to IP²⁶ offer pharmaceutical companies means to monopolize on drugs, with adequate protection for their investment.

The protection provided under TPP was unevenly distributed, in a manner economically beneficial to the right holders. Harboring respective priorities became a subtle theme for the trade pact.

While WTO gives developing countries some flexibility in implementing their commitments, TPP does not. The US negotiators pushed for the adoption of copyright measures far more restrictive than currently required by international treaties. These provisions wouldn't require the US to change its laws. But the IP chapter of the agreement included many requirements that are more restrictive than current international standards, and would have required significant changes to other countries' copyright laws. That raised serious concerns about other countries' sovereignty and the ability of their national governments to set laws and policies to meet their domestic priorities.

The aim that TPP set out to achieve, of cooperation & collective growth, failed with no longer having mutually advantageous rules. The new US administration of President Donald Trump has said its trade strategy is to protect American jobs, and that starts with the withdrawal from the TPP trade pact. The move no longer contributed to the harmonious development and expansion of world trade that TPP set out to achieve.

By incorporating provisions with regard to Transparency from the TRIPS agreement and other international treaties, TPP attempted to create a trans-pacific data base that would generate access to the intellectual property born in different parts of the world. Growth is through knowledge sharing, and this was perfectly elucidated through the creation of large scale access to a market with an international protection regime that would cater to innovators and creators of IP from all walks of life.

The agreement understood the nuances of the market place, and provided added protection for trademarks to tackle infringements by identical and similar marks. By having a mechanism in place for cancellation of registration of similar marks, TPP reduces the scope of infringers from

²⁶ Chapter 9, The Trans Pacific Partnership Agreement.

deceiving the market. And access to cross border markets enables established trademarks to spread awareness and avoid confusion in terms of identification.

By extending the scope of copyright, not just by extension of the period of validity, but also by incorporating extreme criminal sanctions on infringers irrespective of motivation, the agreement manages to raise the protection standards of copyright not just against IP competitors but also general public with access to the intellectual property.

US having the largest economy amongst the 12 nations, is a key player in the international market. The agreement required the two biggest economic powers to bring it into force. Despite of Japan being on board, US pulling out of the agreement presents a bleak future for TPP. Without the involvement of the US, the agreement would be fundamentally altered. But the prospect of the other nations adopting it irrespective of US involvement, by reviving the existing deal, seems to be the next move in international trade. Countries might focus more on bilateral agreements and furthering their trade relations on a global level. If TPP was to come into force, it would significantly change global law related to patent and copyright issues. TPP requires member countries to provide a range of IP enforcement mechanisms, including civil and administrative procedures and remedies, provisional measures, border measures, and criminal procedures and penalties to build upon the IP enforcement commitments in the WTO Agreement on TRIPS and later agreements.

The importance of protection of Intellectual property rights is deeply engraved in all the other binding agreements and treaties that most of the nation's party to TPP are members of. We are yet to see what the agreement has in store for the trade relations, especially in terms of IP, between the other Pacific nations. However, irrespective of the criticisms that the Trans-Pacific Agreement faced, it is justified to say that the world has missed out on one of the biggest trade deals integrating tangible protection for intellectual property in the recent years.

INNOVATION IN INDISCRETION : ADVOCATING THE NEED OF A TRADE SECRECY LAW IN INDIA

Aishwarya Abhijit & Archishman Chakraborty²⁷

ABSTRACT

Securing a sound Intellectual Property regime is essential for the growth of Economic activity in any country. In today's world of knowledge based economies, innovation in the form of research and development serve as the key to economic growth and address social and environmental problems. To successfully address the issues facing the nation today, promotion of private investment in R&D is sine qua non. However, the weak legal framework in India as far as Trade Secrets are concerned serves as a major disincentive for researchers to undertake innovation, whose inventions will not be well protected by law. Though the judicial standing on Trade secrets has been well-formed and articulated, India does not have a dedicated law on Trade secrets and protection of Confidential Information. This, despite India being a signatory to the TRIPS Agreement, which provides for Trade Secrets in length. The absence of such a law impedes economic activity and deprives millions of an opportunity to better their quality of life. Through this article, the authors strive to make a case for the need of a dedicated law on protection of Trade Secrets in India and gauge the development of Trade Secrecy law in India through judicial pronouncements over the years and critically analyses the draft National Innovation Act of 2008 in that regard.

INTRODUCTION

“Innovation is an inexhaustible engine for economic development”

- Li Kequiang²⁸

An innovation can be described as a new concept, a device or a process, often viewed as the application of enhanced solutions that meet modern requirements, implicit needs or existing market demands. The scope of innovation cannot be limited to an arrangement of a limited number of words as it includes a number of elements in the shape of an idea, a thought process, a creation and of course an invention.

²⁷ Vth Year BBA LL.B, Symbiosis Law School, Pune

²⁸ Premier, State Council, People's Republic of China.

There are many stories of innovation that we come across in our day to day lives, minor yet path-breaking, out-of-the box, frugal solution addressing large social, environmental and economic problems. The invention of a small cigar like structure, known as a Lifestraw, that cleans water of all its pathogens before it reaches the mouth of the drinker; a syringe filled with tiny, biocompatible sponges, known as Xstat 30, which can be injected into a deep wound to absorb blood and seal it in less than a minute, serve as examples of path-breaking yet frugal innovations having impacted the world for its greater good, bettering the quality of life for thousands. Another striking example of innovation is a Plantalámparas. A Plantalámparas is a lamp that runs on plant power and is capable of providing electricity to houses in small villages all over the world. During photosynthesis, the plant's waste decomposes in the soil, producing electrons which the lamp captures and stores in batteries. This process lights LED bulbs for hours on end.

These are a few examples out of the many instances that can be given to demonstrate the necessity and utility of innovations in our lives. Finding effective solution to problems like energy deficiency, clean environment affordable housing etc. creates a need for constant innovation and along with it, a need to promote and protect them.

PROTECTING INNOVATION THROUGH TRADE SECRECY LAW

India today is at the cusp of a revolution needing low-cost innovative solutions to the large scale problems facing the country. The lack of an appropriate and sound legal framework to govern innovative discoveries and rights of those innovators to commercially exploit their inventions, deters the research and development industry in India from reaching its full potential. A stable and unambiguous legal framework supporting the efforts of such risk takers becomes imperative as an innovation exhausts more resources than one can count in order to bring benefit to the maximum.

Works of innovation develop into proprietary information that provides a competitive edge over rival businesses. Effective safeguard of these proprietary information can be achieved significantly by an articulate Trade secret Law which aims to protect valuable business information from misappropriation by others. The uniqueness of trade secret law lies in that it finds application in and protection by the expansive framework of contract, competition, innovation and intellectual property rights. Trade secrets find their due mention in multilateral treaties like NAFTA and TRIPS and have been provided for in length in the US and UK. In India, there are no specific laws

to protect trade secrets and confidential information. However, courts in India have upheld trade secrecy on the basis of principles of equity, and common law actions of breach of confidence and contractual obligations.

TRADE SECRECY UNDER MULTILATERAL TREATIES

The degree of recognition of trade secrets at the international level can be determined from the fact that a bulk of working technologies across the world are preserved as trade secrets rather than by patents²⁹. Trade secrets act as a motivation to augmenting innovation in technology not amounting to the non-obviousness benchmark of patent law and copyrights. The inventions registered as trademarks, copyrights, industrial designs and patents are often retained as trade secrets until put to use or published during the process of registration or award of the pertinent IPR. An extensive part of economically significant technology, mostly new and cutting edge technology such as computer-aided designs biotechnology and computer program microchips are susceptible to reverse-engineering, and hence conserved as trade secrets³⁰.

At the international level, the North American Free Trade Agreement (NAFTA) and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) approved provisions related to trade secrets have paved the way for development of jurisprudence on trade secrets and has witnessed a positive trend toward acceptance of domestic statutes specially dedicated towards the improved protection of trade secrets. The TRIPS Agreement identifies trade secrets under 'undisclosed information', but remains uncommunicative upon the mechanism and modalities. The character and procedure differ in state practices and ranges from privacy legislations to unfair competition and contractual breaches. Article 39(2) of the TRIPS lays down the essentials for undisclosed information but avoids using the nomenclature of trade secret.³¹

For a comprehensive understanding, a perusal of Article 39.1 of the TRIPS Agreement becomes not only important but imperative as it provides that 'in course of ensuring effective protection

²⁹ Magri Karen A, International aspects of trade secrets law, <http://www.myersbigel.com/library/articles/InternationalAspectsOfTradeSecret.pdf> (last visited 11 February 2011).

³⁰ Verma S K, Legal protection of trade secrets and confidential information, *Journal of the Indian Law Institutes*, 44 (3) (2002) 336-53.

³¹ Article 39(2) TRIPS.

against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information..³²

However, Article 39.3 contains three restrictions upon effective protection of data exclusivity under trade secrecy. Firstly, it only applies to pharmaceutical products and chemical agricultural products; secondly, the protection is given only against unfair competition uses; and lastly, the government authority is excluded from the need to ensure confidentiality in public interest. Hence, it is implied that a government accrediting agency may use the confidential test data of an applicant when considering applications by other applicants in respect of comparable products.

The security and protection of IP is one of the most important tasks, as it reassures foreign investment in numerous fields. A developing country like India should develop a proper law for protection of trade secrets. The Indian law still depends on the age old, traditional common law principles which may have no importance in the present scenario.

JUDICIAL TRENDS ON TRADE SECRECY IN INDIA

The liberalisation of the Indian economy has necessitated the protection of intellectual property in the form of innovative discoveries so as to encourage investment in the R&D industry. With the patent law in India, failing to provide for protection of trade secrets, a guided Trade Secret law becomes utmost important. However in absence of such a law, the judiciary has played a pro-active role in clearing the air as per the position of law in India concerning Trade secrets. Courts in India have sought to protect trade secrets on the basis of principles of equity, and common law action of breach of confidence and contractual obligation.

The principles governing the law relating to Trade Secrets in India were laid down as early as 1948, in the landmark case of *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd.*³³ In this case, it was held that the maintenance of secrecy, according to the circumstances in any given case, either rests on the principles of equity, which is the application of the court of the need for conscientiousness in the course of conduct, or by the common law action for breach of confidence, which is in effect of a breach of contract. A confidential information was defined by the Court as something which must not be a public property or public knowledge. The court further stated that

³² Article 10bis of the Paris Convention (1967).

³³ *Saltman Engineering Co. Ltd v. Campbell Engineering Co. Ltd.* 1948 [65] R.P.C. 203.

for any information to be confidential, the maker of the information has to use his mind and produce a distinct result. This position was reiterated by the Delhi High Court in 2002, in the case of *Anil Gupta v Kunal Dasgupta*³⁴, wherein it was held that the concept developed and advanced by a person is the product of the work done by the plaintiff upon material which may be accessible for the use of anybody, but what makes it confidential is the fact that the individual has applied his mind and thus produced a result in the form of a concept. In a latest development, in *Hi-Tech Systems and Services Ltd v. Suprabhat Ray*³⁵, the Hon'ble Calcutta HC has further widened the ambit of Trade secrets to include elements like Financial arrangement of a business, business information relating to cost and pricing, projected capital investments and inventory marketing strategies. This judgment has proved to be a shot in the arm for the countries' business community and has given them further protection under the Trade secrecy law.

The concept of trade secret itself has been subjected to much litigation over the years. In *Naveen Jain*³⁶, the Delhi High Court held that Trade secret is protected, confidential information which does not include day to day affairs in the employment which are commonly known to others. In a later case of *American Express Bank Ltd. v. Priya Puri*³⁷, the Delhi High Court expanded the scope of Trade secrets by referring to it as '*... formulae, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.*'. In 2010, the Bombay High Court established what is popularly known as a *springboard doctrine* while hearing a case on breach of confidential information. In the instant case of *Bombay Dyeing & Manufacturing Co. Ltd. v. Meher Karan Singh*³⁸, The Hon'ble High Court observed that "*a person, who obtained information in confidence, is not allowed to use it as a springboard for activities detrimental to the person who made the confidential communication*". The springboard doctrines effectively deter the former employees from using confidential information obtained in the course of employment in a manner that can be detrimental to the interest of the employer.

Businesses have often sought to protect their trade secrets from exploitation by employees through Non-Disclosure Agreements and Non-compete clauses, however they have time and again run into

³⁴ *Anil Gupta v Kunal Dasgupta*, 97 (2002) DLT257..

³⁵ *Hi-Tech Systems and Services Ltd v. Suprabhat Ray* AIR 2015 Cal 261.

³⁶ *Ambience India Pvt. Ltd. v. Shri Naveen Jain* 122 (2005) D.L.T. 421.

³⁷ *American Express Bank Ltd. v. Priya Puri* (2006) 3 LLN 217.

³⁸ *Bombay Dyeing & Manufacturing Co. Ltd. v. Meher Karan Singh* 2010 (112) BOM LR 3759.

troubled waters due to the functioning of S. 27 of the Indian Contract Act, 1872. Section 27 of the Indian Contract Act, 1872 which is a provision relating to restraint of trade,³⁹ had diluted the protection of trade secrecy in India to a large extent by defeating any effort of the employer to protect his trade secret through an agreement with the employee. The impugned section declares all agreements in restraint of trade void *pro tanto*, except as specified. However, the 1958 Law Commission report recommended to have the restraint on trade be limited to the extent of reasonableness. As implied, the Law Commission's recommendation allows a space for reasonable restraint on the right to practice trade and promotes trade secrecy in India.⁴⁰ In *Niranjan Shankar Golakari v. Century Spinning and Manufacturing Company Limited*,⁴¹ the Hon'ble Supreme Court held that if restrictions to trade imposed by the employment agreements are not in the nature of a blanket and are reasonable and necessary to protect the interest of the business, then they are not in restraint of trade. While elucidating the difference between pre-service and post-service restraints by the employment agreement, the Hon'ble Supreme Court in *Brahmaputra Tea Company v. Scarth*⁴² held that the piece of the agreement that restrains the covenants from competing after the term of his appointment is over with his previous employer is unenforceable but he will be bound by the terms agreed upon by him during the period of his agreement. As a matter of general rule, negative covenants effective during the life of the employment contract when the employees are obliged to work for their employer solely, are not regarded as restraint of trade and so, they do not fall within the ambit of S. 27 of the Indian Contract Act, 1872, unless the contract is exceptionally inconsiderate, irrational, one-sided, or un-conscionable as in the case of *Shree Gopal Paper Mills v. S.K.G. Malhotra*⁴³. This rule which was up till then applicable only to employment contracts was held to be pertinent to other kinds of contractual agreements as well as held by the Hon'ble Supreme Court in *Gujarat Bottling Co. Ltd. & Ors. v. Coca Cola Co. & Ors.*⁴⁴

While judicial precedents has played a crucial role in clarifying the position of law on trade secrets in India, the absence of a formal legislation was long felt. In absence of such a law, it is perhaps

³⁹ Pollock and Mulla, *Indian Contract and Specific Relief Acts*. Vol I, 12th edn, edited Nilima Bhadbade (Butterworths, New Delhi), 2004, pp. 818 -22.

⁴⁰ *The Law Commission of India*, 13th Report, Ministry of Law and Justice (1958), para 55.

⁴¹ *Niranjan Shankar Golakari v. Century Spinning and Manufacturing Company Limited* AIR 1967 SC 1098.

⁴² *Brahmaputra tea company v. Scarth* [1985] ILR II Cal. 545.

⁴³ *Shree Gopal Paper Mills v. S.K.G. Malhotra* AIR 1962 Cal 61.

⁴⁴ *Gujarat Bottling Co. Ltd. & Ors. v. Coca Cola Co. & Ors* [1996] IPLR 210.

the only area where there is lack of clarity as far as IPR is concerned in India. In this regard, the Indian Government took a step, inch forward by releasing a draft National Innovation (NI) Act, 2008 to improve research and innovation.

THE DRAFT NATIONAL INNOVATION ACT, 2008

The Draft National Innovation Act, 2008 mooted by the Department of Science and Technology, Government of India has three major objectives.⁴⁵ Firstly, it aims to encourage innovation by providing for an innovation support system facilitated by public, private or public-private partnership. The second objective is developing a National Integrated Science and Technology Plan. The third objective is to codify and consolidate a law of confidentiality in support of shielding confidential information, trade secret and innovation.

Modeled upon the COMPETES Act of the US, the draft NI Act through codification and consolidation of the law on confidentiality exhibits the implication of trade secrets and confidential information within the sphere of innovation. Innovative ideas, products and business techniques help companies maintain a competitive edge in the market besides pursuing their business interests⁴⁶ and hence necessitates the prevention of exploitation of such information by another. Section 2 (3) of the Indian Innovation Bill defines ‘confidential information as:

“Confidential information means information, including a formula, pattern, compilation, program device, method, technique or process, that (a) is secret, in that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to responsible steps under the circumstances by the person lawfully in control of the information, to keep it secret.”⁴⁷

The responsibility to maintain confidential information under the draft statute, has been placed on the contractual terms and covenants. The remedy in case of any right occurring out of any injustice is preventive or mandatory damages, upon proof of violation of confidentiality.

The draft Act has many healthy provisions including the provision obligating the Ministry of

⁴⁵ The Draft National Innovation Act, 2008.

⁴⁶ Lakshamikumaran Malathi *et al.*, Utility models: Protection for small innovations, *Journal of Indian Law Institute*, 46 (2) (2004)322-32.

⁴⁷ Section 2(3) of the Indian Innovation Bill.

Science and Technology to come up with an Annual National Integrated Science and Technology Plan and present the same to the government, tax and fiscal concessions for innovation and the construction of dedicated special economic zones for innovation. However, the management of intellectual property in trade secrets under the NI Act has been called illogical by a number of IP practitioners. They are of the opinion that the knowledge of a confidential information can be held to be in public interest only by a court of law. The basis for such disapproval lies in the wording of the definition of the term ‘public interest’ which in the Act is unclear. Moreover, Section 12(4) which states that an injunction restrictive of usage of confidential information ‘*may stipulate conditions for future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited*’ is also contentious.⁴⁸ The proposed exclusion constitutes violation and is equivalent to introducing a compulsory license in trade secrets. To bolster this point, it might be added that these provisions would make it possible for a competitor to steal the recipe for making KFC chicken wings and make a similar product using this recipe at a much cheaper price, while allowing only a 10 per cent royalty fee.⁴⁹

On a positive note, the draft Act has correctly acknowledged the performance metrics for establishing an innovation- based competitive economy, albeit the limitations, and although a plan for their implementation are yet to be planned.⁵⁰ The draft Act has been opened to public views and deliberations following which it shall acquire the status of a legislative enactment. The final Act must mirror the policy and actions to be undertaken in pursuance of larger objectives, the amount to be allocated to realize them and must also recognize the range of governments and authorities accountable for quick clearances, infrastructural backing, wider contribution and benefit sharing. It also must be prepared with elaborate provisions for diverse sectors for implementation of goals established. The enforcement apparatus and the infrastructural support to realize the substantive laws cannot be developed in ambiguity. It is necessary to incorporate planning and establishing linkages across diverse sectors to stimulate R&D activity.

⁴⁸ Section 12(4) of the Indian Innovation Bill.

⁴⁹ Nomani and Rehman, “*Intellection of Trade Secret and Innovation Laws in India*”, February 14, 2011 available at [http://nopr.niscair.res.in/bitstream/123456789/12449/1/IJPR%2016\(4\)%20341-350.pdf](http://nopr.niscair.res.in/bitstream/123456789/12449/1/IJPR%2016(4)%20341-350.pdf) (last visited April 13, 2017).

⁵⁰ Sangal Tanushree, Unfurling the proposed National Innovation Act, *Manupatra Intellectual Property Reports*, 3 (3) (2008) A-47.

CONCLUSION

The law relating to protection of Trade secret in India is still at a budding stage as there is no dedicated legislation consolidating the judicial principles pronounced. Globally, however consolidation and codification of common law principles for trade secret protection has witnessed an upward trend. The judiciary's use and reading of common law principles to protect trade secrets has been found to be incompatible in practical usage. Therefore, a dedicated law on trade secrets, innovation and confidentiality within the ambit of IPR is not only a positive gesture to foreign investors but a question of highest need. The advocates of economic growth seek to protect trade secret under TRIPS Agreement. The TRIPS Agreement has made it obligatory upon signatory countries to alter their domestic laws to bring them in consonance with the Agreement. In furtherance of this international obligation, the Parliament may introduce additional provisions in the Competition Act on use and exploitation of confidential information and present adequate guidelines regulating the same. The Indian Penal Code, 1860 can be amended in tandem to include provisions on the exploitation of trade secrets and offer punishment for the same. The Companies Act, 2013 must also include provisions on confidential information and trade secrets. Considering the above, it would be realistic to suggest that India is in a dire need of a dedicated law on confidential information, innovation and trade secrets to serve not only their protection but also to regulate their use and transfer. The Government's desire to publish a draft National Innovation Act, 2008 to boost research and innovation deserves appreciation, and is a step towards right direction and it can be only be hoped that the Act is given its due priority and is brought to life as a final enactment soon.

