LEGAL EYE

Your peek into the Indian legal scene

A.R.A. LAW

Advocates & Solicitors

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Dear Readers

The fundamental laws governing Intellectual Property Rights (IPR) in India are The Indian Patents Act 1970 as amended in March 1999, The Trademarks Act 1999 and The Copyrights act 1957. The Indian IPR legislations are being changed in light of the Uruguay Round Accord and under the terms of the WTO, India is required to implement WTO-standard IPR protection laws by 2005.

India has strengthened its own copyright law in May 1994, thereby placing it on par with international practice. The New Trademark Act 1999 (effective date yet to be notified by the Central Government) provides for registration of trademark for services in addition to goods. It further simplifies the procedure for registration of registered users and has enlarged the scope of permitted use, providing for registration of “Collective Marks” owned by associations etc. The Copyrights Act 1957 as amended in 1999 has made special provisions for regulating performing rights societies and certain rights akin to copyrights are conferred on Broadcasting authorities in respect of programmes broadcast by them.

This newsletter is dedicated to the Indian IPR segment, which is a undergoing tremendous changes.

We trust you will find this newsletter very informative and interesting.

Rajesh N. Begur, Editor-in Chief, Legal Eye

The Doctrine of Inevitable Disclosure

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The world of business and commerce has exceeded human forecast and prediction levels. In these days of technological innovation and job-hopping, one of the issues that has become critical to big corporate houses and start-ups alike, is that of protection of trade secrets and intellectual property.

Any business is exposed to liability for misappropriation by the actions of its employees. However, the risk arises more frequently in the hiring process even before the actual employment of a employee commences. Employees with the knowledge of a former employer's trade secrets, may expose the new employer to liability by using or disclosing secrets in the course of their new employment. It is not necessary that the new employee *actually* uses or discloses a former employer's trade secrets to expose the new employer to liability. An employer can be restrained by a court order from hiring a new employee where it is "inevitable" that the employee will use or disclose a former employer's trade secrets in the course of the new employment.

Without the right to obtain injunctive relief to protect against the "threatened" misappropriation of trade secrets, the trade secret laws would be ineffective to protect trade secrets. Trade secret rights are fragile rights. The trade secret owner must move quickly to protect these rights. One of the doctrines developed by the courts to justify the entry of injunctive relief to protect against the threatened disclosure of trade secrets is called the "inevitable disclosure doctrine."

The "inevitable disclosure" doctrine evolved has been reiterated in a 1995 decision in ***PepsiCo v. Redmond*** by the United States Court of Appeals. This is a case that lays out the risks employers face when hiring a competitor's employees. In the case, Quaker hired Redmond; a high-level executive of PepsiCo, to run Quaker's newly formed beverage operation. Quaker was in direct competition with PepsiCo in some segments. During the course of employment with PepsiCo, Redmond had been involved in the development of PepsiCo's strategic and marketing plans to compete with Quaker's beverage products. Unless Redmond had an "uncanny ability to compartmentalize information," it was inevitable that his performance of his job duties for Quaker would be shaped by his knowledge of PepsiCo's trade secrets. Considering this extra ordinary possibility remote, PepsiCo approached the court and the court restrained the executive from performing certain duties for Quaker for six months to allow PepsiCo to implement its marketing plans and mitigate any advantage that Quaker might realize from Redmond's advance knowledge thereof.

The above doctrine has been evolved and tested time and again in the courts in the United States. However, the same can be invoked in India and though there are no known instances of such judgments in India, the day is not far when Indian courts would be seized of such matters for adjudication.

S R Arun

Patent Co-operation Treaty

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Despite the efforts of the General Agreement on Tariffs and Trade (GATT and the Paris Convention for the Protection of Industrial Property (trademarks and patents), there is no uniform protection available to an individual whose invention, mark, literary works, or computer software might be used in foreign countries.

Property protection in a foreign country is dependent upon the owner meeting the registration requirements of the individual country in which patent protection is desired. In other words, individual applications for patent protection must be filed in each country in which the patent owner desires protection, unless the country conforms to an international agreement.

More recent treaties, such as the Patent Cooperation Treaty, allow applicants from member countries to file one standardized international application to use in member countries in which intellectual property protection is desired.

The Patent Cooperation Treaty ("PCT") is an international treaty administered by the Geneva based agency World Intellectual Property Organisation ("WIPO"), which was established in 1967.

Patent Application Procedure under the PCT

The PCT is a centralized filing and examining procedure that enables the national/residents of states which are members to the PCT (' member states') to make a single application, in a single language, for a patent (or any one claimed inventions) in different member states with a common date, thereby reducing the time and cost of seeking patent in different countries.

Options Available :

A. The international application is a preliminary step in obtaining national patent protection in designated states under the PCT. The nationals/residents of different member countries, seeking grant of a patent in more than one member country, can file an 'International Application' with their 'National Patent Office'. However, such applications are subject to 'International Search', which is conducted by the 'International Search Authority' ("ISA").