MANAGING PHARMACEUTICALS IN THE ENVIRONMENT: A LEGAL REVIEW

Tarun Arora⁵¹ & Tripta⁵²

ABSTRACT

A clean and healthy environment is the fundamental right as enshrined under Article 21 of the constitution. A healthy environment embraces adequate management of waste from industries as well as from household activities. In the wake of industrialization, especially due to liberalized patent regime pharmaceutical industry has grown tremendously, but this growth has also lead increased impact of pharmaceutical residues. Pharmaceuticals are refined chemicals. They are manufactured, so as to be biologically active in living organisms. Thus, their presence into the environment either directly or in the form of derivatives, poses a huge risk. A divergent form of pharmaceutical compounds like analgesic, antidepressant, contraceptive, antibiotic, steroids and hormones etc. have been detected in water bodies of various countries. Therefore, management and extermination of pharmaceutical residues are one of the growing concern as the pollution caused by pharmaceutical wastes is emerging as a major factor for environmental degradation. The release of high concentration pharmaceutical effluents from manufacturing units along with improper disposal of unused or expired medicinal products and discharge of excreta are the main cause of pharmaceutical pollution. Though already existing legal and regulatory mechanism provides for the treatment of pharmaceutical wastes, environmental footprints demands more should be done to cope with the issue of pharmaceuticals in the environment. The present paper highlights that there is a need to have comprehensive legislation on various aspects of pharmaceutical pollution like waste disposal, returning unused or expired medicines, take back programs etc.

Keywords: Disposal, Environment, Legal Framework, Pharmaceuticals, Pollution.

INTRODUCTION

Indian pharmaceutical sector is a knowledge-based manufacturing sector. Pharmaceutical industries in India manufacture bulk drugs in various therapeutic categories i.e. capsules, tablets, injections, oral and liquids etc. India has become a global leader in producing high-quality generic

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medicines that are sold around the world.⁵³ The pharmaceutical industry in India has shown tremendous growth in the wake of TRIPS agreement. TRIPS i.e. an agreement on Trade Related Aspects of Intellectual Property Rights has affected pharmaceutical regulation all over the world by bringing them under one umbrella. Moreover, declaration to Doha conference, 2001 has affirmed that trips agreement should be implemented in such a way so as to protect public health and promote access to medicines.⁵⁴ As per the Sectoral Report of IBEF, Indian pharma industry is third-largest regarding volume and thirteenth largest regarding its monetary value. Indian pharmaceutical sector accounts for about 2.4 % of the global pharmaceutical industry and 10% regarding volume. It is the largest provider of generic drugs as it contributes to 20% of the annual global exports worth USD 16.80 billion.⁵⁵ The Report estimates that the export of the industry may reach USD 40 billion by 2020. McKinsey Report presents that Indian Pharmaceuticals market is expected to grow to USD 55 billion by 2020 driven by a steady increase in affordability and a step jump in market access and it has the potential to reach USD 70 billion provided industry puts in full efforts.⁵⁶

Besides, pharmaceutical sector has negative impacts also. Pharmaceuticals are a group of refined chemicals, designed and manufactured specifically, to act on living cells and can have undesirable effects on other species. They pose a high risk when persisting in the environment.⁵⁷ The occurrence of pharmaceuticals into the environment is a global phenomenon. Quite a number of studies have demonstrated the data collected from different countries identify approximately 631 different pharmaceutical agents, which includes antibiotic, lipid lowering drugs, estrogens, analgesics, nonsteroidal and anti-inflammatory drugs.⁵⁸ Freshwater systems also contain about 200 pharmaceuticals around the world.⁵⁹ Pharmaceutical residues have also been detected in marine

⁵³Available at http://www.cutsccier.org/pdf/Regulatory_Framework_and_Challenges_in_Indian_Pharmaceutical_Sector.pdf (visited on May 25, 2017).

⁵⁴Declaration on TRIPS Agreement and Public Health, Doha, 2001.

⁵⁵Indian Brand Equity Foundation, Sectoral Report (November 2016).

⁵⁶McKinsey & Company, Report: Pharmaceutical and Medical Products Practice- Indian Pharma 2020 Propelling Access and Acceptance, Realizing True Potential (2013).

⁵⁷German Environment Agency, *Pharmaceuticals in the environment- the global perspective* (2016).

⁵⁸Umwelt Bundesamt. Pharmaceuticals in the Environment: Occurrence, Effect and options for action, available at <http://www.pharmaceuticals-in-the-environment.org/en/home/dok/2.php> (Visited on May 24, 2017).

⁵⁹Hughes, S. R., Kay, P. et.al., "Global Synthesis and Critical Evaluation of Pharmaceutical Data Sets Collected from River Systems" *47 Environ. Sci. Technol.* (2012).

waters and sediments.⁶⁰Waste flowing out of a treatment plant near Hyderabad in India pollutes the region's waters with some of the highest levels of pharmaceuticals ever detected in the environment.⁶¹ Around 90 companies in the region that manufacture active pharmaceutical ingredients, or assemble final drug products, send their waste to the common effluent treatment plant. With permission, Larsson's team sampled the waste exiting the plant; they found drugs including the antibiotic ciprofloxacin, at concentrations of up to 31,000 micrograms per litre, and the antihistamine cetirizine, at up to 1,400 micrograms per litre. The team estimated that the amount of ciprofloxacin entering the river from the plant could amount to up to 45 kilograms a day — the equivalent of 45,000 daily doses.⁶²

The burden of supplying medicine at a cheaper rate on the one hand and surviving economically viable in the global market on the other hand lead pharmaceutical industries to keep regulations concerning management of pharmaceuticals at backfoot. Besides, failure on the part of administrative agencies to implement regulations, made the situation more drastic. In 2009, Vishakhapatnam which is pharma hub of India was reported most polluted area by Central Pollution Control Board of India.⁶³ In spite of averments made by the Government that steps have been taken to tackle the issue of pharmaceutical pollution, in 2016 pharmaceutical sector was again placed under “red category” by Ministry of Environment and Forests.⁶⁴ Against this backdrop, present paper analyses existing legal scenario, standards and guidelines on the issue and highlights the need to have an adequate mechanism of environmental governance concerning pharmaceutical wastes.

PATHWAY INTO THE ENVIRONMENT

Pharmaceutical enters into the environment during different phases of their life cycle. Followings are the ways by which pharmaceuticals enter into the environment:

⁶⁰Stewart, M. *Pharmaceutical Residues in the Auckland Estuarine Environment* (Prepared by NIWA for Auckland Council, 2013). See also; Watkinson, A. J., Murby, E. J. et.al., “The occurrence of antibiotics in an urban watershed: from wastewater to drinking water” 407 *Sci. Total Environ.* (2009).

⁶¹Naomi Lubick, “Chemists show how waste water contamination affects eco-system” 457 *Nature* (2009).

⁶²Available at <https://www.kwikmed.org/environmental-impact-pharmaceutical-industry/> (Visited on December 5, 2016).

⁶³Chanti Babu Patneedi and K. Durga Prasadu, “Impacts of Pharmaceutical Wastes on Human Life and Environment” 8 *RJCABP* 67-70 (2015).

⁶⁴Ministry of Environment and Forest, Notification on the New categorization of Industries (March, 2016).

- Some pharmaceuticals make their entry in the form of effluents discharged from manufacturing units.
- Some pharmaceuticals enter into the environment during the process of human excretion via waste water and animal excretion via runoff from agriculture areas.⁶⁵
- There are some others, which enter and persist in the environment by way of unwanted and unauthorized disposal of medicinal products.

SCALE OF THE ISSUE

In the right place, Pharmaceuticals the designed to be biologically active, to prevent diseases and save lives. However, this feature of Pharmaceuticals makes them persist, outside the body and let them accumulate in the environment.⁶⁶ Various studies have demonstrated the presence of pharmaceutical compounds at trace levels in surface and groundwater. A study by the United States Geological Survey (USGS) published in 2002, revealed that in the samples of 139 streams across 30 states, 80 percent had measurable concentrations of prescription and non-prescription drugs, steroids, reproductive hormones, and there by-products.⁶⁷ As per some studies, there are generally three groups of pharmaceuticals that are primarily active in the environment-endocrine disruptive pharmaceuticals i.e. hormones, anti-cancer treatment drugs and antibiotics.⁶⁸ Researches on the matter suggest that endocrine disrupting chemicals (EDC), particularly synthetic steroids and hormones, can have the potential to cause changes in sex ratios in fish and other aquatic organisms, “feminization” of male fish, production of vitellogenin (an egg yolk precursor protein) by male fish, and other changes that may affect reproduction or overall health.⁶⁹ As far as effects of antibiotics are concerned, World Health Organization (WHO) proclaims that “increasing drug resistance could significantly reduce our ability to cure illness and stop epidemics. Curable diseases, varying from sore throats to tuberculosis and malaria, may become incurable as our once-

⁶⁵Kummerer K, “Pharmaceuticals in the environment-Annual review of Environment and Resources” 35(1)*Environment and Resources*(2010).

⁶⁶HCWH Europe, *Unused pharmaceuticals, where do they end up?* A snapshot report of European collection schemes(2013).

⁶⁷Kolpin, D.W., Furlong, E.T. et.al., “Pharmaceuticals, Hormones, and Other Organic Wastewater Contaminants in U.S. Streams, 1999-2000: A National Resonnaissance” 36*Environmental Science and Technology*(2002).

⁶⁸Kummerer K, “Pharmaceuticals in the environment-Annual review of Environment and Resources”35(1)*Environment and Resources* (2010).

⁶⁹Palace, V.P., Wautier, K.g., et.al., “Biochemical and Histopathological Effect in Pearl Dace (*Margariscus margarita*) Chronically Exposed to a Synthetic Estrogen in a Whole Lake Experiment”25(4)*Environmental Toxicology and Chemistry*(2006).

effective medicines become increasingly ineffective”.⁷⁰ Studies on antibiotics have shown that higher concentration of antibiotics can lead to change in microbial community structure which ultimately affects the food chain. Non-steroidal, anti-inflammatory drugs (NSAIDs) like Ibuprofen and diclofenac have been detected in sewage, surface and groundwater systems.⁷¹

LEGAL FRAMEWORK ON PHARMACEUTICALS RESIDUES

Within boundaries of the legal network, pharmaceutical waste is hardly mentioned in India. No specific regulation provides for pollution caused by pharmaceuticals into the environment. However, rules, regulations and standards concerning pharmaceutical residue find their place under various other environmental regulations. These may be analyzed as follows:

a) The Environment (Protection) Rules, 1986

In lieu of the powers, conferred under section 6 and 25 of the Environment (Protection) Act, 1986⁷², the Central Government specifies standards for emission or discharge of environmental pollutants under Rule 3 of the Environment (Protection) Rules, 1986. This section provides that for the purpose of protecting and improving the quality of the environment and preventing environmental pollution, standards for emission or discharge of environmental pollutants from the industries, operations and processes shall be those as specified in Schedule I to IV. Standards in the form of maximum allowable limits for pharmaceutical industries are prescribed under entry no. 73 and shall be as follows:

Effluents standards

(i) Compulsory parameters (mg/l except pH)

pH	6.0—8.5
Oil and Grease	10
BOD (3 days at 27oC)	100
Total suspended solids	100

⁷⁰World Health Organization, Antimicrobial Resistance: Global Report on Surveillance (2014)

⁷¹J.Kreisberg, “Ecological Healing and the Web of Life” 1(2) *JOSH*(2005).

⁷²Section 6 of The Environment (Protection) Act, 1986 deals with rules to regulate environment pollution and Section 25 provides for power to make rules.

	Bioassay test	90% survival of fish after 96 hours in 100% effluent.
(ii)	Additional parameters	mg/l
	Mercury	0.01
	Arsenic	0.2
	Chromium(Hexavalent)	0.1
	Lead	0.1
	Cyanide	0.1
	Phenolics(C ₆ H ₅ OH)	1.0
	Sulphides (as S)	2.0
	Phosphate (as P)	5.0

Note:

- (i) The limit of BOD and COD shall be 30 mg/l and 250mg/l if the effluent is discharged directly to a fresh water body.
- (ii) The Bioassay test shall be carried out as per IS:6582-1971.
- (iii) The additional parameters apply to bulk drug manufacturing depending upon the process and product.
- (iv) Limits for total dissolved solids and effluents shall be prescribed by the concerned pollution control board/committee depending upon the recipient water body.⁷³

b) The Hazardous and other Wastes (Management and Transboundary Movement) Rules, 2016

Waste management in the rapidly increasing industrial world is a serious problem especially in the developing countries like India. Waste generated by pharmaceutical industries is treated as hazardous waste owing to its listing as a 'process generating hazardous waste' under entry 28 in Schedule III of The Hazardous and other Wastes (Management and Transboundary Movement)

⁷³Environment (Protection) Third Amendment Rules, 2009.

Rules, 2016. Due to this, following categories of waste generated by the pharmaceutical process is termed as hazardous waste:

- Process residue and wastes
- Spent catalyst
- Spent carbon
- Off-specification products
- Date expired products
- Spent solvents

Thus, provisions applicable to the handling and management of hazardous waste will be applicable on the waste generated by pharmaceutical units. For this purpose, Section 2(e) of the Environment (Protection) Act, 1986 provides the definition of hazardous substance which means, any substance or preparation which by reason of its chemical or physicochemical properties or handling is liable to cause harm to human beings, other living creature, plants, microorganism, property or the environment is termed as hazardous substance.

c) The Factories Act, 1948

The above-mentioned Statute is applicable on pharmaceutical residues as it defines the hazardous process as a “process or activity about the industry specified in the First Schedule, where unless special care is taken raw material used therein or the intermediate or finished products, by-products, wastes or effluents would:

- (i) cause material compared to the health of the persons engaged or
- (ii) result in the pollution of the general environment.”⁷⁴

Drugs and pharmaceutical industries are listed on entry no. 11 in First Schedule of The Factories Act, 1948 as industries involving hazardous processes and thereby waste generated by pharmaceutical units falls under the category of hazardous waste.

d) Environmental Clearance by Ministry of Environment and Forests

⁷⁴ Section 2(cb) of The Factories Act, 1948.

As per Notification dated 14th September 2006 by Ministry of Environment and Forests, bulk drugs industries are included among the industries that require environmental clearance from the concerned regulatory authority regarding:

- All new projects and activities;
- Expansion and modernization of existing projects;
- Any change in the product mix in the existing manufacturing unit.⁷⁵

Thus, waste generated by pharmaceutical industries does find its place as ‘environmental pollutant’ either directly or indirectly under various legislations. However, means and modes to handle pharmaceutical waste are still missing. Moreover, implementing agencies seems to insensitive concerning the issue of pharmaceuticals in the environment.

e) Solid Waste Management Rules, 2016

As stated above, pharmaceutical waste is also generated through excretion activities and disposal of unwanted drugs, it ultimately mixes with solid or semi-solid municipal waste. Therefore, provisions applicable to the management of municipal solid waste are also applicable on pharmaceutical waste. For this purpose, Ministry of Environment and Forests notified Solid Waste Management Rules, 2016.

Rule 3(1) (17) defines “domestic hazardous waste” as discarded paint drums, pesticide cans, CFL bulbs, tube lights, expired medicines, broken mercury thermometers, used batteries, used needles and syringes and contaminated gauge, etc., generated at the household level. These rules elaborately define the duties of various agencies for the safe management of solid waste by emphasizing source segregation of waste through waste generators. Rules provide detailed criteria for setting up solid waste processing and treatment facilities by notifying buffer zone.

Though rules seem to be good enough, but the implementing agencies aren’t geared up. Lack on the part of implementing agencies to translate rules into by-laws and put them into actual working position requires efforts of administration.

NEED TO ACCOMMODATE CHANGE

⁷⁵ Ministry of Environment and Forests, Environment Impact Assessment Notification (September 2006).

Looking at the seriousness of the issue, the global community is mounting to introduce new and tighter regulations on the pharmaceutical residues. Indian legal framework though tried to incorporate 'Precautionary Principle' by defining standards for emissions and effluents, but there is a need to apply 'Polluter Pays Principle' along with Precautionary approach.

There is no mechanism for the collection of unwanted drugs in India. In the absence of such mechanism, people have no other option but to throw them in a vague manner. Whereas, European Directive on human pharmaceuticals requires that all member states should establish collection system for unwanted drugs.⁷⁶ For the purpose of monitoring the implementation of waste policy Regulation 2150/2002 was adopted.⁷⁷ In the United States, Environment Protection Agency (EPA) prescribes that medicines that are collected through taking back programs are treated as controlled substances i.e. drugs that have the potential for abuse. Therefore, they must be dealt with as per Control Substances Act and its Implementing Regulations published by Drug Enforcement Administration (DEA).⁷⁸

There is need to introduce stricter regulation of production processes. The concept of 'Good Manufacturing Practices' should incorporate environmental safety standards while granting the market authorisation under The Drugs and Cosmetics Act, 1940. EU legislation prescribes certain standards and criteria for production processes in this regard. These standards include ISO 14000 and ISO 14001.⁷⁹ These standards ensure that operations or activities do not carry negative impacts on the environment and comply with relevant laws, standards, regulations and environmental requirements.

The fate of wastewater treatment plants in India is also miserable. Current WTPs aren't enough technically improved to completely destroy or eliminate pharmaceutical compounds. Consequently, pharmaceutical compounds re-enter into the food web.⁸⁰ It is required that

⁷⁶ EU Directive 2004/27/EC on the community code relating to medicinal products for human use.

⁷⁷ Regulation (EC) No. 2150/2002 of the European Parliament and the Council was enacted to ensure better monitoring and effective implementation of policy on waste management. For this purpose, it utilizes comparable and representative data on generation, re-use, recycling and disposal of waste.

⁷⁸ 21 U.S.C. 801-971 and CFR parts 1300-1321.

⁷⁹ ISO 14000 is a series of environmental management standards set by International Organization for Standardization, Geneva, Switzerland.

⁸⁰ Jelic A, Gros M, Ginebreda A., "Occurrence, Partition, and Removal of pharmaceuticals in sewage water and sludge during wastewater treatment" 45(3) *Water Research* (2011). See also: Arnold KE, Ross Brown A., "Medicating the environment: assessing risks of pharmaceuticals to wildlife and ecosystems". *Phil. Trans. R. Soc.* (2014); Sarmah AK, Meyer MT and Boxall ABA, "A global perspective on the use, sales, exposure pathways, occurrence, fate and effects

regulatory agencies must prescribe minimum permissible limits of pharmaceutical residues into the wastewater.⁸¹

Sensitizing the issue, it must be included in the pharmaceutical policy context as it is adopted by UN Strategic Approach to International Chemicals Management(SAICM), as an emerging policy issue in 2015.⁸² World Health Organization in its report, recommended that such an emerging issue needs to be prioritized in the overall context of water safety management. Policy context should also include microbial and chemical risks that have a tendency to cause threats to the safety of drinking water.⁸³

CONCLUSION

The presence of pharmaceuticals into the environment poses a challenge not only to the ecological system but the current regulations also. Indian legal system perhaps, applies only a part of 'command and control' approach. Regulations prescribe standards, but omits to operationalize control of standards. Moreover, the reluctant behavior of administration adds to the apathy of situation. Therefore, green governance approach which combines certain aspects of current regulations with various other non-regulatory "economics and value based behavioral drivers" needs to be applied in environmental governance.⁸⁴ Pharmaceuticals enter into the environment during different phases of their life cycle, so they have to be managed at different levels. These levels may be:

- Industrial level: While outlining a framework for research and development, clinical trials and other production processes, management of pharmaceutical residues must be given priority.

of veterinary antibiotics (VAs) in the environment"⁶⁵(5) *Chemosphere* (2006); HCWH Europe, How doctors can help reduce pharmaceutical pollution (2014).

⁸¹Keshava Balakrishna, , Amlan Rath, et.al., "A review of the occurrence of pharmaceuticals and personal care products in Indian water bodies "¹³⁷*Ecotoxicology and Environmental Safety*(2017).

⁸²Environmentally Persistent Pharmaceutical Pollutants (EPPPs) at International Conference on Chemicals Management (ICCM), Geneva (2015).

⁸³World Health Organization, Pharmaceuticals in drinking-water (2012).

⁸⁴LeRoy C. Paddock, "Green Governance: Building the Competencies Necessary for Effective Environmental Management" 38 *ENVTL. L. REP.* (2008).