The findings of 'International Search' (International Search Report) is published in the PCT Gazette and communicated to the following: -

i. Patent Office receiving the applications.

ii. Patent Office of 'Designated Countries', i.e., the countries in which the Patent is sought.

iii. The Applicant.

iv. International Bureau.

After the International patent application has been processed which may take 20 - 30 months after the priority date of a PCT application, the application must be converted into a national patent application and enter the national phase filing of application in one or more of the designated states or regional offices. At that time applicable national fees, translation charges if any, will be payable for each state or regional office. Searching and examination fees may also be required to be paid in such designated state.

B. Another option available to filing applications under the PCT would be that of entering Chapter II preliminary examination phase of the PCT, which offers the entering Chapter II preliminary examination phase of the PCT, which offers the member countries the option to ask for International Preliminary Examination Report ("IPER") to be given on the International Application (as in Option A) filed with such Patent Office as authorised by the PCT. Such IPER helps to assess the applications for NOVELTY, INNOVATIVENESS & NON-OBVIOUSNESS, the other criteria for the grant of a Patent. Those who opt for the IPER have to merely elect one or more member states with a view to express their intentions to pursue the patent application in such member states.

The Chapter II Preliminary Examination involves the payment of an examination fee and designation of the states or regional offices to which the preliminary examination is to apply. During the Chapter II phase, the application is given a preliminary examination, with the applicant given an opportunity to amend his application in view of the objections raised by the examiner. The Chapter II phase ends 30 months after the priority date, at which time a final determination must be made as to in which states protection is to be obtained. The national patent protection phase must then be entered, alongwith payment of appropriate fees and other costs.

The PCT mechanism enables the applicant to drop the applications in case of an adverse report from the ISA. It saves upon the time for processing the patent application and money paid as professional fee (for Patent Agents) in different countries.

Patenting in India

In August 1998 India joined the Patent Cooperation Treaty (PCT) by acceding to the Paris Convention on Intellectual Property. The Paris Convention, a treaty more than 100 years old, offers a 12 month grace period for an inventor to file a

patent application in other member countries after filing in the home country. The PCT extends the benefits of the Paris Convention by allowing an inventor to file an "international patent application," which has the effect of filing a separate patent application in each of the PCT member countries designated by the inventor. This application does not mature into an international patent but rather extends the grace period up to 30 months for an inventor to take further action to obtain a patent in each PCT member country where one is desired. The PCT serves to simplify and make more economical the patenting process in foreign countries and facilitate the availability of technical information in member countries.

Patenting in India is a lengthy process which lags behind that of other world nations. The average processing time for a patent in India is 4 years from the date of filing, followed by another year for the granting of a patent once accepted. This compares unfavorably with a 2-3 year processing time in the United States and even a matter of weeks in Australia.

It is infact believed that the new Patents (Second Amendment) Bill 1999 shall be a move towards complying with international patent standards, and will promote innovation and creativity in India. And that India will integrate with the world economy and provide necessary support to its scientists to seek global protection of their intellectual property.

Radhika K

Registration of Service Marks

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The Trade and Merchandise Marks Act 1958, only allowed for registration of trademarks used in connection with goods. Service marks or trademarks used in relation to services alone, such as names of travel agencies, finance companies, airlines etc. were not registerable under the Act. The best protection available for service marks in India is by a remedy against "passing off". The courts have on a number of occasions have granted protection to service marks.

The Trade Marks Act 1999 (“1999 Act”) was passed by the Parliament to consolidate the law relating to trademarks, to provide for registration and better protection of trade marks for goods *and services* and for the prevention of the use of fraudulent marks. The 1999 Act has not been notified yet and therefore is not in force.

A **service mark** is not separately defined under the 1999 Act, but is included in the definition of a trademark. A trademark under the Act has been defined as follows:

"trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods ***or services*** *of one person from those of others and may include shape of goods, their packaging and combination of colour….*

Services have been defined under the Act as follows:

"service" means service of any description which is made available to potential users and includes the provision of services in connection with business of any industrial or commercial matters such as banking, communication, education, financing, insurance, chit funds, real estate, transport, storage, material treatment, processing, supply of electrical or other energy, boarding, lodging, entertainment, amusement, construction, repair, conveying of news or information and advertising

Therefore marks distinguishing services in the above mentioned areas are now protected under the new Act of 1999. Under the 1999 Act, a mark could be a name, signature, word, letter, numeral, brand, heading, label, device, ticket or any combination of these. The use of any of these in connection with a service, where the mark can distinguish the service of one person from another or indicates a connection between the service and the person who has the right to use the mark, is brought under the definition of a trademark and can be registered.

Therefore under the 1999 Act, a mark capable of being represented graphically and which is capable of distinguishing the services of one person from those of other, and a mark that is used for the purpose of indicating a connection between the services and the person who has the right to use that mark is protected as a trade mark.

The Act shall come into force on such date as the Central Government notifies the same in the Official Gazette. At present, unless a mark used in relation to services has built up a substantial reputation and goodwill it is difficult to prevent imitations of the mark. But once the Trade Marks Act, 1999 is notified, infringement of trademarks registered in relation to services can be prevented and relief obtained under the Act.