- Administrative level: Regulatory authorities while implementing provision regarding treatment of effluents and other emissions from discharging units must be vigilant enough to adhere legal provisions.
- Production level: Level of discharge of waste water, effluents and emissions from production activities must be within confined limits.
- Distribution level: Doctors and pharmacies play a very important role at this level. Doctors must prescribe only that much amount of medicine which is required and pharmacies should provide prescriptive drugs only. Besides, pharmacies should run take back program for the collection of unwanted drugs.
- Consumer level: Disposal of unused or expired drugs by way of flushing into toilets or sinks or throwing into dustbins pollute groundwater, surface water and finally aquatic environment. Unwanted medicines should be disposed of, as per authorized manner or be returned to collection agencies.
- Last but not the least waste management level: Treatment technologies should be capable enough to treat pharmaceutical waste. The introduction of advanced treatment technologies at municipal level will be helpful in reducing environmental impacts of pharmaceutical residues.

DU PHOTOCOPY JUDGMENT: A SETBACK FOR FAIR USAGE?

Anirudh Singh⁸⁵

ABSTRACT

This article seeks to provide a succinct understanding of the judgment given by Honorable Delhi High Court in the matter of The Chancellor, Masters & Scholars of the University of Oxford and Ors. Vs. Rameshwari Photocopy Services and Ors. Through this article, the author seeks to examine the judgment given by Hon'ble Rajiv Sahai Endlaw, J. and contends that the same misses the crucial aspect of 'fair usage', a provision which was crucial to adjudicate this case. Part I of the article deals with the contentious construction of fair usage by the author, whereas Part II appraises the purview of photocopying described in this judgment, and its critique. After talking about various factors relied upon by US jurisprudence in order to determine 'What amounts to fair usage', the article concludes with the assertion that the said judgment will deteriorate the standard of Indian Scholarship by the reputed publication houses and how RROs can play a vital role in order to balance the interests of public and copyright holders.

BACKGROUND OF THE CASE

In 2012, leading publication houses comprising of Oxford University Press (OUP) and Cambridge University Press (CUP) initiated a suit against Delhi University and its authorized photocopier Rameshwari Photocopy Services for copyright violation of their numerous publications and obtained an ex-parte ad-interim relief against them. On 26th September, 2012, an order to Delhi University was passed which asked the said party to obtain a license from Indian Reprographic Rights Organization, a copyright society within the meaning of Section 33 of the Copyright Act for making course packs. Thereafter, owing to the involvement of group of students and noted academicians, this case gained widespread notoriety from the various realms of Copyright Jurisprudence.

CONTENTIOUS CONSTRUCTION OF 'FAIR USAGE'

In the *Chancellor, Masters & Scholars of the University of Oxford v Narendra*⁸⁶, it was propounded by Delhi High Court that the provision of fair usage is justified only when it guarantees

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⁸⁶ *The Chancellor Masters and Scholars of the University of Oxford v Narendra Publishing House and Ors*, 2008 (38) PTC 385 (Del) at Para 23.

information & ideas to be passed onto a wider spectrum of public, for its betterment. However, these provisions should be applied so as to maintain a balance between the general interests of public and exclusive rights given to a copyright holder. Thus, Section 52 cannot be interpreted in such a way which could suppress originality of ideas, and also cannot allow barefaced plagiarism.

Though the copyright act fails to define '*Fair Dealing*', and hence, major reliance is placed on *Hubbard v Vosper*⁸⁷, in which Lord Denning craftily describes the term in following manner-

'It is impossible to define what is 'fair dealing.' It must be a question of degree. You must consider first the number and extent of the quotations and extracts. Are they altogether too many and too long to be fair? Then you must consider the use made of them...Other considerations may come to mind also. But, after all is said and done, it must be a matter of impression.'

Though in *ESPN Star Sports v. Global Broadcast News Ltd and Ors*⁸⁸, it was held that there is no thumb rule regarding the definition of '*fair usage*', as each case differs upon its own facts and circumstances. However, the idea of fair dealing, a concept pervading every aspect of copyright law, is still in its nascent stage in India. The failure of the judiciary and legislature to demarcate the contours of '*fair dealing*' has resulted in a spiral of confusion regarding its extent of applicability.

Melville Nimmer argues that if by purchasing a single book, demands of various are fulfilled through advanced technology like photocopy or similar devices, the market for educational material would be almost debilitated⁸⁹. This was reiterated in *Princeton University Press v Michigan Document Services Inc.*⁹⁰, where the conversion of portions of copyrighted material into relevant course packs which were prescribed by the University was restrained by the court. Further, in the case of *Basic Books Inc. v Kinko's Graphics Corporation*⁹¹, where an instructor was making short passages from the books and pages after pages from the copyrighted material, was held to be copyright infringement.

⁸⁷*Hubbard v Vosper*, (1972) 1 All ER 1023 p. 1027.

⁸⁸*ESPN Stars Sports v Global Broadcast News Ltd and Ors*, 2008(36) PTC 492 (Del) Para 34.

⁸⁹Nimmer, Melville B and David Nimmer. *Nimmer On Copyright*. 1st ed. [New York, N.Y.]: LexisNexis Matthew Bender, 2004. Print.

⁹⁰*Princeton University Press vs. Michigan Document Services*, 99 F.3rd 1381 (6th Circuit 1996). Cert. Den'd. 117 S. Ct. 1336 (1997).

⁹¹*Basic Books, Inc. v. Kinko's Graphic Corp.*, 758 F. Supp. 1522.

However, the absence of an analysis of ‘fair use’ provisions in the DU Photocopy case is highly problematic. Though, the actions of Defendant were well covered under the ambit of Section 52 (1) (i) of Indian Copyright Act, 1957, the fact that the crucial question of ‘*what should be the extent of copying?*’ & ‘*Is there a cap on the number of copies made for the students?*’ were not addressed in the judgment, is a stark blow to the very motive of Copyright, which is to encourage creative activity of authors and inventors in order for the betterment of the public. The judgment does not consider Section 52 (1) (i) as a confined exemption but as a controlling norm made for the motive of access to education. Thus, the judgment went beyond the dimension of prevailing jurisprudence on the exceptions to copyright infringement.⁹²

If one is to correctly analyze the method adopted by the court, the use of *contemporanea expositio* is evident in the said judgment, which means that the basic intention was given effect when the said provision was given force by the legislation. The said approach is highly controversial approach as law is regarded to be natural and changes from time to time, as per the needs of existing customs of society. When Section 52 (1) (i) was enacted, the practice of photocopying was not in trend and thus, the fact that enormous amount of copies is being made through photocopying and then making copyright extraneous gapes a hole in the theory of ‘*Absolute Exception as Original Intention*’. This approach, thus clearly disproves of Copyright itself.⁹³ Moreover, in the words of Honorable Supreme Court in *Entertainment Network (India) Ltd. v. Super Cassette Industries*⁹⁴, ‘*Copyright Act seeks to maintain a balance between the interest of the owner of the copyright in protecting his works on the one hand and the interest of the public to have access to the works on the other and the two are competing rights between which a balance has to be struck*’.

However, the balance of the scale is tilted unfairly towards the favor of students in this case. The absence of the efforts taken by court to consider the issues of ‘*fair usage*’ and ‘*fair dealing*’ makes the judgment in contravention to Rule of Law. The said judgment went beyond the reach of jurisprudential perception especially where judicial precedents are given much weight in country like ours.⁹⁵

⁹²George, Matthews P A *Critique of DU Photocopy Judgment – II* Spicy IP <http://spicyip.com/2016/10/a-critique-of-du-photocopy-judgment-ii.html> (Last updated 16 October 2016).

⁹³*Ibid.*

⁹⁴*Entertainment Network (India) Ltd. v. Super Cassette Industries*, AIR 2008 SC 30.

⁹⁵*Ibid.*

‘THE OTHER ANGLE OF PHOTOCOPYING’

The Court adopted a second approach to resolve this issue as well. It was noted by the court that the act of a student borrowing a book from the library and copying the same, whether manually or by photocopying for his/her personal usage would be safeguarded under fair dealing. Therefore, stating that Delhi University did the said act as an outcome of its resource limitations and thus, its actions would amount to copyright violation would have been absolutely illogical. In the words of Honorable Justice Endlaw *‘When an action, if onerously done is not an offence, it cannot become an offence when, owing to advancement in technology doing thereof has been simplified.’*⁹⁶ Similarly, the court also contended that the act of taking photographs of pages of a copyrighted material from the library on one’s cellphone and then printing the same would be safeguarded under fair dealing because the said act is an upliftment in technology of copying by hand or photocopying.

In *The Williams & Wilkins Company v. The United States*⁹⁷, which was concerned with the suit for copyright violation by a medical publisher against the Department of Health, Education and Welfare, it was held by the court of claims that the process of photocopying does not amount to printing or reprinting in the dictionary sense. The said act done for private purpose can amount to ‘copying’, but not ‘printing’ or ‘reprinting’. Thus there is no ‘publication’ by library, a concept which invokes general distribution and the process of photocopying falls within fair use.

In *Re. The Supply of Photocopies of Newspaper Articles by Public Library*⁹⁸, the German Federal Supreme Court held that in technologically capable nation like Germany, libraries are given autonomy to operate and reproduction rights of authors were confined in lieu of freedom of information, in order to facilitate the exchange of economic information. Thus, the act which benefits the customer of library for his/her personal use would not amount to infringement as it does not establish commercialization of copies of copyrighted work.

Delhi High Court, while deciding the liability of Rameshwari Photocopy Services contended that the same was not a competitor of the plaintiffs, as they were only indulged in making relevant compilations of selected portions of prescribed textbooks for the students. If it would have been

⁹⁶Paragraph 75 of the judgment.

⁹⁷*The Williams & Wilkins Company v. The United States*, 487 F.2d 1345 (Ct. Cl. 1973).

⁹⁸*Re. The Supply of Photocopies of Newspaper Articles by Public Library*, [2000] E.C.C 237.

the case that Rameshwari was disallowed from doing so, the ramification would not be that the students would buy the textbooks. Instead it would be that the students would have to resort to sitting in the library and copying out the pages by hand. Therefore, the court stated that it would be imprudent to ask students to shun the convenience provided by modern technology and retreat to the practices of studying of archaic era.⁹⁹In the words of the Delhi High Court '*No law can be interpreted so as to result in any regression of the evolvement of the human being for the better.*'¹⁰⁰

The Court then went on to explain the nature of Copyright thus: '*Copyright, especially in literary works, is thus not an inevitable, divine, or natural right that confers on authors the absolute ownership of their creations. It is designed rather to stimulate activity and progress in the arts for the intellectual enrichment of the public. Copyright is intended to increase and not to impede the harvest of knowledge. It is intended to motivate the creative activity of authors and inventors in order to benefit the public.*'¹⁰¹

Although the stance taken by Delhi High Court while explaining the nature of photocopying is much appreciated, however it is imperative to note that the two precedents referred by Honorable court in its judgment referred to the cases where the production of copies via photocopying were minimal and not on a very large scale. The en masse production of the course packs by Delhi University prima facie gives an unfair loss to the publication houses, and this is the main reason why it filed a suit against the university in the first place. The suit by publishers was never about compelling students to purchase books just for one chapter. The plan was to monetize on photocopying for course packs by having universities or photocopy shops purchase licenses whereby publishers would be paid every time a course pack was sold.

Regarding the explanation of nature of copyright by Justice Endlaw where he articulated that the same is intended to motivate the creative activity of authors and inventors in order to benefit the public, it is interesting to note that the courts may rely on public interest purposes for copyright infringement, however, the said power has been rarely used in Common law countries like India

⁹⁹Paragraph 87 of judgment.

¹⁰⁰*Ibid.*

¹⁰¹Paragraph 80 of judgment.

and UK, where it was invented. ¹⁰²In the case of *RupendraKashyap v Jiwan Publication House*¹⁰³, it was held by the court that '*the law as to copyright in India is governed by a statute which does not provide for defense in the name of public interest. An infringement of copyright cannot be allowed merely because it will serve a public purpose*'.

THE FACTORS OF ANALYZING 'FAIR USAGE'

The objectives under Section 52 have been construed as comprehensive and clear, since any use not coming under the ambit within an enlisted ground is regarded as copyright violation. The courts have made it clear by fits and starts that it is difficult to devise a settled principle as every case differs depending upon its own facts and circumstances. ¹⁰⁴

Since the approach of Fair Usage followed in the courts of UK and US are heavily relied upon by Indian Judiciary, the latter has recognized a few factors that may be regarded as pertinent in fair dealing cases and which are not present in Indian Copyright Law. Following factors are applied by the courts in order to settle these cases¹⁰⁵-

a) Amount and Significance of dealing

The first consideration is the amount and substantiality of the portion used in context to the copyrighted material as a whole. There should be a '*considerable violation of copyright*' in order to be an infringement of the work. The reason is simple '*The large the taking, less fair the dealing*'. ¹⁰⁶ However, the provision of the blanket of fair dealing does not arise in the cases where an idea is being copied, and thus, the same would not amount to copyright infringement.

The question of substantiality is a matter of two separate concerns. First, there should be a substantial borrowing of the copyrighted material in the absence of which, the issue of copyright infringement cannot be raised. Second, when it becomes evident that the copyright infringement has indeed been done, the question of whether the said use is fair or not is decided by the

¹⁰² David Vaver, Canada's intellectual property framework: A comparative overview, *Intellectual Property Journal*, 17 (2004) 125-149.

¹⁰³ *RupendraKashyap v Jiwan Publication House*, 1996 (38) DRJ 81 Para 24.

¹⁰⁴ *Supra* Note 3.

¹⁰⁵ *Civic Chandran*, 1996 PTC 16 670.

¹⁰⁶ *SK Dutt v Law Book Co and Ors*, AIR 1954 All 570.

significance of copying as one of the factors.¹⁰⁷ Therefore, for the defense of fair dealing, Substantial use must be proved which is ample enough to constitute an infringement, and for the use to be fair, it must not be too considerable which is of disadvantage to the publishers. However, in Indian jurisprudence, the courts seem to be incapable to isolate the two different factors as mentioned here. Generally, courts have from time to time applied both quantitative and qualitative test of the significance of copying whereas literal number of words copied has not been regarded as a deciding factor.¹⁰⁸ The courts have acknowledged the fact that the allowed extracts of any publication will be dependent upon the merits of each case.¹⁰⁹

b) Purpose & Commercial Character of the Dealing

The next factor is concerned with the purpose and character of the usage of copyrighted material. Section 52 of Indian Copyright Act provides a comprehensive list of several purposes which falls under the ambit of fair dealing. If the purpose of the reproduction is not enlisted in the statute, the issue of fair usage would not arise.¹¹⁰ Private Study, Research, Criticism, Review are the purposes which are enlisted in the said act.¹¹¹

The words '*private use including research*' replaced the words '*research or private study*' by the 1994 amendment in Indian Copyright Act. The purpose of the said amendment was to provide defense to the person who, while indulging in research and dealing fairly with copyrighted work does not face the suit of copyright violation. However, if the said dealing involves the publication of literary material for commercial interests, then the defense guaranteed under Section 52 (1)(a)(ii) would not be applicable, even if the ulterior motive was to use the copyrighted material for the purpose of research.¹¹² Private study involves the usage of the copyrighted material for personal use and not for the publication purpose.

c) Impact on Market: Possibility of Competition

¹⁰⁷Lape L G, Transforming fair use: The productive use factor in Fair Use Doctrine, *Albany Law Review*, 58 (1995) 677- 724.

¹⁰⁸*Harper & Row Publishers v Nation Enterprises*, 471 US 539.

¹⁰⁹*Supra* note 3.

¹¹⁰*Blackwood and Sons Ltd and Others v AN Parasuraman and Ors*, AIR 1959 Mad 410.

¹¹¹*Ibid*.

¹¹²*Supra* note 18.

This aspect appears to be of much less gravity in India. Although, as held by Court in Blackwood Case, the likelihood of commercial competition is imperative for deciding copyright violation.¹¹³ In ESPN Star Sports Case, the court welcomed the idea of '*Possibility of Commercial Competition*' and observed that if for the sake of rival purpose, same information is expressed through different piece of work; it would be regarded as unfair use.¹¹⁴ Indian Courts have, on few accounts have considered this aspect as to decide that whether the said reproduction is substantial.¹¹⁵

Although in the US case of *Campbell v Accuff- Rose Music*¹¹⁶, it has been observed that the said factors should not be handled in separation to each other and are supposed to be dealt together, for the sake of amelioration of education, which is the aim of copyright. Moreover, it has also been observed that these aspects are extensive.¹¹⁷ However, Indian Courts, while considering these factors have embraced non-uniform attitude, especially the application of a particular aspect read separately with others. In *Barbara Taylor Bradford v Sahara Media Entertainment*¹¹⁸, it has been accepted by the Honorable court that it has paucity of judicial jurisprudence regarding the matters of copyright. Indian Courts should aim to create a unique feature regarding the question of fair dealing rather than relying upon the aforesaid factors mentioned.

It is argued by the author that the said matter should not have been adjudicated by considering the '*factors analysis method*' as relied upon by US Courts. Rather, a new definition should have been created which would have answered the moot question of fair dealing, and also the issue of photocopying. The author does not question the system of education photocopying under the blanket of fair dealing, which is indeed a compulsion in modern day students' lives, but there was a need of outlining the role of fair dealing in the overall scheme of copyright law. Many scholars regarded this case as an equivalent to *Folsom v Marsh*¹¹⁹, which would concentrate on the subject of purpose, meaning and limitations of fair dealing in the jurisprudence of Indian Copyright, but to their avail, no such issues were addressed by the court.

¹¹³*Ibid.*

¹¹⁴*Supra* note 3.

¹¹⁵*Supra* note 25.

¹¹⁶*Campbell v. Accuff-Rose Music*, 510 US 569(1994).

¹¹⁷*Id.*

¹¹⁸*Barbara Taylor Bradford v Sahara Media Entertainment*, (2004)ILR 1Cal15.

¹¹⁹*Folsom v. Marsh*, 9.F.Cas. 342 (C.C.D. Mass. 1841).

CONCLUSION

The idea behind the inclusion of the provision of fair dealing in our legislature was to provide uniformity between the public interest and absolute rights of the authors. It is undisputable fact that the invention of photocopying has uplifted the access of education among the students. Educational usage of copyright protected material is vital for catering the needs of public, and this is the ultimate goal of copyright. Hon'ble Supreme Court, while holding the sanctity of fundamental right to education in *Francis Coralie Mullin v. The Administrator, Union Territory of Delhi and Ors*¹²⁰ remarked that one of the major tasks in order to reach this goal is to minimize the costs of books.

To balance the rights of public and publishers, RROs play a critical role by simplifying the access to education in affordable manner. It should become the custodian of new ideas by ensuring legitimate compensation to the owners of copyrighted work and bolster the growth of future creation. However, without proper backing of legislation, RRO cannot work in order to protect the concerns of both users and rights holders.

The aspect of international covenants in this case has been justly interpreted by Delhi High Court. It observed that the said international covenants have left it on the discretion of legislators of member countries to decide what is 'justified for the purpose' and what would 'unreasonably unfair to the legitimate interest of the author'. This has been inferred in both Berne Convention and TRIPS Agreement and thus, it is left on the wisdom of courts as to decide what is reasonable and what is unreasonable.¹²¹ Unfortunately, by neglecting the principle of fair usage in this case, Delhi High Court has indirectly caused a blow to the said covenants too.

It cannot be said that this judgment would bring death knell blow to the reputed publishing industries. Publications like Oxford and Cambridge will keep on publishing Indian scholarship, but it would be unfair to assume that these publication houses would direct more resources in subjects like Social science where there is not only low returns, but because of unauthorized

¹²⁰*Francis Coralie Mullin v. The Administrator, Union Territory of Delhi and Ors* , 1981 AIR 746.

¹²¹Paragraph 97 of judgment. Hon'ble court also relied on the case of *SmitaSubhashSawant v JagdeeshwariJagdish Amin*((2015) 12 SCC 169) which held that courts cannot read any words which are not mentioned in the section.

photocopying, which would make it difficult for the publishers to benefit from these ventures¹²². Instead, the said resources would be guided to those areas which can ensure more profits for the publishers, which is going to be sad news for the higher academia in subjects like law and social sciences.

¹²²Reddy, Prashant. 'Counterview: The Outcome of the DU Photocopy Case Isn't Necessarily Good News for Higher Academia in India.' SpicyIP.Web.<<http://spicyip.com/2016/09/counterview-the-outcome-of-the-du-photocopy-shop-isnt-necessarily-good-news-for-higher-academia-in-india.html>>.(Last updated 19 September 2016).

OIL POLLUTION AND REPARATION IN INTERNATIONAL LAW - AN ANALYSIS

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ABSTRACT

Oil pollution is one of the major international issues that cause disturbances between sovereign states. The international law in any case, is not completely successful in resolving and regulating the oil spills. It stands effective only to certain limit. United Nations Convention on the Law of the Sea, 1982 to a greater extent ensures prevention and regulation oil pollution by ships on the coastal waters, among its various other provisions that mandates the rights and responsibilities of using the oceans of the world. The catastrophic oil spills few decades ago have resulted in various international treaties on the law of seas. Reparation cannot be effectively achieved only by the affected state without the cooperation of the international community but it is not mandatory for any states to do so. The limits and boundaries on the oceans over which a state has jurisdiction are defined by the UNCLOS, 1982. This helps in imposing liability and claiming compensation. There exist limitations of civil liability and the International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage, 1992. The limitations on international law delay the compensation procedure. In case of oil spills immediate action can ensure better results as the oil needs to be prevented from being carried away to the other parts of the ocean.

Oil pollution reparation in any case cannot be done to its fullest extent because of the limitations and delay in compensation. This research article evaluates the legal regime and enforceability of marine oil pollution in international law, procedure for demanding compensation for oil pollution with reference to the International treaties and conventions, competency and jurisdictional issues with respect to liability and reparation of oil spills. Oil spills affect the marine environment as well as the economic benefits that could be exploited in and around the polluted environment. The dependent state on the polluted waters will face huge environmental as well as economic losses. In this scenario the UNCLOS 1982 acts as an important source in the development of sustainable usage of oceans of the world.

Keywords: UNCLOS 1982, Flag state, Exclusive Economic Zone (EEZ), High Seas and Port State.

INTRODUCTION

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Oil pollution in the seas is caused due to various factors such as collusion, oil spills due to leakage, deep water drillings etc. The scope of the research article is limited to the oil spills caused due to leakage. Regulating and governing the oil transport through sea is difficult and requires tremendous risk management strategy. Pollution from ships usually occur either due of operational or accidental causes. Operational pollution occurs as a result of the manner in which ships operate. For example oil tankers usually wash their oil tanks and dispose of oily tanks and oil residue at sea, causing significant volumes of pollution. Other ships also discharge oily wastes from engine rooms and cause significant volumes of pollution from sewage discharges and rubbish disposal at sea.

The accidental form of marine pollution is the outcome marine casualties. The accidental sinking of large oil tankers releases large volumes of oil and other pollutants into the marine environment. They harm coastal communities, fisheries, wildlife, and local ecology. In some areas, such as the Arctic or Antarctic, climate conditions exacerbate both the long-term effects and the difficulty of dealing with this kind of pollution. The purpose of regulation here is to minimize the risk and give coastal states adequate means of protecting themselves and securing compensation.¹²⁴ By the 1970s, the intentional discharges made on thousands of tanker voyages were putting millions of tons of oil into the oceans annually.¹²⁵ Oil spill clean-up requires extensive operations at sea and on land, with careful coordination between the two. Ecological and social impacts are closely related as people's livelihoods depend on natural resources such as fisheries and coastal tourism. The early social assessment is important because it sets the stage for subsequent responses and adaptation. In addition, strategies of the government and the communities at the beginning can have long term social and ecological consequences.¹²⁶ This research article depicts an overview of the existing international legal documents and the current trend in dealing with oil pollution in the International regime.

¹²⁴ Practicia Birnie, Alan Boyle, Catherine Redgwell, *International Law & the Environment*, (3rd Edition), Oxford University Press.

¹²⁵ Ronald B. Mitchell, *Regime Design Matters: Intentional Oil Pollution and Treaty Compliance*, International Organization, The MIT Press, 48 (3) (Summer, 1994), pp. 425-458.

¹²⁶ So-Min Cheong, *A social assessment of the Hebei-Spirit oil spill*, 76 (5) GJ , Springer, (2011), pp. 539-549.

OIL POLLUTION VIS-À-VIS LIABILITY REGIME IN INTERNATIONAL LAW

In the 1960s and 1970s there was recurrence in the catastrophic oil spills from giant oil tankers while running around or otherwise incurring damage. For example the *Torrey Canyon* oil spill, off the southern coast of the United Kingdom in March 1967. This recurrence in oil spills had prompted legislation or administrative action by states for the purpose of establishing controls in pollution zones extending for one hundred miles or more offshore, for example the Canadian Arctic Waters Pollution Prevention Act 1970.¹²⁷

In the period 1969-1971, three instruments were adopted which represented a substantial addition to the corpus of the law of the sea. On 26 November 1969, two conventions were adopted at Brussels to deal with oil pollution casualties of the *Torrey Canyon* genre, namely the International Convention relating to Intervention on the High Seas in cases of Oil Pollution Casualties (Intervention Convention),¹²⁸ and the International Convention on Civil Liability for Oil Pollution Damage (Liability Convention).¹²⁹ The Intervention Convention is of limited scope, inasmuch as states parties were given certain rights of taking defensive measures against pollution or threat of pollution only following upon a maritime casualty or subjecting tankers to surveillance from shore-based stations, although states would not be debarred from making preparations beforehand to take such defensive measures as might become necessary in the event of a maritime casualty.

The Intervention Convention was supplemented subsequently by a Protocol relating to Intervention on the High Seas in cases of Marine Pollution by Substances other than Oil, adopted at London in November 1973, this applied to pollutants and also hazardous or injurious products other than oil, so that the expression Marine Pollution is wider than its literal sense, as it covers injury and harm to humans and marine resources, damage to amenities, and interference with the use of the sea.

The Liability Convention applied exclusively to pollution damage caused on the territory including the territorial sea of the coastal state. A limit for liability was fixed, and fault came into account to the extent that if the casualty occurred as a result of the owner's actual fault, the owner's liability

¹²⁷ The Canadian Arctic Waters Pollution Prevention Act 1970, (1970, R.S.C. 1985).

¹²⁸ International Convention Relating to Intervention on the High Seas in Cases of Oil Pollution Casualties, 1969, 16 *ILM* 617.

¹²⁹ International Convention on Civil Liability for Oil Pollution Damage (CLC), 1969, 973 UNTS 3; 9 *ILM* 45.

was not restricted to the ceiling fixed by the Convention. Provision was made for the necessity of certificates of insurance or financial security where a tanker registered in a country party to the Convention carried more than 2,000 tons of oil in bulk as cargo. The liability Convention of 1969 was followed in 1971 by a Convention for the Establishment of a Fund for Compensation for Oil Pollution Damage¹³⁰ which provides for compensation even where no liability arises under that Convention.¹³¹ The primary basis for the regulation of ships is the jurisdiction enjoyed by the state in which the vessel is registered or whose flag it is entitled to flag. Article 91 of United Nations Convention on the Law of the Sea, 1982 (UNCLOS)¹³² refers to the need for a genuine link between the state of nationality and the ship.

In the *MV Saiga Case (Saint Vincent and the Grenadines v. Guinea)*¹³³ the International Tribunal for the Law of the Sea (ITLOS) held that ‘the purpose of the provisions of the Convention in the need for a genuine link between a ship and its flag state of the Convention to secure more effective implementation of the duties of the flag state, and not to establish criteria by reference to which the validity of the registration of ships in a flag State may be challenged by the other States.’ It is the flag state which is responsible for regulating safety at sea and the prevention of collisions, the manning of ships and the competence of their crews, and for setting standards of construction, design, equipment, and seaworthiness.

In customary law, only the flag state has jurisdiction to enforce regulations applicable to vessels on the high seas. In the *Lotus Case*,¹³⁴ the Permanent Court of International Justice referred to the principle that no state may exercise any kind of jurisdiction over foreign vessels on the high seas, but by this it meant only that foreign vessels could not be arrested or detained while on the high seas, not that regulations could not be enforced by other states once the ship had voluntarily entered port. This case forms the possible basis for port-state jurisdiction over high-seas pollution offences referred to in Article 218 of the 1982 UNCLOS.¹³⁵ Even when the ship is within the territorial

¹³⁰ International Convention on the Establishment of an International Fund for Compensation for Oil Pollution Damage, 1992, 31 *I.L.M.* 874 (1992).

¹³¹ I.A. Shearer, *Starke's International Law*, (Eleventh International Student Edition, 1994, Oxford University Press, Oxford), pp. 229-230.

¹³² United Nations Convention on the Law of the Sea, 1982, 1833 *UNTS* 3; 21 *ILM* 1261 (1982).

¹³³ *MV Saiga* ITLOS No 2 (1999) paras 62-88, at para 84.

¹³⁴ *S.S. Lotus (Fr. v. Turk.)*, 1927 P.C.I.J. (ser. A) No. 10 (Sept. 7).

¹³⁵ Article 218, *supra* note 10.

jurisdiction of other states, however the flag state does not lose its jurisdiction, regardless of where it is operating, a ship must therefore comply with the laws of its own flag. Customary international law thus gives the flag state ample power to regulate marine pollution from vessels, and other aspects of the operation of ships likely to pose a risk to the environment. Moreover, as we have seen, it requires them to do so effectively, even if they may in practice have to act in cooperation with coastal and port states.¹³⁶

In the case of the *Erika*, France successfully prosecuted the owner, the management company, the classification society and the cargo owner. The court imposed fines on all the defendants totaling 900 million euros, and awarded damages of 192 million euros. When payouts from the IOPC Fund added, the *Prestige* accident becomes the second most expensive environmental disaster in maritime history after *Exxon Valdez*. Given the persistence of substandard ships, extending the renewed focus on criminal sanctions in European law may be an inevitable response to the limitations of civil liability and the IOPC Fund.¹³⁷ Thus the states also implement their own laws to deal with the environmental pollution caused by ships of other states.

INTERNATIONAL LAW ON REPARATION TO OIL POLLUTION

International cooperation to deal with pollution incidents or emergencies at sea is primarily a matter of prudent self-interest, but international law does impose certain obligations on states confronted with such risks. Both customary law and Article 198 of the UNCLOS indicate that once they are aware of imminent or actual pollution of the marine environment, states must give immediate notification to the others likely to be affected.¹³⁸ This requirement is also reiterated in most regional-seas agreement. In addition, regional agreements, and the 1982 UNCLOS require states to cooperate, in accordance with their capabilities, in eliminating the effects of such pollution, in preventing or minimizing the damage, and in developing contingency plans.¹³⁹

Article 7 of the 1990 Convention on Oil Pollution Preparedness, Response, and Cooperation (OPPRC),¹⁴⁰ a global instrument adopted by IMO (International Maritime Organization) following the *Exxon Valdez* disaster in Alaska, further commits parties to respond to requests for assistance

¹³⁶ *supra* note 2.

¹³⁷ *Id.*

¹³⁸ Article 198, *supra* note 13.

¹³⁹ Article 199, *Id.*

¹⁴⁰ Convention on Oil Pollution Preparedness, Response, and Cooperation, 1990, 30 *ILM* 733 (1990).

from states likely to be affected by oil pollution.¹⁴¹ IMO must be informed of major incidents and it is given responsibility for coordinating and facilitating cooperating on various matters including the provision on request of technical assistance and advice for states faced with major oil pollution incidents.¹⁴² Parties may also seek IMO's assistance in arranging financial support for response costs.¹⁴³

The duty of the flag state to adopt and enforce appropriate regulations was too imperfectly defined and observed. The power of the coastal state to regulate shipping and activities off its coast was too limited. The 1973 MARPOL Convention and the 1982 UNCLOS address these problems by extending the enforcement powers of coastal and port states, at the expense of the flag state's exclusive authority, and by redefining and strengthening the latter's obligations towards the protection of the marine environment. The result is a relatively complex structure of authority over the maritime activities, which tries to reconcile the effective enforcement of environmental regulations with the primary concern of maritime states in freedom of navigation.¹⁴⁴

The major innovation of the 1982 UNCLOS provisions on the marine environment is the exclusive economic zone (EEZ), which extends to 200 nautical miles from the territorial-sea baseline and confers on coastal states sovereign rights over living and mineral resources, and jurisdiction with regard to the protection and preservation of the marine environment.¹⁴⁵ In general, the 1982 UNCLOS can best be seen as serving the interests of maritime states within the EEZ although the extension of jurisdiction does give a wider area of control to coastal states if they choose to use it. In the exercise of jurisdiction within the EEZ, coastal states must have due regard for the rights and duties of other states, including the right of freedom of navigation. This freedom is largely protected by ensuring uniformity of applicable pollution standards, and by preserving the ability of maritime states to influence the formulation of those standards within IMO.

The coastal state's jurisdiction to regulate vessels depends on its sovereignty or sovereign rights over maritime zones contiguous to its coasts. Until the 1970s these zones were for the most part of limited extent. In internal waters, such as ports, the coastal state is free to apply national laws

¹⁴¹ Article 7, *supra* note 18.

¹⁴² Article 12, *Id.*

¹⁴³ Article 7(2). *Id.*

¹⁴⁴ *supra* note 17.

¹⁴⁵ Article 56, *Id.*

and determine conditions of entry for foreign vessels.¹⁴⁶ After the *Exxon Valdez* accident the United States became the first to ban all single-hull oil tankers from its ports without waiting for agreement in IMO.¹⁴⁷ In the territorial sea, the coastal state also enjoys sovereignty, and with it the power to apply national law.¹⁴⁸ The coastal state's right to regulate environmental protection in territorial waters has been assumed or asserted in national legislation and in treaties on such matters as dumping or pollution from ships. This right includes three important powers: the designation of environmentally protected or particularly sensitive sea areas, the designation and control of navigation routes for safety and environmental purposes, and the prohibition of pollution discharges.

The coastal state cannot close its territorial waters to foreign ships in innocent passage, even where their cargo presents a significant environment risk, as in the case of oil tankers.¹⁴⁹ Innocent passage was defined by the 1958 Territorial Sea Convention, as passage which is 'not prejudicial to the peace, good order or security' of the coastal state. Passage in these circumstances does not cease to be innocent and must be afforded without discrimination. At most, the coastal state will be entitled to take certain precautionary measures to minimize the risk: it may, for example, require ships carrying nuclear materials or other inherently dangerous or noxious substances, such as oil or hazardous waste, to carry documentation, observe special precautionary measures approved by IMO or established by international agreements such as MARPOL, or confine their passage to specified sea lanes in the interests of safety, the efficiency of traffic, and the protection of the environment.¹⁵⁰ Following the *Braer* disaster off the Shetland Islands in 1993, IMO also amended the SOLAS (International Convention for the Safety of Life at Sea, 1974)¹⁵¹ Convention to allow coastal states to require ships to report their presence to coastal authorities when entering designated zones, including environmentally sensitive areas.¹⁵²

REPARATION REGIME IN MARITIME LAW – COMPLIANCE AND PROBLEMS

¹⁴⁶ *Nicaragua Case*, ICJ Reports (1986) paras 212-13.

¹⁴⁷ *supra* note 23.

¹⁴⁸ Article 2, *Id.*

¹⁴⁹ Article 24(1), *Id.*

¹⁵⁰ Articles 22(2), 23, *Id.*

¹⁵¹ International Convention for the Safety of Life at Sea, 1974. 14 ILM 959.

¹⁵² Chapter V, Regulation 8-1, SOLAS, 1974.

The Liability and Fund Conventions have generally worked well in the large majority of over one hundred incidents resulting in claims to The International Oil Pollution Compensation *Funds*, 1992 (IOPC Fund). Almost all of these claims have been met promptly and in full without resort to litigation. Claims allowed have included clean-up costs, preventive measures, and lost income for fishermen, fish processors, and the tourist industry. Some have also involved environmental restoration costs, such as mangrove swamps. Over one hundred states have become parties to the 1992 Protocols, representing some 92-95 per cent of relevant tonnage. Prompted by the *Exxon Valdez* disaster in Alaska, the US Oil Pollution Act of 1990¹⁵³ introduced limits on liability under US law greatly in excess even of the 1992 Protocols¹⁵⁴, and allowed unlimited liability in a wider range of situations, including gross negligence, willful misconduct, and violation of applicable Federal regulations. This must be against total clean-up costs for the *Exxon Valdez* incident estimated at US\$2,500 million, but it has the effect of precluding US ratification of the Fund and Liability Conventions. The 1992 protocols would not guarantee full compensation for such damage.

Moreover even the small claims made in respect of the loss of the *Erika* and the *Prestige* exceeded the maximum then available from the 1992 Fund. When this happens, payment of individual claims is not only reduced but delayed until contested claims are resolved, either by negotiation or in court, and governments may have to forego some of their clean-up and environmental-restoration claims. The limitations on the comprehensive liability delay the compensation procedure to the greater extent.

The *Deepwater Horizon oil spill* is the largest accidental oil spill in U.S. history, and remains a potential ecological disaster. While the precise amount of spilled oil is unknown, the spill was at least 4.9 million barrels of oil, or 205.8 million gallons or about nineteen times that spilled by the *Exxon Valdez*, the largest oil spill in U.S. waters before the *Deepwater Horizon spill*. The spill was an ecological disaster that caused, or has the potential to cause, considerable long-term economic and environmental damage.¹⁵⁵

¹⁵³ Oil Pollution Act, 1990. 9 *I.L.M.* 45 (1970).

¹⁵⁴ International Maritime Organization Protocol, 1992.

¹⁵⁵ Thomas A. Birkland and Sarah E. DeYoung, *Emergency Response, Doctrinal Confusion, and Federalism in the Deepwater Horizon Oil Spill*, Oxford University Press, *The State of American Federalism 2010-2011* (Summer 2011), 41(3), pp. 471-493.

Limitation of liability and equitable sharing of the costs remain controversial but it is of course precisely those features which make the Oil Pollution Liability and Fund Conventions broadly acceptable to the shipping industry and which ensure that the oil industry cannot offload all of the incidental cost of moving its products by sea. Nevertheless, when substandard vessels-such as the *Erika* and the *Prestige* can cause such enormous losses, it is worth asking whether limits on the ship owner's liability can still be justified, and whether the cargo receivers should not also be required to contribute rather more for the privilege of transporting oil in defective ships. Proposals of this kind were considered at IMO but rejected after opposition from some flag states.

The 1982 UNCLOS makes radical changes in the exclusive character of flag-state jurisdiction, but leaves intact the central principle of earlier law that the flag state has the responsibility for the regulation and control of pollution from its ships. Since flag states retain discretion under to set more onerous standards, the effect of Article 211 of UNCLOS is to make MARPOL (International Convention for the Prevention of Pollution from Ships, 1973)¹⁵⁶ and other relevant international standards obligatory.¹⁵⁷ Article 217 requires the flag states to take measures necessary for the implementation and effective enforcement of international rules and standards.¹⁵⁸ These, measures must include the certification and inspection procedures instituted by MARPOL and SOLAS, and must be sufficient to ensure that vessels are prohibited from sailing until they can comply with the relevant regulations. There is thus nothing new in principle in the treatment of flag state regulation in the 1982 UNCLOS. It fully accords with existing customary and conventional law, although as with other provisions of the convention these articles are part of a broader package deal and are not necessarily applicable in every respect to ships of non-parties. Thus non-parties not being bound by these international conventions also stand as a major discrepancy in implementing the international regulations.

CONCLUSION & SUGGESTIONS

The pertinent aim of International law in the aspect of law of seas is to regulate and control marine pollution. Governance of marine oil transportations is a highly complex area where the principle of the freedom of the high seas in combination with the inherent difficulties in monitoring

¹⁵⁶ MARPOL (International Convention for the Prevention of Pollution from Ships, 1973). 12 *ILM* 1319 (1973).

¹⁵⁷ Article 211, *supra* note 28.

¹⁵⁸ Article 217, *Id.*

operator's behavior may create strong incentives for free riding and emergence of substantial implementation gaps. Whereas large-scale spills due to accidental causes often lead to dramatic local ecological and economic effects, long-term consequences from operational oil pollution are more difficult to assess, but could very well be more harmful in the long run.¹⁵⁹

Although in certain respects there remain significant problems in enforcing international pollution regulations at sea, and in controlling the risks of serious accidents, there is evidence that relevant international and regional conventions, most notably the 1973 MARPOL Convention, have led to improved protection of the marine environment. The 1982 UNCLOS has in many respects codified the existing rules of customary and conventional law and has proved largely uncontroversial in its approach to protection and preservation of the marine environment. The 1982 UNCLOS has generally been more successful in addressing specific sources of pollution such as dumping wastes by the ships and has shown its value as a foundation for the continued development of marine environmental law.

¹⁵⁹ Bjorn Hassler, *Accidental Versus Operational Oil Spills from Shipping in the Baltic Sea: Risk Governance and Management Strategies*, Springer on behalf of Royal Swedish Academy of Sciences., 40(2), (March 2011), pp. 170-178.

HOSTILE TAKEOVER: LACUNA'S IN EXISTING REGULATIONS AND TAKEOVER CODE

Deeksha Dubey¹⁶⁰

ABSTRACT

India has witnessed a tremendous rise in Mergers and Acquisition deals over the past decade. Last financial year set a record for M&A deals which were valued to be more than 60 billion dollars. One of the most debatable issues in M&A is the issue of hostile takeover. Whenever any company is acquired without the will of its board of director and management, hostile takeover takes place. With growing economy and liberalization in all fields including the legal structure of the country India has witnessed only one successful hostile takeover. Cultural and political environment of India along with the prevalence of concentrated shareholding pattern has proved to be fatal for hostile takeovers to take place. Not only this laws and regulations in India are so strict in nature that they leave minimal scope for the ideal market to promote any idea of hostile takeovers. Author through this article tries to explain the concept of hostile takeover and various reasons for its failure by analyzing existing laws regulations and SEBI's takeover code.

Keywords: mergers, acquisition, takeover code, regulations.

INTRODUCTION

In a simple merger and acquisition deal, the target company is purchased by the acquirer company and the company which is purchased either cease to exist or merges with the buying company. The company which is buying the target company becomes the owner of all the assets and personnel of the merging company. This looks fairly simple and easy of what happens when merger and acquisition of a company takes place but is it always this simple?

With increasing competition and growing economy, merger and acquisition between companies becomes intensely complicated and not all acquisition between two companies turns out to be harmonious and peaceful as it seems. The essential part of most of the mergers and acquisition deal is the consensus that both companies have given to each other for the said acquisition. But

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what if the target companies doesn't want to get acquired or don't want to get purchased. This is when the concept of 'hostile takeover' comes into play.

In simple terms hostile takeover means, when a target company is acquired by the buying company, without the consent or knowledge of the management and board of directors. "One of the characteristic results of hostile takeovers is taking control over a company without the consent of the current board"¹⁶¹. This is the very reason why these takeovers are also called as no consented takeovers. Buying company tries to surpass the approval of board of directors and the management by following either of the two processes:

- a) Buying company tries to gain control over the target company by acquiring all or that much amount of shares which gives them controlling interest in the company
- b) Buying company tries to convince the existing shareholders to give their votes in the new board so as to approve the takeover offer.

These two processes are known as tender offer and proxy fight. In proxy fight "the procedure is known as a waged campaign, aiming at replacing an existing board of directors through a voting contest, a maneuver referred to as a proxy fight. These are the most common practices in hostile takeover"¹⁶². Hostile takeovers reveal the hidden value of the company and "the target company's assets may act as collateral for an acquirer's borrowing, and the target's cash flows from operations and divestitures can be used to repay the loans"¹⁶³.

POSSIBLE DEFENSES STRATEGIES AVAILABLE FOR TARGET COMPANY

In order to defend themselves from hostile takeovers, companies adopt various strategies and the most popular of them are-

- a) Poison Pill- "The board of directors without shareholder approval generally adopts poison pills"¹⁶⁴. Under this strategy, the target company in order to defend themselves from the upcoming hostile takeover lower their price of preferential share and issue them to the shareholders. This ultimately raises the overall issued share capital of the target company

¹⁶¹ J. Steinbacher, Defense strategies against hostile takeovers. Emerging trends and developments of country-specific defense strategies against hostile takeovers, Books on demand GmbH, Norderstedt Germany 2007, p. 6.

¹⁶² Brealey, R. A., Myers, S.C., (2000), "The Principles of Corporate Finance", p.960

¹⁶³ Werton, J. Fred, et al, Mergers, Restructuring, and Corporate Control, (1998), p.481

¹⁶⁴ Malatesta, P.H., and Walking, R.A., Poison Pill Securities: Stockholder Wealth, Profitability and Ownership Structure, Journal of Financial Economics, Vo.20, 1988, p. 367

and thus increasing the total cost for the acquirer .This kind of defense can prove loss to the target company but at the other hand can also be very powerful in stopping the hostile takeover. A very good example for this defense is the case of Saurashtra Cement. “Nowadays poison pill strategies are used undoubtedly more rarely”¹⁶⁵

- b) Refusing the ‘transfer of shares registration’- Article of Association of the company contains the power to refuse the registration of the shares. “This would bind the company and the members of the company, as an incident of the contract between them”¹⁶⁶ through AOA and memorandum. By using this power the board of directors can order the refusal of shares registration which are to be transferred thus ultimately proving to be an effective tool in averting the hostile takeover. In the case of V.B.Rangarajan v. V.B.Gopalakrishnan¹⁶⁷, Supreme Court in its judgment said that the registration of shares can be validly denied if the same has been referred in the article of association. Under the proviso of section 111(2) of Companies Act, the ‘sufficient cause’ is clearly defined, thus, if the refusal of registration of shares is done on the grounds stated in the AOA and fulfills the definition of sufficient cause then the denial is valid.
- c) Pac-man strategy- This is a classic defense strategy where the target company tries to purchase the shares of the acquiring company and ultimately taking over whole company. Martin-Marietta used this strategy to take over its acquiring company Bendix Corporation.

HOSTILE TAKEOVERS IN INDIA

Recently, Uday Kotak founder of Mahindra Bank requested to the government and said “I would love to see the merger and acquisition (M&A) market in India get developed further... and maybe a time has come where we should see some hostile takeovers as well. We have not seen them for a long-time in this country.”¹⁶⁸

But whether a country like India is ready to incorporate the idea of hostile takeovers into its varied cultural, regulatory and political atmosphere?

¹⁶⁵ R. F. Bruner, Applied mergers & acquisitions, John Wiley & Sons, Inc., New Jersey 2004, p. 837-840.

¹⁶⁶ Harinagar Sugar Mills Ltd. v. Shyam Sunder Jhunjhunwala, AIR 1961 SC 1669, para.17.

¹⁶⁷ AIR 1992 SC 453

¹⁶⁸ <http://www.moneycontrol.com/news/business/economy/maybe-its-time-for-hostile-takeovers-govt-must-back-honest-risks-uday-kotak-2244285.html>

After independence, mergers and acquisition became widespread in India. With increase in M&A between companies, there was also increase in various laws and regulations imposed by the government to maintain a balance between economies. In order to protect the accumulation of power in one hand government introduced various regulations like FERA Act, MRTP Act, Industrial Development and Regulation Act-1951 etc. which created an obstruction for hostile takeovers in India. Therefore, India witnessed handful of takeovers and M&A before 90s.

After 90s, introduction of globalization created a competitive environment in corporate sector of India. This led to companies concentrating themselves to their core areas of interest instead of pooling their money and resources to those sectors where they have fewer advantages in terms of competition. "For companies to maintain their competitiveness in regional and global markets within the parameters set by government-negotiated "managed trade agreements", they simply have to restructure"¹⁶⁹. This restructuring of companies led to the beginning of new era of corporate restructuring by way of Mergers and Acquisitions.

Most popular hostile takeovers in India goes long way back to 1980, when Swaraj Paul tried to acquire the control over two companies in India, DCM and Escorts Limited by purchasing their shares and indirectly gaining control over the management. "He was the first hostile raider among the raiders of Indian stock market. Although Paul could not succeed in his efforts because the incumbents fend him off by using the technicalities of rules governing non-residents but this created a need for a takeover code"¹⁷⁰.

1998 witnessed another example of a successful hostile takeover of Rasi cements by India cements. Till date case of Rasi cements is considered to be only successful hostile takeover in India. An open offer of 300 rs per share was made by Indian Cements to purchase the shares of Rasi Cements when the market value of those shares was 100 rs only. Another important aspect to this deal was Mr. Raju ,Vice Chairman of the Rasi Cements transferred 39.5% shares of SVCL(subsidiary of Rasi cements) to 9 other companies owned by Mr. Raju himself and his family members. This transfer of shares by Mr. Raju to the subsidiary company after the public announcement of the offer by Indian Cements was clearly in violation of Sec 23 (1)(a) of Takeover code which says that "the target company shall not, during the offer period, - (a) sell, transfer, encumber or otherwise

¹⁶⁹ Clark et al. Restructuring Corporate America. (New York :The Dryden Press, 1988) ix.

¹⁷⁰ <http://www.takeovercode.com/genesis.php>

dispose of or enter into an agreement for sale, transfer, encumbrance or for disposal of assets otherwise, not being sale or disposal of assets in the ordinary course of business, of the company or its subsidiaries”¹⁷¹. As the transfer was considered to be invalid when the matter was taken to SEBI, Mr. Raju had to see all of the shares which were sold to subsidiary company to Indian Cements.

REASONS FOR THE FAILURE OF HOSTILE TAKEOVERS IN INDIA

The current framework of takeover code in India is structured keeping in mind the U.K. City Code on Takeovers. This is specifically done in order to adopt the ‘no frustration’ doctrine and promote hostile takeover in a progressive way as opposed to U.S. code which is more structured in a way to safeguard the already established management. However, even after several attempts to promote more hostile takeovers in India, there is only one successful till now. Why? The reasons are fairly simple. Firstly, in most of the Indian companies there is supremacy and dominant position of promoters who are holding substantial amount of shareholding in an institution. Secondly, exhausting and cumbersome process of fulfilling all rules and regulation imposed by Indian government like SEBI approval whenever any takeover happens, Cabinet Committee on Economic Affairs approval, RBI approval and many others makes hostile takeover almost impossible. Thirdly, the cultural and political environment of India proves to be an obstruction whenever a hostile takeover takes place. Dominant political classes often try to connect anything happening in India with national sentiments even the business deals which ultimately makes hostile takeover difficult in an Indian environment. Unsuccessful bid of Swaraj Paul case in 1983 where Rajiv Gandhi intervention led Paul to finally let go DCM and Escort, most recent case of IVRCL vs Essel Group happened in 2012 and Asian Paints vs. ICICI UK bid, all of these cases are evident prove of dominant nature of political parties. Showing loyalty and faith towards one particular political class becomes the ultimate goal which overpowers other relevant factors. Finally, lack of market requirements and modified methods to fund any upcoming hostile takeovers makes it further difficult.

INDIAN LEGAL FRAMEOWRK AND THE SCOPE OF HOSTILE TAKEOVERS

¹⁷¹ <http://www.sebi.gov.in/acts/takeamend.html#reg 23>

It is mandatory that any takeover which takes place in India should satisfy the rules and regulation laid down by SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 combined with amendments made in 2013. The takeover code has been made by going through rigorous process of taking public demands in mind and consulting them while framing the laws. Committees appointed by SEBI holds various lawyers, companies representatives, legal advisors in its spectrum. The code has also been liberalized in 2006 by letting foreign investors to freely purchase shares in any company in India without taking any permission from RBI or Foreign Investment Promotion Board (except in those sectors where the sectoral caps are specified). Still the question remains pertinent in our mind, that whether the code is actually liberalized for hostile takeovers? Many provisions of the code create hindrance up to some extent in the path of hostile takeovers to take place in India. There is not a single definition expressly stating the words 'hostile' or 'takeover' in the code.

As per Sec 25 of the code talks about competitive bids and requires that "any competitive offer by an acquirer shall be for such number of shares which, when taken together with shares held by him along with persons acting in concert with him, shall be [at least equal to the holding of the first bidder including the number of shares for which the present offer by the first bidder has been made]"¹⁷². As per the section offer made by an acquirer shall match the holding of the first bidder, now this creates a problem in a country like India because of the predominance of controlling shareholders and the whole process makes the bid more costly for the competitors.

Section 22 of the code also leaves no scope for hostile takeover because as per the section, in order to fulfill the necessary disclosure requirements, the acquirer must first disclose all or any non public information related to the company which the acquire is going to acquire.

Further, it is necessary that the SEBI code is read along with SEBI (Disclosure & Investor Protection) Guidelines 2000 ("DIP Guidelines"). These guidelines enforce various limitations when preferential shares are allotted and also when share warrants are issued particularly by any listed company. As per DIP guidelines, it is almost impossible while issuing shares through warrants or at a discounted price because the minimum price to issue such shares is decided in reference to the existing market price of the shares (the date at which the shares or warrants are issued). This further provides hindrance in the shareholders right to issue preferential shares on a

¹⁷² <http://www.sebi.gov.in/acts/takeamend.html#reg 23>

discount bases to other existing shareholders. As per 13.2.1 of DIP guidelines “In case of Warrants/ PCDs/ FCDs/ or any other financial instruments with a provision for the allotment of equity shares at a future date, either through conversion or otherwise, the currency of the instruments shall not exceed beyond 18 months from the date of issue of the relevant instrument”. This means that after 18 months, the right to purchase the warrants will lapse and the end the target company will further inform the shareholders to again revive their plans. This creates a very complicated process and obstructions in the rights of the shareholder because Indian companies will become unsuccessful in diluting the shares of the hostile acquires without letting its shareholders to buy the shares through options of warrants or through issue of shares at a discounted price, thus restraining the shareholders right and possibility of any hostile takeover.

From regulation 6 – 11 of the code, SEBI imposes various guidelines to be followed while making any acquisition in a company. These conditions regulate offers made after, before and during the acquisition, makes hostile takeover next to impossible. Every time a takeover takes place SEBI should be informed about the takeover. Further, the introduction of three different phases of disclosure (5%, 10% and 14%) makes the process more complicated, time consuming and expensive. These stages are in favor of promoters and fail to provide an ideal market for hostile takeovers.

Also, in order to make any voluntary offer, the person should be the owner of 25% or more shares in a company which cannot be extended to more than 75%. This means a person cannot make any voluntary offer, if he is holding less than 25% of shares or none in a company. It is mandatory for him to first trigger the public offer by reaching the 25% threshold. Not only this, these voluntary offers are further restrained by timeline of 52 weeks. A person can only make a voluntary offer if in previous 52 weeks he has not purchased any number of shares in the target company and if he is successful in acquiring the shares in a company, he cannot further acquire shares in a company for at least 6 months. Additionally, while the offer period is continuing, he can only purchase the share in a company through the voluntary offer.

Other than SEBI Takeover code and DIP Guidelines, FEMA guidelines and FDI policy also plays a substantive role by putting limitations on non-resident from buying the listed shares in an Indian company, either directly in an any sector through open market or another sectors which comes under the guidelines of an automatic route. Further, under the limitations of automatic route with

respect to purchasing of shares by non-resident through private acquisition, it is only allowed if we read Press Note 1 of 2005 in accordance with Press Note 18 of 1998, otherwise non-resident acquirers are not allowed. Limitation like this further becomes impediment for non-residents to take any company through hostile takeover.

CONCLUSION

India's regulatory body SEBI is functioning on a principle based approach through Takeover Code. Each and every move of the target companies suspected to be acquired through hostile bid is monitored by SEBI. This approach needs some changes in its framework, an attempt should be made to create a balance between promoting upcoming global companies and encouraging the foreign investments in India. There is not a single provision in Takeover Code which prohibits the hostile takeover or discourages it. While framing the code the intention of the framers was to safeguard the rights and interest of the shareholders which did prove to be beneficial for them. However, while safeguarding the interest of the shareholders, framers adopted very strict and protected guidelines which in turn restricted the possibilities of hostile takeovers in India. There is a need for a progressive change in the laws and regulations of India which can safeguard the interest of the shareholder and at the same time give a wider scope for hostile takeovers to take place.

JUDICIAL INTERPRETATION OF FICTIONAL CHARACTER UNDER INTELLECTUAL PROPERTY RIGHTS

Sakshi Kansal & Raina Varma¹⁷³

ABSTRACT

India's television and film industry is one of the largest in world today. With over 8422 television channels and 10001 feature films released annually, it's not only the show or film which gains popularity but also the character. Sometimes the character gains such popularity more than the artist representing the character and the character becomes tantamount. Fictional character can be protected separately as derivative copyright, provided that they are sufficiently distinctive and unique.

However, laws in India relating to the characters, especially the fictional characters, of a television show or a film, which are responsible for taking the story forward remains untested.

Legal protection of a fictional character is usually governed by appearance, name, personality traits and physical attributes that is the characterization. The legal protection provided to fictional characters and ownership of the rights that rest in any fictional character is examined under Indian trademark law, copyright law, and the right of publicity.

Critically analyzing the Rights which a fictional character should hold, the authors in this article will analyze the different legal enactments and how judiciary has contributed in developing the concept, compare the same with laws of other countries. The article also seeks to cover the shortcomings and makes an effort to recommend a solution for the same.

Key words: Copyright, Fictional Character, Right of publicity, Trademark.

INTRODUCTION

With the growing television and film industry, certain characters enjoy excessive popularity in public and by virtue of the same have a separate identity altogether. The Film and Television industry casts a unique influence on its consumers, who attach themselves and give major importance to the character, actor, stories etc. of Television Series and Motion Pictures. The whole

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credit of this should be given to the creator or artist, who from their intellectual prowess and creativity has created such characters.

However, laws in India which relating to the characters, especially the fictional characters, of a television show or a film, which are responsible for taking the story forward remains untested.

Legal protection of a fictional character is usually governed by appearance, name, personality traits and physical attributes that is the characterization. The legal protection provided to fictional characters and ownership of the rights that rest in any fictional character is examined under Indian trademark law, copyright law, and the right of publicity.

The term 'character' includes in its ambit fictional person (e.g.: Tarzan or James Bond), non-humans (e.g.: Bugs Bunny or Donald Duck) and real persons (e.g.: famous personalities in music, film or sportsmen).¹⁷⁴ Certain specific thing or act about/of these characters enjoy a boundless popularity among public and, the same is exploited by the creator or any third party to melt profits. Hence, we have the concept of character merchandising.

Character merchandising means commercial exploitation of the fictional character, or the essential personality features (such as the image, appearance or name) of the character in relation to various goods and/or services with a view to attract prospective customers to acquire those goods and/or services as customers' have affinity towards that character.¹⁷⁵ The most important ingredient of character merchandising is that the personality feature of that character (for e.g. voice, name, appearance, image etc.) has been recognised easily by the public at large. It has become one of the popular way of advertising products and thus, help in making huge profits. However, the concept of character merchandising and protection of right of the creator of fictional character attract many legal complications. The legal systems across the globe are realising the importance of stipulating clear principles regulating this industry and thereby recognising protection of fictional character and its owner.

¹⁷⁴WIPO, *Report on Character Merchandising* (December 1994), available at: http://www.wipo.int/export/sites/www/copyright/en/activities/pdf/wo_inf_108.pdf (last visited on: 12th April 2017).

¹⁷⁵ Ibid.

The concept of fictional character arose from South East Asia, specifically India.¹⁷⁶ The ancient mythological scriptures, like Ramayana have representations of fictional character (e.g. Rama, Hanuman etc.). The idea of character merchandising is also said to have evolved through these mythological works as they were depicted in the form of toys, statues, puppets etc. Further, the emergence of Walt Disney's fictional characters, like Mickey Mouse, Minnie Mouse, Donald Duck etc. during 1930's¹⁷⁷ also evolved the concept of secondary exploitation. When the company created these fictional characters, a department of secondary commercial exploitation of these characters was created which gave licences to third party for manufacturing toys, badges, posters, T-shirts etc. showcasing these characters.¹⁷⁸ Hence, with the development of the industry, there emerged a need to protect such fictional characters, the rights of the creators and therefore, they fall under the ambit of intellectual property law.

Critically analysing the Rights which a fictional character should hold, the authors in this article will analyse the different legal enactments and how judiciary has contributed in developing the concept, compare the same with laws of other countries. The article also seeks to cover the short comings and makes an effort to recommend a solution for the same.

LEGAL BASIS FOR PROTECTING FICTIONAL CHARACTER

A character comes from the mind of a person who has created the character as fixed in tangible form in published or unpublished works. There are many rights attached to a fictional character and they can generally be referred to as "property rights," which includes exploitation and economic rights. These rights includes, the right to use a fictional character (or more precisely his image, name appearance, etc.) and the right to receive the benefits resulting from its use.¹⁷⁹ It is important that these rights are protected by the law, so that the rightful owner can enjoy the benefit

¹⁷⁶ RINI BHATTACHARYA MEHTA, *The Indian Partition in Literature and Films: History, Politics, and Aesthetics* (2014).

¹⁷⁷ Nishant Kewalramani & Sandeep Hedge M., *Character Merchandising*, *Journal of Intellectual Property Rights* (Vol. 17, September 2012), pp. 454-462, available at: [http://nopr.niscair.res.in/bitstream/123456789/14770/3/JIPR%2017\(5\)%20454-462.pdf](http://nopr.niscair.res.in/bitstream/123456789/14770/3/JIPR%2017(5)%20454-462.pdf) (last visited on 12th April 2017).

¹⁷⁸ WORLD INTELLECTUAL PROPERTY ORGANIZATION, *INTRODUCTION TO INTELLECTUAL PROPERTY, THEORY AND PRACTICE*, Kluwer Law International (19 97).

¹⁷⁹ *Supra* Note 1.

of his property. Thus, fictional characters can enjoy protection under the Copyrights Law and Trademark Law.

COPYRIGHT LAW

Copyright is a person's exclusive right to reproduce, publish, or sell his or her original work of authorship. The copyright exists when fixed in tangible form and protects creativity. The Copyright protection is basically granted to original works of authorship, where in protection is not given to an idea, but is given only to the expression of that idea in a tangible medium.¹⁸⁰ The Indian Copyright Act, 1957, provides owner the exclusive right to replicate or reproduce his work in any material form, which involves issuing copies of the work to the public, performing or communicating the work to the public, to include or make a cinematograph film of the work, and make an adaptation or translation of his work.¹⁸¹

The Indian Copyright Act defines 'cinematographic film' as "any work of visual recording and includes a sound recording accompanying such visual recording."¹⁸² The producer of the cinematograph film generally has copyright with respect to the cinematograph film.¹⁸³ Therefore, in such a case, if the fictional character is present in the movie, it will not have an independent copyright protection. However, if the fictional character was not developed solely for cinematographic film, but was developed independent of it as an artistic or literary work, then in such cases, the copyright protection can be given to the creator of the fictional character instead of the producer of the film who used the character.¹⁸⁴ However, the Court did not clarify as to who will be the owner of copyright in this regard and also, the conditions which should be satisfied while granting copyright protection. One of such conditions necessary to apply for independent copyright protection for fictional character has been observed by the Delhi High Court in the case of Star India Private Limited vs. Leo Burnett (India) Private Limited¹⁸⁵, that the fictional character should have independently acquired public recognition for itself irrespective of the field or area in which it originally appears. Therefore, the independent copyright will subsist in such a character

¹⁸⁰ R.G. Anand vs. Delux Films, AIR 1978 SC 1613.

¹⁸¹ Section 14, Copyright Act, 1957.

¹⁸² Section 2(f), Copyright Act, 1957.

¹⁸³ Section 2 (d) (v), Copyright Act, 1957.

¹⁸⁴ Malayala Manorama v. V T Thomas, AIR 1989 Ker 49.

¹⁸⁵ Star India Private Limited vs. Leo Burnett (India) Private Limited, 2003(27) PTC81(Bom.).

if the above-mentioned condition is satisfied and further, the same can be used for character merchandising. The Court summarised fictional characters as, "...fictional characters are generally drawings in which copyright subsists, e.g., cartoon and celebrities are living beings who are otherwise very famous in any particular field, e.g.; film stars, sportsmen. It is necessary for character merchandising that the characters to be merchandised must have gained some public recognition, that is, achieved a form of independent life and public recognition for itself independently of the original product or independently of the milieu/area in which it appears. Only then can such character be moved into the area of character merchandising. This presumes that the character has independently acquired such reputation as to be a commodity in its own right independently of the goods or services to which it is attached or the field/area in which it originally appears. It is only when this is established on evidence as a fact, that the claimant may be able to claim a right to prevent anyone else from using such a character for other purposes."

RIGHTS OF ARTISTS

The rights of the artists performing the character have been a much debated issue since the emergence of copyright law. In the landmark case of *Fortune Films v. Dev Anand*, the Hon'ble Court observed as follows; "there is no 'work' in the cine artist's performance which is protected by the Act. In the view that we have taken of the definition of "artistic work", "dramatic work" and "cinematograph film", it would appear that the Copyright Act, 1957, does not recognise the performance of an actor as 'work' which is protected by the Copyright Act".¹⁸⁶

The law however, after the 1994 amendment to the Copyright Act, 1957 acknowledges performer's rights and gives exclusive right to the performer with respect to his performance. The law has recognised that is the artiste who performs the role of the character in a cinematograph film and makes it identifiable to the public at large and therefore the Copyright Act, protects the artist and provides certain rights known as moral rights of the performer which give him the right to claim to be identified as the performer of his performance and to restrain or claim damages in respect of any distortion, mutilation or other modification of his performance which would be prejudicial to his reputation.¹⁸⁷ However, this protection is with respect to the performances which are 'original' to the artists, it is without prejudice to the rights of the author.

¹⁸⁶ *Fortune Films v. Dev Anand*, AIR 1979 Bom. 17.

¹⁸⁷ Section 38B of the Copyright Act, 1957.

a) Ownership of Fictional Characters

Section 38A (2) of the Copyright Act, 1957 which states that “Once a performer has, by written agreement, consented to the incorporation of his performance in a cinematograph film, he shall not, in the absence of any contract to the contrary, object to the enjoyment by the producer of the film of the performer's right in the same film: Provided that, notwithstanding anything contained in this subsection, the performer shall be entitled for royalties in case of making of the performances for commercial use.” Therefore, with respect to a fictional character in a cinematograph film, it is the producer who will be the owner of the copyright therein, if there is a written agreement to that effect. However, an artiste’s right to receive royalty for his portrayal of the character in the cinematograph film, cannot be assigned or waived by contract or otherwise.

It can be seen that, Indian Courts have not had many instances as to analyse the extent of copyright protection to be afforded to fictional characters, being independent of the protection of copyright subsisting in cinematograph film.

However, the jurisprudence of United States is developed in this context, and lays down two tests for determination whether the fictional characters can independently be protected. The first test of such a kind was the ‘Especially Distinctive’ or ‘Character Delineation’ test which basically means that the character has developed itself in such a fashion that it can delineated from the story itself, then the protection can be granted. The Distinct Delineation Standard, or character delineation, helps determine whether the character is copyrightable. This was discussed in *Nichols v. Universal Pictures Corp.*¹⁸⁸ The Court established that “the less developed the characters, the less they can be copyrighted; that is the penalty an author must bear for marking them too indistinctly.”¹⁸⁹ In the instant case the plaintiff, Nichols, accused Universal for using similar characters from her play, for their film. The main concern of the Judge’s was making sure fictional characters were protected under their original work, but the ideas of characters could be left for the public domain to be able to use without penalty. Learned Judge Hand laid down that for a character to be protected independently from the original plot, they would have to be a ‘distinct delineation’. He further explained the more indistinct the character is written, the less protection the character will receive, thus, putting it in the category of an idea of expression. In this specific

¹⁸⁸ *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121, 7 USPQ 84 (2d Cir. 1930).

¹⁸⁹ *Ibid.*

case, he concluded the characters were not similar, then making distinct delineation equally as undefined as before.

Overtime, the US Courts have evolved specific characteristics of copyrightable characters. One of the characteristics of the former kind require characters to be “sufficiently delineated” with “consistent, widely identifiable traits”. The other test is “Story Being Told” test, which was developed in Warner Bros. Pictures Inc. v. Columbia Broadcasting System.¹⁹⁰ This test basically means that, if the character is a central and integral part of the story, that it is the character itself which constitutes the story which is being told, copyright protection to the fictional character will be granted. However, if the character is merely a chessman in the game of telling the story he is not within the area of protection afforded by copyright law.¹⁹¹

These are the land mark judgments of the US jurisprudence which provides us with a specific insight as to under what conditions, the copyright protection can be granted.

Now coming to another aspect of Intellectual Property Rights Law and dealing with the protection of fictional character under the Trademark Act, 1999 and the role which the judiciary has played in protection of these fictional characters.

b) Trademark Law and Passing Off

Trademark is defined as a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others¹⁹². Trademark can be used to protect phrases associated with the character, identifiable traits, sounds, distinct names etc. of any fictional character, if the same is capable of being represented explicitly.

Under the Indian law if there are images or words which support certain distinguishing characters they might qualify for Trademark protection, which is advantageous for merchandising. Trademarks adds to the quality value of the product or service by giving recognition to the product. The names and tag-lines of animated characters may be protected as trademark under The Trademarks Act, 1999.¹⁹³

¹⁹⁰ Warner Bros. Pictures Inc. v. Columbia Broadcasting System, 216 F.2d 946 (9th Cir. 1954).

¹⁹¹ Ibid.

¹⁹² Section 2(zb), Trade Marks Act, 1999.

¹⁹³ Fictional Characters And Copyright Law , IP Era,<http://www.ipera.in/articles/item/418-fictional-characters-and-copyright-law.html> (Last updated on 12th May, 2014)

The owner of the trademark, has an exclusive ownership right over the same, they also have a right to commercially exploit. Where a fictional character has been identifiable in the minds of the public and is granted trademark protection the owner of the trademark can use the same on goods and services and he has a sole right to exploit the character for the same. For any If a Fictional Character is to be protected under trademark it is essential that the character acquire distinctiveness, and acquire a secondary meaning. Further, if there is any claim for infringement it must show use of such fictional character, or elements which is protected, under law thereby diluting the brand equity or reputation of the trademark on the character in question.

Indian courts have constantly upheld the rights granted to graphic or fictional characters, when there is a likelihood of confusion which can be determined, especially when such trademark infringement is with respect to use of a fictional character on any goods or service. When "HariPuttar" was used as the name of a cinematograph film, the question before the court was whether the trademark protection granted to the character and name "Harry Potter" was enough to grant an injunction, holding that no likelihood of confusion existed it stated that "even assuming there is any structural or phonetic similarity in the words "Harry Potter" and "HariPuttar", what is to be kept in mind is that Harry Potter film is targeted to meet the entertainment needs of an exclusive and elite audience - the literati which is an audience who is able to determine the difference between a film that is based on Harry Potter book on the one hand and a film which is a Punjabi comedy on the other."¹⁹⁴.

In the case of Chorion Rights Limited Vs. Ishan Apparel and Ors.¹⁹⁵, the plaintiff claimed to be the owner of worldwide trademark and merchandising rights on the character named NODDY and had sought that the defendant should not sell apparel under the name of NODDY. In this case the court recognized importance of character merchandising right and held that the registration for the character was granted to defendant in 1995 whereas the plaintiff's claim was with effect from 1997; even though the plaintiff owned the merchandising rights in NODDY in most of the jurisdictions in the world, in India the defendant was first to get the right.

¹⁹⁴ Warner Bros. Entertainment Inc. and Anr. vs. Harinder Kohli and Ors., 2008(38)PTC185(Del); 19 202 F.2d 866 (2d Cir.)

¹⁹⁵ (2010)ILR 5Delhi481

Disney has set up an example of creating value by trade marking its fictional cartoon characters, like Mickey, Donald, Goofy etc. when their copyright term came close to expiry¹⁹⁶. Character Merchandising and theme parks which are based on Disney's cartoon characters were taken by public at large, which not only increased Disney's revenue by leaps and bounds, but also helped them in obtaining trademark protection over their cartoons. Not only common law trademark rights were given but also the artistic work in cartoons had started to enjoy statutory protection as Disney's trademark.

Therefore, it can be established that whenever there is a fictional character which acquired distinctiveness either by its characteristics, name or any other feature which can be identified, trademark protection can be granted. Further, the protection can be upheld if there is a likelihood of confusion or the defendant, as the case may be, is passing off the protected fictional character as his own.

c) Right of Publicity

Right of Publicity is a term which was coined in *Haelan Laboratories Inc. v. Topps Chewing Gum Inc.*¹⁹⁷ which can be defined as the right to commercially exploit one's characteristics, reputation and goodwill attached to a person's image. If there is any claim related to right to publicity it can arise only when one appropriate commercial value of any person's identity is being used, without the consent of that person, his likeness, name, or any other indices of identity is used for purposes of trade. Pre requisite of protection under the doctrine of right of publicity is that of being identifiable. The misappropriation of a celebrity's personality, characteristic mannerisms, or likeness should be identifiable by more than de minimis number of people.¹⁹⁸

"The distinctive aspect of the common law right of publicity is that it recognises the commercial value of the picture or representation of a prominent person or performer, and protects his proprietary interest in the profitability of his public reputation or persona".¹⁹⁹

¹⁹⁶Nermien Al-Ali (2003); "Comprehensive Intellectual Capital Management: Step-by-step"; John Wiley & Sons Inc, page. 143 (last checked on 15th April, 2017)

¹⁹⁷ 202 F.2d 866 (2d Cir.)

¹⁹⁸ *Sandoval v. New Cinema Corp.*, 147 F.3d 215 (2nd Cir. 1998)

¹⁹⁹ *D.M. Entertainment Pvt. Ltd. v. Baby Gift House and Ors*, MANU/DE/2043/2010

Legal protection which is granted to any fictional character as in any cinematograph film, is with the author of the cinematograph film i.e. the producer, certain times, it is the likeness of the artiste, which makes the character commercially viable and exploitable.

India is one of the few jurisdictions that allow to waive/grant his right of publicity by way of a contract. The contract can include clauses such as granting merchandising rights and can also include waiving one's right of publicity by authorising the copyright owner/ producer or any other person to make use of the artist's personality, voice, name, likeness etc. These rights are generally used as an individual's right to profit from the commercial use of his or her name.

CONCLUSION

The property in fictional character is an emerging area and issue of intellectual property law. The right of the creator and the exploitation of the value of the fictional character is the matter to be deliberated upon. Even though there are many provisions under which our favorite fictional characters including Mickey Mouse, NODDY, Hannah Montana, ChachaChoudhary etc. can be protected, but there exists a lacuna with regards to who actually owns the right to exploit the character. Fictional character can be of many forms, including cinematographic, artistic or literary work and this makes the problem more complicated as to in which form who shall be the real owner. These issues are to be addressed by the legislature by amending the Copyrights Act, 1957 to expressly bring fictional and real characters under the purview of Copyright protection. The Copyright Act, 1957 should incorporate the specific aspects of a character's personality (voice, image, appearance, tag lines, actions, mannerisms, etc.), safeguarding its protection. Subsequently, the Industrial Design Act and the Trademark Act should also be accordingly amended.

The fictional character may be present in different forms including artistic, literary or cinematographic works; therefore, provisions should be made for each of the categories to provide full proof protection to the rightful owner.

AADHAAR UNIQUE IDENTIFICATION NUMBER: AN APPRAISAL

Dr. Deepti Kohli²⁰⁰

ABSTRACT

Aadhaar represents a new dawn. The three words: unique, universal and ubiquitous mark the beginning of a new 12 digit number system. It covers the entire population while making it universal. The idea of a unique ID was marketed as an antidote to the corruption. It was made into a law in 2016 with the objective to provide a good governance with efficient, transparent, and targeted delivery of subsidies, benefits and services, the expenditure for which is incurred from the Consolidated Fund of India, to individuals residing in India. But in the midway it met with many uncertainties. It was challenged for not protecting the sensitive information of its number holders. Many of the illegal websites faked the Aadhaar numbers. The incidents of hacking secure data are not rare in history. Therefore, in this paper an attempt has been made to see whether this new move of uniting all the individuals under one unique number system would lead to success or failure.

Key Words: UID, Privacy, Sensitive Information, Leakage, Illegal Websites

INTRODUCTION

The ending decades of the 20th century witnessed the emergence of electronic technology. As a result E-governance and many modernization government programmes were introduced to improve the quality of governance especially in the field of national security. In the post 9/11 era when the 'war against terror' reached its peak, the national biometric identity cards were proposed in various countries. In the 1980s efforts were made in Australia to issue national identity cards. Similar attempts were made in Canada, New Zealand, Philippines, China, United States and the United Kingdom.²⁰¹

In India the personal ID cards began with the 'Kargil Review Committee Report'²⁰² submitted in January 2000. The committee recommended that ID Cards be issued immediately to people in border districts to prevent infiltration and find out illegal immigrants. On the basis of this report

²⁰⁰ Associate Professor, Vivekananda Institute of Professional Studies, Delhi, Affiliated to GGSIP University.

²⁰¹ Jijeesh P.B., *How a Nation Is Deceived*, 12, (2nd ed. Greenpeople, 2011)

²⁰² GOM Report on National Security,

<http://www.vifindia.org/sites/default/files/GoM%20Report%20on%20National%20Security.pdf> visited on 1st June 2017

by the Group of Ministers titled “Reforming the National Security System” it was mandated that, “All citizens should be given a Multi-Purpose National Identity Card and non-citizens should be issued identity cards of a different color and design.” Acting upon the report Government of India initiated a process for the creation of a National Register of Citizens in 2003.²⁰³

The Strategic Vision on the Unique Identification Authority of India, (hereinafter UIDAI) Project was prepared by M/S Wipro Ltd. It envisaged the close linkage that the UIDAI would have to the electoral database. The Committee also appreciated the need of a UIDAI Authority to be created by an executive order under the aegis of the Planning Commission to ensure pan-departmental and neutral identity for the authority and at the same time enables a focused approach to attaining the goals set. The seventh meeting of the process committee on 30th August 2007 decided to furnish to the Planning Commission a detailed proposal based on the resource model for seeking its approval. It was the UPA Government who formed Unique Identification Authority of India in 2009. The programme named Aadhaar was inaugurated in 29th September 2009 by the then Prime Minister Dr. Manmohan Singh.²⁰⁴

a) What is Aadhar?

Aadhar is the brand name of Unique Identification Number that the Unique Identification Authority of India issue to every resident of India. The 12 digit number is linked to the resident’s demographic and biometric information, which they can use to identify them anywhere in India, and to access many benefits and services. Each number relates to a set of information stored in centralized data base that provides for real-time verification.

Unique Identification Authority of India is the government agency responsible for the implementation of Aadhaar.²⁰⁵ It has been assigned the responsibility of laying down the plan and policies to implement the UIDAI Scheme, to own them and operate database including its updation and maintenance. The implementation scheme entails, the responsibility to generate and assign

²⁰³*Ibid*

²⁰⁴*Supra* note 1

²⁰⁵ UIDAI was set up through notification number A-43011/02/2009 Admin.1 dated 28/01/2009 as an attached office of the Planning Commission.

https://books.google.co.in/books?id=GODjWjrSgZ4C&pg=PA61&dq=cyber+security+of+adhaar&hl=en&sa=X&ved=0ahUKEwj-t6e35I_UAhULOo8KHUyGCw0Q6AEIJzAA#v=onepage&q&f=false visited on 25th May 2017

UID number to residents and provide information about its applicability and also make provision for delivery of various services of UID. The data stored in the Central ID repository includes basic biometric and demographic information of every individual in India. The photograph, ten fingerprints and the Iris Scans are the biometric information collected.

b) The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016²⁰⁶

The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016 was introduced by Minister of Finance, Mr. Arun Jaitley, in Lok Sabha on March 3, 2016. The Bill manifested to assign unique identity numbers for targeted delivery of subsidies and services to individuals residing in India. The main features of the Bill were-

a. Eligibility-

Every resident would be entitled to obtain an Aadhaar number. A resident is a person who has resided in India for 182 days,²⁰⁷ in the one year preceding the date of application for enrolment for Aadhaar.²⁰⁸

b. Information to be submitted-

In order to obtain an Aadhaar number, an individual has to submit his, (i) biometric (photograph, finger print, iris scan) and (ii) demographic (name, date of birth, address) information.²⁰⁹ The Unique Identification Authority may specify other biometric and demographic information to be collected by regulations.

c. Enrolment

The individual would then be informed of, the manner in which the information would be used, the nature of recipients with whom the information would be shared, and the right to

²⁰⁶ Bill No. 47 of 2016

²⁰⁷ The Income Tax Act, 2015, Section 6(1)(a)

²⁰⁸ The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016, Section 2(v)

²⁰⁹ *Id.*, Section 3(1).

access this information.²¹⁰ After verification of information provided by a person, an Aadhaar number would be issued to him.²¹¹

d. *Use of Aadhaar number*

To verify the identity of a person receiving a subsidy or a service, the government may require them to have an Aadhaar number. If a person does not have an Aadhaar number, government would require them to apply for it, and meanwhile, provide an alternative means of identification.²¹² Any public or private entity could accept the Aadhaar number as a proof of identity of the Aadhaar number holder, for any purpose. Aadhaar number could not be a proof of citizenship or domicile.

e. *Unique Identification Authority of India*

Under the Chapter IV of the Act, the Central Government establishes an authority named, Unique Identification Authority of India who would be responsible for the processes of enrolment and authentication. The Authority consists of a Chairperson, appointed on part-time or full-time basis, two part-time Members, and the chief executive officer who shall be Member Secretary of the Authority.²¹³ The Chairperson and Members of the Authority should be persons of ability and integrity having experience and knowledge of at least ten years in matters relating to technology, governance, law, development, economics, finance, management, public affairs or administration.²¹⁴

f. *Functions and composition of authority*

The key functions of the UID authority include, (i) specifying demographic and biometric information to be collected during enrolment, (ii) assigning Aadhaar numbers to individuals, (iii) authenticating Aadhaar numbers, and (iv) specifying the usage of Aadhaar numbers for delivery of subsidies and services.²¹⁵

²¹⁰*Id.*, Section 3(2).

²¹¹*Id.*, Section 3(3).

²¹²*Id.*, Section 7.

²¹³*Id.*, Section 12.

²¹⁴*Id.*, Section 13.

²¹⁵*Id.*, Section 8.

g. *Protection of information-*

The Biometric information such as an individual's finger print, iris scan and other biological attributes would be used only for Aadhaar enrolment and authentication, and not for other purposes. Such information would not be shared with anyone, nor would it be displayed publicly, except for purposes specified by regulations.²¹⁶ However, in two cases such information may be revealed-

a. *Firstly*, in the interest of national security,²¹⁷ a Joint Secretary in the central government may issue a direction for revealing such information. Such a decision would be reviewed by an Oversight Committee (comprising Cabinet Secretary, Secretaries of Legal Affairs and Electronics and Information Technology) and would be valid for six months.

b. *Secondly*, on an order of a court which is not inferior to that of a District Judge, such information may be revealed.²¹⁸

c) **Offences and Penalties**

A person may be punished with imprisonment upto three years and minimum fine of Rs 10 lakh for unauthorised access to the centralized data-base, including revealing any information stored in it.²¹⁹ If a requesting entity and an enrolling agency fail to comply with rules, they shall be punished with imprisonment upto one year or a fine upto Rs 10,000 or Rs one lakh (in case of a company), or with both.²²⁰

On 11th March, 2016, the Bill was passed in Lok Sabha as a money bill. It was sent to Rajya Sabha which had suggested five amendments,²²¹ but since it was a money bill, none of the five suggested

²¹⁶*Id.*, Section 28.

²¹⁷*Id.*, Section 33(2).

²¹⁸*Id.*, Section 33(1)

²¹⁹*Id.*, Section 38.

²²⁰*Id.*, Section 41.

²²¹The Rajya Sabha had proposed five amendments to the Aadhaar Act 2016, which are as follows:

- i. Opt-out clause : A provision to allow a person to "opt out" of the Aadhaar system, even if already enrolled.
- ii. Voluntary: to ensure that if a person chooses not to be part of the Aadhaar system, he/she would be provided "alternate and viable" means of identification for purposes of delivery of government subsidy, benefit or service.

amendments were accepted by Lok Sabha. On 26th March, 2016, the bill entered into the statute book as Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 after presidential assent.²²²

AADHAAR (TARGETED DELIVERY OF FINANCIAL AND OTHER SUBSIDIES, BENEFITS AND SERVICES) ACT, 2016 VIS-À-VIS PRIVACY CONCERNS

Aadhaar has been mandated as 'Primary Identification Document' by virtue of Section 57 of the Act.²²³ The Aadhaar Act provided for statutory backing through which the government plans for targeted delivery of subsidies and services by assigning unique identity numbers to individuals residing in the country. But at the same time the Act has been vehemently opposed on several grounds. One of the major concerns has been regarding sharing of private demographic and biometric information collected for the purpose of issuing the Aadhaar number.

LEAKAGE OF PERSONAL DATA

Recently, it was found that over **135 million Indians** personal details were publicly exposed by four government websites. These websites were run by National Social Assistance Programme under Ministry of Rural Development, National Rural Employment Guarantee Act (NREGA) run by Ministry of Rural Development, Daily Online Payment Reports under NREGA (Government of Andhra Pradesh) and Chandranna Bima Scheme run by Government of Andhra Pradesh.²²⁴ The personal data in question, in some cases, include names, names of parents, PAN numbers, mobile numbers, religion, marks, status of Aadhaar applications, beneficiaries of welfare schemes, bank

iii. Amendment restricting the use of Aadhaar numbers only for targeting of government benefits or service and not for any other purpose.

iv. Amendment seeking change of the term "national security" to "public emergency or in the interest of public safety" in the provision specifying situations in which disclosure of identity information of an individual to certain law enforcement agencies can be allowed.

v. Oversight Committee : the oversight committee , which would oversee the possible disclosure of information, should include either the Central Vigilance Commissioner or the Comptroller and Auditor-General.

<http://indianexpress.com/article/india/india-news-india/rajya-sabha-returns-aadhar-act-to-lok-sabhawith-oppn-amendments/> visited on 25th May 2017

²²² No. 18 of 2016

²²³ *Id.*, Section 57-Nothing contained in this Act shall prevent the use of Aadhaar number for establishing the identity of an individual for any purpose, whether by the State or any body corporate or person, pursuant to any law, for the time being in force, or any contract to this effect

²²⁴ Aadhaar numbers of 135 mn may have leaked, claims CIS report, <http://cis-india.org/internet-governance/news/dna-may-2-2017-report-aadhaar-numbers-of-135-mn-may-have-leaked-claims-cis-report> visited on 26th May 2017

account numbers, IFSC codes and other sensitive information addresses, date of birth, Aadhaar card numbers etc. All of this information was available in the form of Microsoft Excel sheets and can be obtained by a simple Google search.²²⁵

Further, the biometrics could be an inappropriate technology for financial services. For example, linking Aadhaar, which has individuals biometric data, with bank accounts can make them more vulnerable to financial frauds. Their fingerprint can easily be collected at a restaurant or any other public place and can be used to steal their identity and commit frauds.²²⁶ The simple combination of a person's name, phone number, and bank account number would be sufficient for numerous cyber attacks, such as phishing.

In order to deal with these threats the Ministry of Electronics and Information Technology on 25th March 2017 issued a notification which states that any act of publishing identity information like the Aadhaar number and demographic details, and personal sensitive information like bank details, would be in contravention of the Aadhaar Act, 2016, and the Information Technology Act, 2000. The notification disallows such publication with immediate effect.²²⁷

Such database leaks are also punishable under Aadhaar (Sharing of Information) Regulations, 2016.²²⁸ These prohibit the publication of a person's Aadhaar number. Any person storing such data in a database would be responsible to maintain its security and confidentiality. Moreover, no such database or even a record containing the Aadhaar numbers must be made public. Any kind of failure to do so is also punishable under the Aadhaar Act. This would cover the entire range of database leaks discovered online, irrespective of whether the leak was by a government agency or a private one.

PUBLICATION OF FINANCIAL DATA IS ILLEGAL

The publication of financial data like bank account details is also a violation under the Information Technology Act, 2000. Such information has been termed as 'sensitive personal data'.²²⁹ . The

²²⁵*Ibid*

²²⁶<http://www.thehindubusinessline.com/info-tech/aadhaar-data-leak-exposes-cyber-security-flaws/article9677360.ece> visited on 27th May 2017

²²⁷<http://www.firstpost.com/india/goi-directs-removal-of-aadhaar-info-published-online-what-the-law-says-and-what-to-do-if-you-find-your-data-online-3360372.html> visited on 22nd May 2017

²²⁸ Regulations 4 – 7, <https://uidai.gov.in/legal-framework/acts/regulations.html> visited on 1st June 2017

²²⁹ Information Technology Act, 2000, Section 43A

provision is applicable to ‘body corporates’, or a company engaged in commercial or professional activities. It also includes government websites. In case of a violation of the Aadhaar Act, only the UIDAI can file a complaint before the courts.²³⁰

The Aadhaar (Sharing of Information) Regulations, 2016²³¹ also gives the people the right to raise a grievance with the UIDAI in case their identity information is used or shared in violation of the Aadhaar Act. Such information can be sent through various means i.e., through the Centralized Public Grievance Redress and Monitoring System, through a post or e-mail to the UIDAI, or through the UIDAI Contact Centre. Once the UIDAI is notified, it can pursue the matter. The users who find their information online may also inform the relevant websites or the state governments, who also now, because of the notification, have an obligation to ensure removal of the data.

EMERGING CHALLENGES THROUGH FAKE WEBSITES

The incidents of leaking of personal information were not the only threat to the security under Aadhaar Act, 2016. With the beginning of this year FIR was filed against many of the unauthorized websites which were promising Aadhaar-related services and illegally collecting Aadhaar number and enrolment details from people. Some of these websites were *aadhaarupdate.com*, *aadhaarindia.com*, *pvcaadhaar.in*, *aadhaarprinters.com*, *geteaadhaar.com*, *downloadaadhaarcad.in*, *aadharcopy.in*, and *duplicateaadhaarcad.com*.²³² UIDAI also shut down 12 websites and 12 mobile apps available on the Google Playstore which were offering Aadhaar services illegally and charging excessive money from the public. UIDAI also directed authorities to close another 26 such fraudulent and illegal websites and mobile applications.²³³

Now Aadhaar has been made mandatory for filing income tax returns and for Permanent Account Numbers. Therefore, recently the Central Board of Direct Taxes ensured that personal data of taxpayers should not get leaked. The authority further stated that any act of publishing the personal identity or information like Aadhaar number and demographic details along with personal sensitive

²³⁰*Supra* note 22, Section 47.

²³¹Regulation 8.

²³² FIR Filed Against 12 Unauthorised Aadhaar Websites

<https://www.thequint.com/india/2017/04/19/aadhaar-card-fraudulent-12-websites-fir> visited on 5th May 2017

²³³*Ibid*

information such as bank details would be in contravention of the Aadhaar Act 2016 and the Information Technology Act, 2000.²³⁴

SUPREME COURT ON THE ISSUE OF MANDATORY COMPLIANCE OF AADHAAR FOR FILING IT RETURNS

Recently, Supreme Court upheld the validity of the law making Aadhaar mandatory for allotment of PAN and filing of Income Tax returns but at the same time it exempted those individuals who were not having the Aadhaar numbers. The apex court upheld the validity of the Income Tax law²³⁵ which made Aadhaar compulsory for allotment of PAN and filing of IT returns. The provision made it mandatory to quote Aadhaar or enrolment ID of Aadhaar application form for filing of income tax returns and making application for allotment of PAN with effect from July 1 2017. A bench comprising Justices A. K. Sikri and Ashok Bhushan, which upheld the legislative competence of the Parliament in enacting the law to this effect, said there was no conflict between the impugned provision of the Income Tax Act and the Aadhaar Act.²³⁶ the court however, has not decided about the privacy concerns of the Aadhaar number.

CONCLUSION

Aadhaar, a 12 digit unique-identity number, which is issued to all Indian residents based on their biometric and demographic data, is the world's largest biometric ID system, with over 1.133 billion enrolled members as on 31 March 2017. As on today, over 99% of Indians aged 18 and above have been enrolled under Aadhaar. Aadhaar is not a proof of citizenship and does not itself grant any rights to domicile in India, but it does connect everyone under one umbrella. There have been many challenges qua the privacy and data security linked to aadhaar but still it stands strong.

Aadhaar has also been equated on many grounds with the Information Technology Act so far as security aspect is concerned and it has also faced many cyber attacks through illegal websites. Be that as it may, it's a new move and with all threats and apprehensions, it has still been accepted. Every new project has some trials and errors to go through. Given the test of time, system of

²³⁴ Don't publish personal data, Aadhaar numbers of taxpayers: CBDT to officials, <http://www.thehindubusinessline.com/economy/policy/dont-publish-personal-data-aadhaar-numbers-of-taxpayers-cbdt-to-officials/article9672297.ece> visited on 5th May 2017

²³⁵ Income Tax Act, 1961, Section 39 AA

²³⁶ <http://timesofindia.indiatimes.com/india/sc-partially-stays-law-making-aadhaar-mandatory-for-pan-itr-filing/articleshow/59069303.cms> visited on 11th June 2017

Aadhaar will also prove to be a stepping stone on the path of achieving unique-identity database of our Country which is need of the hour, keeping in view the mammoth wave of corruption prevailing in our Country.

SEP AND FRAND COMMITMENTS

Shankar Luthra²³⁷

ABSTRACT

This paper seeks to address the ongoing debate regarding the growing influence of Standard Essential Patents (SEPs) and how do we need to make IPR policies which on one hand promote innovation and technology and on the other hand keep a check on the dominant position as warranted by the competition laws. This paper discusses the need to prevent a holdup and facilitate smooth functioning of the market. Why are the FRAND commitments necessary even when they don't even specify a fixed rate for determination of royalties? What are the different models for calculating royalties which are consistent with the FRAND commitments? What are the policies that are already adopted by the SSOs in determining the same? This paper then discusses the Competition Commission of India and the Delhi High Court's view on determination of royalties and ends by sharing the viewpoint of the author.

Keywords- CCI, DELHI High Court, Frand, SEP.

INTRODUCTION

Intellectual property is like any other property which gives rights to the owners of the property. The idea is to give the owner the benefits for his work and give him monopolistic rights over his property. These rights are granted to the IP owner by the state and he can prevent the others from using them without his prior consent. While the IP rights give a dominant position to the owner on the market, it is necessary for the reason to promote innovation and incentivizing the owner to conduct further innovations. Competition laws on the other hand try to curb monopolistic behavior in entirety and instead promote competition in the market for coming out with better technology. The intellectual property rights and the competition laws, even after clashing with each other do reach a collective point where they both work for public interest.²³⁸ This occurs when a patented technology becomes essential to the use of a particular standard. The basic idea behind the standard essential patents is to reconcile the interaction between patents which are primarily private and exclusive as against standards which are meant to be public and non-exclusive.

²³⁷ IVth Year, Jindal Global Law School

²³⁸ WWW.MONDAQ.COM/INDIA/X/394008/PATENT/INDIAS+OVERVIEW+ON+STANDARD+ESSENTIAL+PATENT+SEPs

WHAT IS A STANDARD AND A STANDARD ESSENTIAL PATENT

A Standard is a document established by consensus and approved by a recognized body, which provides for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of their optimum degree of order in a given context.²³⁹

A Standard Essential Patent is one which claims an invention that must be used to comply with a standard. It necessarily means that a particular technology essential for a standard is owned by an individual. A given patent is essential to a standard if use of the standard requires infringement of the patent, even if acceptable alternatives of that patent could have been written into the standard." A patent is also essential "if the patent only reads onto an optional portion of the standard."²⁴⁰ Therefore, it is impossible to manufacture standard-compliant products without using technologies covered by one or more SEPs.²⁴¹

PATENT HOLDUP

Now, since we know that there are certain essential patents which might be essential to a particular standard, the organizations which take up the process of standard setting, namely standard setting organizations (SSOs) should take care of the problems that might arise if the IP holder refuses to license their patents. It is due to this problem that various standard setting organizations have a disclosure requirement, where each member needs to use its reasonable endeavors, in particular during the development of a standard or technical specification where it participates to inform SSO of any essential IPR's in a timely fashion. In particular, a member submitting a technical proposal for a standard or a technical specification shall on a bona fide basis, draw the attention of SSO to any of that member's IPR which might be essential if that proposal is adopted.²⁴² Such a policy would bring to the attention of the SSO whether to adopt that particular standard or look for another viable alternative. This could also depend on the IPR holder whether he is willing to license that SEP on terms which are (Fair, Reasonable and Non Discriminatory Terms or FRAND Terms). A FRAND commitment doesn't mean that it has to be same for all the market players and neither

²³⁹ STANDARD AND PATENTS DOCUMENT SCP/13/2/ [HTTP://WWW.WIPO.INT/EDOCS/MDOCS/SCP/EN/SCP_13/ SCP_13_2.PDF](http://www.wipo.int/edocs/mdocs/scp/en/scp_13/scp_13_2.pdf)

²⁴⁰ MICROSOFT CORP. V. MOTOROLA, INC., MOTOROLA MOBILITY, INC., AND GEN. INSTRUMENT CORP. 104 U.S.P.Q.2D 2000

²⁴¹ EUROPEAN COMMISSION MEMO, ANTITRUST DECISIONS ON STANDARD ESSENTIAL PATENTS (SEPS) - MOTOROLA MOBILITY AND SAMSUNG

²⁴² <http://www.etsi.org/images/files/IPR/etsi-ipr-policy.pdf>

does it imply that there is a particular fixed rate at which the royalties for granting these Standard Essential Patents would be determined. It just shouldn't be arbitrary, discriminatory, unreasonable or unfair.

It is therefore necessary that the patents which are essential to a particular standard should be available easily for smooth functioning of the market and for public interest or otherwise it would result in patent holdup. A patent holdup can be defined as "the ability of a holder of a SEP to demand more than the value of its patented technology and to attempt to capture the value of the standard itself".²⁴³ The main motive of the FRAND commitments is to avoid a situation of patent hold up. Various SSOs have undertaken various policies to make available patented technology to the market players such as ensuring FRAND commitments to make the licenses fairly and widely available.

NEED FOR FRAND COMMITMENTS

There have been various criticisms of FRAND terms since they do not specify a particular rate at which royalties are to be determined and since there is no specified rate, it will inherently lead to a patent holdup²⁴⁴. However, according to the author, it is untrue as there have been various counters to this argument.

A FRAND commitment is a contract enforceable in the court of law and it is designed to bring together licensor and licensee to negotiable terms²⁴⁵ and a violation could invite breach of contract obligation against the patent holder.²⁴⁶

²⁴³ MICROSOFT CORP. V. MOTOROLA, INC., MOTOROLA MOBILITY, INC., AND GEN. INSTRUMENT CORP. 104 U.S.P.Q.2D 2000

²⁴⁴ FRAND in INDIA:EMERGING DEVELOPMENTS:KRITI GUPTA:Antitrust in Emerging and Developing countries:conference Papers, 2nd Edition, Concurrences, Forthcoming

²⁴⁵ Roger G. Brooks & Damien Geradin, Interpreting and Enforcing the Voluntary FRAND Commitment, 9(1) INT'L J. IT STANDARDS & STANDARDIZATION RES. 1, 2011, page 2, "[This paper...] reviews the basic fact that a FRAND commitment is the result of a voluntary contract between essential patent holders and a standards-setting organization, with the important corollary that the meaning of that commitment must be determined through the legal methods of contractual interpretation.

²⁴⁶ A "qualified" potential licensee is a potential licensee (infringer) that is capable of being a third party beneficiary of the relevant FRAND commitment. In most courts, such licensees can also raise a defense to an injunction sought in patent litigation to enforce an SEP on the basis that the SEP owner has not complied with its FRAND commitment. By contrast, a SEP owner cannot typically seek enforcement of its unilateral FRAND commitment, and is limited to bringing suit for patent infringement if a licensing dispute arises.

It is true that a license is required by a manufacturer, nonetheless, it is also true that it does not vest a unilateral power on the patent holder to charge any arbitrary price as the holder would also be bound by FRAND commitments. Another reason that there is no fixed rate of determining what the FRAND commitments would entail is, as rightly pointed out by Tsai and Wright, that it could be a deliberate strategy of the SSOs to promote flexible bilateral negotiations between the parties to the licensing agreements.²⁴⁷ Therefore, FRAND commitments are the right way going forward to deal with determining royalties.

METHODS FOR DETERMINING ROYALTIES ON FRAND TERMS

There is also a need for coming out with a particular method that should be used to determine royalties as various forums have used different methods to conclude different FRAND terms on the same disputes. This further creates a sort of ambiguity as to what method do we need to adopt while determining royalties on FRAND terms. The various methods that the author wishes to discuss in this paper are:

- a. The Incremental Value Method
- b. The Numeric Proportionality Method
- c. The End Market Value Rule Method
- d. The Smallest Salable Patent Practicing Unit Method

The Incremental Value Method states that royalties should be calculated on the incremental value of the patented invention over the next best alternative.²⁴⁸ It states that the incremental value of the patented technology over the next-best alternative establishes the maximum amount that a willing licensee would pay in a hypothetical negotiation, and thus a reasonable royalty should not exceed higher than this amount. This method has been criticized and not been followed due to its lack of real world applicability. There are many instances where it is not feasible to ascertain as how much a particular patent contributes to a standard and since one cannot ascertain it, it is impossible to determine royalty using this method.²⁴⁹

²⁴⁷ See Joanna Tsai & Joshua D. Wright, Standard Setting, Intellectual Property Rights, and the Role of Antitrust in Regulating Incomplete Contracts, 80(1) ANTITRUST L.J. 157 (2015).

²⁴⁸ FED. TRADE COMM'N, *supra* note 19, at pages 28-29, 174, e.g. "Courts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was set."

²⁴⁹ MICROSOFT CORP. V. MOTOROLA, INC., MOTOROLA MOBILITY, INC., AND GEN. INSTRUMENT CORP. 104 U.S.P.Q.2D 2000

The Numeric Proportionality Method is another method for determination of royalties on FRAND terms. It states that all the patents that are essential to a particular standard should be valued equally and have the same significance since they all have the same market power.²⁵⁰ Let us take an example where if a company owns 300 patents out of a total of 1000 patents in that standard, it can demand a royalty of 30%. This method also has various shortcomings such as it fails to take into picture that each patent has its own economic significance and therefore one cannot put a generalized royalty for all the essential patents in a standard.²⁵¹ Also, not all patents declared essential to the standard are truly technically or commercially essential.²⁵²

The End Market Value Rule Method is another method for calculating royalties on FRAND terms. It states that the royalties should be charged on the downstream product and not on the chipset technology of the patented invention. The royalty rates should be calculated as a percentage of the net selling prices of the devices incorporating those technologies. The Delhi High Court has reached its judgment of determining royalties using this method in a number of cases.²⁵³ The Competition Commission of India while hearing cases on determination of royalties has not applied this method whereas the Delhi High Court has repeatedly applied this method. The rationale behind the application of this method is, generally multi component products include numerous complimentary components. It would be a just compensation for the patent holder as it will enhance user's ability to use data intensive applications by enabling fast connectivity, high quality communication and high speed data. This method covers the complimentary and network effects generated by these technologies. This method of calculating royalties is widely accepted around the world and the High Court while giving its judgment has also cited other countries where they have applied this method. The High Court also relied on the case of Qualcomm's SEP of 3G and 4G Technology decided by the Chinese Competition Authority where also, the royalties were

²⁵⁰ Philippe Chappatte, FRAND Commitments—The Case for Antitrust Intervention, 5(2) EUR. COMPETITION J. 319, 340-43 (2009).

²⁵¹ See, e.g., Mark Schankerman & Ariel Pakes, Estimates of the Value of Patent Rights in European Countries During the Post-1950 Period, 96(384) ECON. J. 1052 (1987).

²⁵² See David J. Goodman & Robert A. Myers, 3G Cellular Standards and Patents, Paper Presented at IEEE WirelessCom 2005 (Jun. 13, 2005), <http://eeweb.poly.edu/dgoodman/wirelesscom2005.pdf>.

²⁵³ Judgment, Telefonaktiebolaget LM Ericsson v Intex Techs. (India) Limited, Interim Application No. 6735 of 2014 in Civil Suit (Original Side) No. 1045 of 2014, } } 1, 8, High Ct of Delhi (Mar. 13, 2015), available at <http://lobis.nic.in/ddir/dhc/MAN/judgement/16-03-2015/MAN13032015S10452014.pdf>.

fixed on downstream products.²⁵⁴ The Delhi High Court also cited the US decision in the case of *CSIRO v Cisco* where the District Court for the Eastern District of Texas had applied the EMVR Model to further substantiate its reasoning.²⁵⁵

The Smallest Salable Patent Practicing Unit Method is another method of calculating royalty on FRAND terms. This method uses the value of chipset technology of the patented invention to determine the amount of royalty that should be paid to the patent holder. The royalty charged using this method would be the same for all the downstream products incorporating this chipset technology. However if we use the EMVR model, the royalty for the use of same chipset in a smart phone is more than 10 times the royalty charged for an ordinary phone, while the chipset gives no additional value to a smartphone than it gives to an ordinary phone. Such misuse of SEPs would ultimately harm consumers.²⁵⁶ The Competition Commission of India while hearing cases on determination of royalties has applied this method.²⁵⁷ The rationale of CCI behind applying this method is that “an increase in the royalty for the patent holder is without any contribution to the product of the licensee. The CCI also said that charging of two different license fees per unit phone for the use of the same technology prima facie is discriminatory and reflects excessive pricing.”²⁵⁸

THE IDEAL METHOD FOR DETERMINING ROYALTIES

There are the two main Standard Setting Organizations who participate actively in making international standards-ETSI (European Telecommunications Standards Institute) and IEEE-SA (Institute of Electrical and Electronics Engineers Standards Association). Many of their policies governing setting of International standards are the same, still however even these seem to have not reached a common ground as to what method should be used for the calculation of royalties.

²⁵⁴ Judgment, *Telefonaktiebolaget LM Ericsson v Intex Techs. (India) Limited*, Interim Application No. 6735 of 2014 in Civil Suit (Original Side) No. 1045 of 2014, } } 1, 8, High Ct of Delhi (Mar. 13, 2015), available at <http://lobis.nic.in/ddir/dhc/MAN/judgement/16-03-2015/MAN13032015S10452014.pdf>.

²⁵⁵ Judgment, *Telefonaktiebolaget LM Ericsson v Intex Techs. (India) Limited*, Interim Application No. 6735 of 2014 in Civil Suit (Original Side) No. 1045 of 2014, } } 1, 8, High Ct of Delhi (Mar. 13, 2015), available at <http://lobis.nic.in/ddir/dhc/MAN/judgement/16-03-2015/MAN13032015S10452014.pdf>.

²⁵⁶ *Micromax Informatics Ltd v. Telefonaktiebolaget LM Ericsson*, Case No. 50/2013, Competition Commission of India (Nov. 12, 2013), available at <http://infojustice.org/wp-content/uploads/2013/12/CCI-Case-no-50-2013.pdf>.

²⁵⁷ *Intex Techs.(India) Ltd v. Telefonaktiebolaget LM Ericsson*, Case No. 76 of 2013, } 6, Competition Commission of India (Jan. 16, 2014).

²⁵⁸ *Intex Techs.(India) Ltd v. Telefonaktiebolaget LM Ericsson*, Case No. 76 of 2013, } 6, Competition Commission of India (Jan. 16, 2014).

ETSI has been using the EMVR Model²⁵⁹ for determination of royalties where IEEE-SA has been using the SSPPU Model for calculating royalties.²⁶⁰ There is indeed no uniformity until now regarding the method to be used for determination of royalties.

CONCLUSION

It is the need of the hour to encourage innovation and technology. While it is true that there should not be an abuse of dominance by the IP holders, their interests are equally to be given due importance. The FRAND commitments are therefore essential to keep a check on the IP holders and the royalties charged by them should not be such as one which would lead to a patent holdup. While there is a lot of ambiguity as to what actually constitutes a FRAND Commitment, there are various methods adopted by various forums to reach an amicable solution. The Competition Commission of India uses the SSPPU model for reaching FRAND terms whereas the Delhi High Court is of the view that SSPPU model has various shortcomings and we need to take into account the interests of the innovators as well and they have come to the conclusion that EMVR Model suits the best by citing other countries such as USA and China who have used the same in determining FRAND terms in similar circumstances. According to the author, it is the EMVR Model which suits the best interests of both the IP holder as well as the manufacturers as it keeps a balance in the market by incentivizing the innovators on one hand by providing them fair compensation and the manufacturers on the other hand by fair distribution of the patented technology and therefore even counters the problem of a patent hold up. The EMVR model does take into the benefits which might differ according to the products in which it is used in and it is true that a value that a patented technology offers could be very different depending upon the final product. We have a great example of in the case of *Intex v Ericsson*²⁶¹ where the court has rightly put forth that the 3G and 4G patented technologies do not only limit their benefits to the value of the technologies itself but also enhance user's ability to use data intensive applications and therefore have complimentary effects as they enable fast connectivity and high speed data which

²⁵⁹ Pg 35, Rules of Procedure, Annex 6, ETSI IPR Policy (April 5, 2017), available at <http://www.etsi.org/images/files/ipr/etsi-ipr-policy.pdf>

²⁶⁰ DENNIS CROUCH, —IEEE-SA AMENDS ITS PATENT POLICY. PATENTLYO, FEBRUARY 9, 2015. AVAILABLE AT:

<HTTP://PATENTLYO.COM/PATENT/2015/02/AMENDS-PATENT-POLICY.HTML>

²⁶¹ Judgment, Telefonaktiebolaget LM Ericsson v Intex Techs. (India) Limited, Interim Application No. 6735 of 2014 in Civil Suit (Original Side) No. 1045 of 2014, } } 1, 8, High Ct of Delhi (Mar. 13, 2015), available at <http://lobis.nic.in/ddir/dhc/MAN/judgement/16-03-2015/MAN13032015S10452014.pdf>.

would be unaccounted for if we had applied any other model. It is important to keep in mind that the underlying aim should be to ensure access to standardized technologies as well as to fairly compensate to the contributors to standardized technologies. The word public interest does not suggest that the technology should be available at a cheap price but that it should be available at a price which would fairly compensate the innovators. We should also refrain from making an assumption that just because a patent holder has a dominant position, he would indeed abuse his dominant position but rather focus on what a FRAND commitment would entail. An alternate solution to reach a FRAND commitment could also be through comparable licenses. This will be much more effective because real world licenses inherently reflect the market value of any patented technology, especially the SEPs, because it will reveal how the market participants have desegregated the value of SEPs from the other components of the final product. It reduces the risk of errors. Real world dealings between licensor and licensee would be a better indication of determining fair compensation as both the parties would want to come out better

REFORMING THE ISDS MECHANISM: THE MULTILATERAL INVESTMENT COURT

Urvi Tembey²⁶²

ABSTRACT

International investment plays a significant role in the economic development of not only an investment importing country, but also that of an investment exporting country. The laws governing international investment are governed by Bilateral Investment Treaties (BITs). These treaties often contain standard dispute resolution clauses. The conventional means of investor- state dispute settlement (ISDS) has been arbitration. The International Centre for Settlement of Investment Disputes (ICSID) Rules or the UNCITRAL Rules govern commercial investment dispute settlement currently. A vacuum of uniform multilateral rules and the absence of a single permanent structure to resolve investment disputes has led to such disputes falling under one of the over 3200 international investment agreements currently in force. This results in a lack of consistency and coherency in arbitral awards, as precedents do not bind arbitral tribunals.

The European Union being a major stakeholder in international trade was the first to propose a Multilateral Investment Court, which would effectively address the structural and policy drawbacks of the existing ISDS system. Taking into consideration the concerns voiced by grassroots level movements, and public welfare issues, the Investment Court aims to function as a transparent body balancing the government's right to regulate and the rights of the investors. A transition from the existing ISDS mechanism to an effective and depoliticized system is evident from a recent trend in BITs. The TTIP, the CETA, and the EU-Vietnam FTA are few notable examples of the parties conferring jurisdiction on a Court instead of opting for an ad hoc system of commercial arbitration. A Multilateral Investment Court could thus pave the way for a transparent and consistent system of dispute resolution, which balances the protection given to the investor and the rights of the host state, thus enabling future investment.

²⁶² Year V, Symbiosis Law School, Pune

- Will The EU's Proposed Investment Court System Address The Problems In The Current Investor-State Dispute Settlement (ISDS) Mechanism?

This article will argue that the proposed Multilateral Investment Court System project addresses the problems in the current ISDS mechanism, while focusing on the need to balance the protection given to investors and the Government's right to regulate.

The European Union (EU) is the world's largest exporter and importer of foreign direct investment, and investors from the EU are the most avid users of the existing Investor-State Dispute Settlement (ISDS) mechanism.²⁶³ EU Trade Commissioner Cecilia Malmström thus noted, that the onus is on the EU to reform and modernize the existing system through a proposed international investment court.²⁶⁴

The World Trade Organization (WTO) is the apex body governing international trade, however, it excludes international investment from its ambit. International Centre for Settlement of Investment Disputes (ICSID) Rules or the UNCITRAL Rules govern commercial investment dispute settlement currently. A vacuum of uniform multilateral rules and the absence of a single permanent structure to resolve investment disputes has led to such disputes falling under one of the over 3200 international investment agreements currently in force.²⁶⁵ Disputes under the current ISDS system are brought to specialized arbitral tribunals set up on a case-by-case basis.

THE MULTILATERAL INVESTMENT COURT PROJECT (2015)²⁶⁶

The MIC Project is an initiative undertaken by the European Commission to address the flaws of the current ISDS mechanism, and move towards a more uniform and coherent system of dispute resolution.

- Addressing the Structural Flaws of the Current ISDS mechanism:

This multilateral Court will serve as a permanent institution, and will replace the setting up of arbitral tribunals on a case-by-case basis, and bring all investment disputes under one umbrella.

²⁶³ European Commission, Press Release- *Commission Proposes New Investment Court System for TTIP and other EU Trade and Investment Negotiations*, Brussels, 16 September 2015.

²⁶⁴ Cecilia Malmström, *Proposing an Investment Court System*, 16 September 2015.

²⁶⁵ August Reinisch, *The European Union And Investor-State Dispute Settlement: From Investor-State Arbitration To A Permanent Investment Court*, Centre for International Governance Innovation, Investor-State Arbitration Series, Paper No. 2, March 2016.

²⁶⁶ European Commission Dispute Settlement, *The Multilateral Investment Court Project*, Brussels, 21 December 2016.

Addressing the drawback of the absence of reconsideration of an arbitral award, it is proposed that the Court would have a first instance tribunal and an appeal tribunal. The proposed tribunal system aims to ensure a higher degree of accountability than an arbitration setting by appointing highly qualified, tenured judges who will be obliged to the “*strictest ethical standards*”. Unlike ad hoc commercial arbitration, parties bringing their dispute to this Court will not be permitted to choose which judges preside on their case.

Further, unlike arbitral awards, the decisions of this Court will be published. Third-party participation is also permitted, as opposed to the clandestine nature of arbitration settings.

The system will aim to strike a balance between the protections accorded to investors and the government’s right to regulate and engage in effective policy making.

- Addressing the **Policy Drawbacks** of the Current ISDS mechanism

Portrayed as a parallel justice system for large multinational firms circumventing domestic courts, the ISDS mechanism has faced criticism for favouring multinational corporations, while public welfare.²⁶⁷ In addition to the structural flaws, as illustrated above, the proposed Investment Court will address the following major drawbacks of the current ISDS mechanism:

- i. *The Right to Regulate and need for a Permanent Investment Court:* It is argued that democratic decision-making is affected because states are forced into policy decisions out of the fear of heavy compensation. The awards passed by the tribunals reflect a pro-investor bias and an overreaching ambit of investor rights thus curbing the government’s right to regulate.²⁶⁸ The right to regulate has been defined as ‘the extent to which the state can legislate and make decisions without running the risk of being found in violation of the treaty and having to pay damages’.²⁶⁹ This right has been recognized as each state’s undeniable right and privilege to exercise its sovereign legislative power.²⁷⁰ The

²⁶⁷ See *supra* note 3.

²⁶⁸ C Yannaca-Small, “‘Indirect Expropriation’ and the ‘Right to Regulate’ in International Investment Law” in OECD, ed, *International Investment Law: A Changing Landscape* (OECD, 2005) 43; A Titi, *The Right to Regulate in International Investment Law* (Baden- Baden: Nomos, 2014); C Henckels, “Indirect Expropriation and the Right to Regulate: Revisiting Proportionality Analysis and the Standard of Review in Investor-State Arbitration” (2012) 15:1 J Intl Econ L 223.

²⁶⁹ Kommerskollegium, National Board of Trade Sweden, *The Right to Regulate in the Trade Agreement between the EU and Canada and its implications for the Agreement with the USA*, 2015.

²⁷⁰ *Parkerings v Lithuania*, ICSID Case No ARB/05/8, Award, 11 September 2007, ¶ 332; *Plama v Bulgaria*, ICSID Case No ARB/03/24, Award, 27 August 2008, ¶ 177; *Impregilo v Argentina*, ICSID Case No ARB/07/17, Award, 21

government's right to regulate is therefore the State's ability to legislate and adopt administrative acts without running the risk of having to pay damages to investors. This right of the State is in juxtaposition with two rights accorded to investors under international investment law; namely, fair and equitable treatment, and expropriation without compensation. These rights encompass the minimum standard of treatment, which is accorded to foreign investors.²⁷¹ Fair and equitable entails 'legitimate expectation' from the host State, whereas expropriation without compensation aims to put a check on those acts by the State that are *manifestly arbitrary*.²⁷²

Investment agreements do not take away the government's right to regulate, but aim to prohibit unfair acts.²⁷³ The plethora of arbitral awards, reflecting a pro- investor bias, an overly broad scope of investor rights, and impossibility of appeal, create a "Regulatory Chill" on legitimate state regulation.²⁷⁴ The case of Phillip Morris International under the Switzerland- Uruguay BIT and Hong Kong- Australia BIT, and Eli Lilly vs. Canada under the NAFTA are exemplary.²⁷⁵ It is argued that in the absence of the state's right to regulate, sovereign states will be deprived of certain rights which are imperative in protecting the environment, as well as those needed to promote public welfare. The right to exit nuclear power generation, right to protect against the risks of smoking, or to prohibit fracking are a few of such rights.²⁷⁶

June 2011, ¶ 290; *Mobil Investments Canada Inc & Murphy Oil Corporation v Canada*, ICSID Case No ARB (AF)/07/4, Decision on Liability and on Principles of Quantum, 22 May 2012, ¶ 153; *Suez, Sociedad General de Aguas de Barcelona S.A. and Interagua Servicios Integrales de Agua S.A. v Argentina*, ICSID Case No ARB/03/17, Decision on Liability, 30 July 2010, ¶ 216.^[SEP]

²⁷¹ OECD (2004), "*Fair and Equitable Treatment Standard in International Investment Law*", OECD Working Papers on International Investment, 2004/03, OECD Publishing.

²⁷² *Ibid.*

²⁷³ See *supra* note 8.

²⁷⁴ *Vattenfall AB and others v Federal Republic of Germany*, ICSID Case No ARB/12/12, registered 31 May 2012; *Philip Morris Asia Limited v The Commonwealth of Australia* (2011), Notice of Arbitration, 21 November 2011, PCA Case No 2012-12 ^[SEP](UNCITRAL), *Lone Pine Resources Inc. v The Government of Canada*, ICSID Case No UNCT/15/2, Notice of Arbitration, 6 September 2013 (UNCITRAL, ^[SEP]NAFTA); G Monbiot, "This transatlantic trade deal is a full-frontal assault on democracy", *The Guardian* (4 November 2013); J Brühl, "Unbekannte Kläger, geheime Dokumente", *Süddeutsche Zeitung* (12 August 2014); P Pinzler, W Uchatius & K Kohlenberg, "Schattenjustiz: Im Namen des Geldes", *Die Zeit* (27 February 2014).^[SEP]

²⁷⁵ Anikta Ritwik, *Tobacco Packaging Arbitration and the State's Ability to Legislate*, 54 Harvard International Law Journal, Summer 2013.

²⁷⁶ *Vattenfall AB and others v Federal Republic of Germany*, ICSID Case No ARB/12/12, registered 31 May 2012; *Philip Morris Asia Limited v The Commonwealth of Australia* (2011), Notice of Arbitration, 21 November 2011,

In *Methanex Corporation v. United States of America* it was noted that investment cases go beyond private commercial matters to pertinent public welfare issues, and therefore, should have public hearings in impartial and open tribunals.²⁷⁷ The Investment Court, unlike the clandestine nature of arbitration settings, will have transparent proceedings, third-party participation, and will publish its decisions to ensure effective protection of investments without limiting the right of states to regulate.²⁷⁸

- ii. *Lack of coherence in Arbitral Awards:* Arbitral awards are binding only on the parties to the agreement and have a persuasive value instead of a precedential one. This is similar to ICJ judgements and WTO reports except that they demonstrate coherence emanating from a single judicial body. The absence of a single multilateral dispute resolution institution leads to varying interpretations of law being adopted and a lack of clarity of expectation. The most relevant example is the ever-expanding ambit of ‘fair and equitable treatment’ as interpreted by tribunals. Noting that Principles such as ‘fair and equitable’, which are enshrined in investment agreements, have varying interpretations adopted by different tribunals, it becomes easy for large multinationals to circumvent the original intention of such clauses and adopt an interpretation that favours their interest. A permanent court will address this problem by creating a more coherent and defined scope of investor and state rights.

PCA Case No 2012-12^[1] (UNCITRAL), *Lone Pine Resources Inc. v The Government of Canada*, ICSID Case No UNCT/15/2, Notice of Arbitration, 6 September 2013 (UNCITRAL, ^[1]NAFTA).

²⁷⁷ *Methanex Corporation v. United States of America*, decision of the Tribunal on Petitions From Third Persons to Intervene as “Amici Curiae”, 15 January, 2001.

²⁷⁸ European Commission, Press Release, *Commission Proposes new Investment Court System for TTIP and other EU trade and Investment Negotiations*, Brussels, 16 September 2015; European Commission Concept Paper, “*Investment in TTIP and beyond – the path for reform. Enhancing the right to regulate and moving from current ad hoc arbitration towards an Investment Court*”, 5 May 2015.

CONCLUSION: TRANSITIONING FROM THE EXISTING SYSTEM

The need for setting up a cost efficient, depoliticized and effective settlement mechanism for investment disputes led to the proposal of setting up a permanent investment Court. The Transatlantic Trade and Investment Partnership (TTIP), the Canada-EU Comprehensive Economic and Trade Agreement (CETA) and the EU-Vietnam Free Trade Agreement are few notable examples of the parties conferring jurisdiction on a Court instead of opting for an ad hoc system of commercial arbitration. The EU includes similar provisions in all of its negotiations involving investment.²⁷⁹ Moreover, all major trade and investment world actors attended the expert meeting on the establishment of a Multilateral Investment Court held in December 2016. The current scenario thus stands testament to the growing appetite for reforming the existing ISDS mechanism. Investors may be reluctant to opt for an International Investment Court for dispute settlement, the onus is on the states to recognize the importance of such an institution, as it will allow governments to formulate policy in the absence of a regulatory snare and enable future investments.

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