Doel Kar Sondhi

Legal Snapshots

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Bio Piracy prevention sought

India has sought changes in the existing TRIPs (trade related intellectual property rights) agreement to include provisions for the protection of traditional knowledge and preventing bio-piracy. Other developing countries have supported the move and efforts are being made to form a 'development coalition" to ensure benefits to holders of traditional knowledge. The existing TRIPs agreement does not refer to traditional knowledge.

Patents Second Amendment Bill, 1999

The Patents Second Amendment Bill, 1999 has now received the approval of the President of India, it was passed by the Lok Sabha on May 14, 2002 and by the Rajya Sabha on May 10, 2002.The Bill has made provisions for compulsory licensing of patented drugs during public health crises and also spelt out the provisions for doing research on drugs once they are patented. However it is yet to allow patenting of drugs which is expected in a third amendment.

India to join plant IPR Convention

The Cabinet on May 31, 2002 approved the proposal for India's accession to International Union for Protection of New Varieties of Plants (UPOV) Convention, 1978 Act. UPOV ensures and recognises intellectual property rights (IPR) to breeders of a new plant variety, and India need not enter into a large number of bilateral agreements with other countries for mutual recognition of plant-breeders' rights. About 50 countries are members at present. The government believes development of new and improved varieties of plants requires substantial investment in terms of skill, material resources and money.

Investment in and Borrowing from Overseas Markets

Banks can now invest up to 25% (as against the existing ceiling of 15%) of the unimpaired Tire I capital or US$10 million which ever is higher in overseas money market instruments and/or debt instruments.

External Commercial Borrowings

Banks can now crystallize their foreign exchange liability in rupees, in select cases, where circumstances so warrant. The authorised dealers desirous of crystallizing their foreign exchange liability, arising out of guarantees provided for ECBs raised by corporates in India, into Rupees may make an application to RBI.

Debenture Redemption Reserve

No DRR is required for debentures issued by All India Financial Institutions regulated by the Reserve Bank of India and the Banking Companies for both public as well as privately placed debentures.

For NBFCs registered with the RBI, the DRR will be 50% of the value of debentures issued through public issue and no DRR is required in case of privately placed debentures.

For manufacturing and infrastructure companies, the adequacy of DRR will be 50% of the value of debentures issued through public issue and 25% for privately placed debentures.

Clarification under Section 274(1)(g) of the Companies Act, 1956

Nominee directors appointed by public financial institutions and companies established by Acts of Parliament having non-obstante provisions over the Companies Act, 1956 in their respective statutes and those on the boards of assisted concerns or other public companies by (a) Public Financial Institutions within the meaning of Section 4 A of the Companies Act, 1956; (b) Central or State Government; and (c) Banking Companies are also exempt from the provisions of Section 274(1) (g) of the Companies Act, 1956. Under Section 274 (1) (g), a director of a public company, which has made defaults in filing annual accounts and annual returns and in repaying deposits/ interests thereon on due date or redeeming its debentures on due date or in paying dividend for period specific in that section is disqualified to be appointed as director of other public companies for a period of five years from the date on which such public company so defaulted.

Facilities to Status Holder Exporters

Exporters with a proven track record, who have been certified as “Status Holder Exporters” in terms of the EXIM Policy, may be permitted to credit amount upto 100% of their eligible receipts of foreign exchange to their EEFC Account.

Deadline for Creeping Acquisition Extended

SEBI has informed that that the relaxation of the creeping acquisition limit for promoters, from 5% to 10% was being extended till September 30, 2002. Promoters and individuals from 5% to 10% was being extended till September 30, 2002. Promoters and individuals now holding more than 15% in a company can buy 10% more through the stock market without having to make an open offer. On October 24, 2001, SEBI had increased the limit that promoters could acquire in a year through the stock market to 10 % from 5%. The relaxation was valid till March 31.

Sebi wants to shorten the settlement cycle to T+2

Buoyed by the smooth transition to the T+3 trading cycle, Sebi is considering to further shorten the settlement cycle and introduce a new cycle called the T+2. The market regulator has asked its secondary market advisory committee to evaluate the issues relating to shortening the trading.

New listing body to keep tabs on end-use of IPO funds

The government is proposing to introduce end-use norms for companies raising funds from the public. The norms would be introduced as part of the responsibilities of the Central Listing Authority (CLA), which would regulate not only the pre-listing procedures including clearing prospectuses, but also apply post-listing measures to monitor the purposes for which funds are used. CLA would be like Sebi's surveillance arm, comprising experts capable of whetting the prospectus. As a result diversion of funds may become difficult. Under the proposed structure, the CLA would be responsible for clearing prospectuses and monitoring end-use norms for listed companies. Merchant Bankers would be responsible for disclosures made in the prospectus. The stock exchange would be responsible for monitoring violations relating to the listing agreement .The department of company affairs would as usual regulate unlisted companies.

Companies can issue warrants as part of the FDI

Companies would be permitted to issue warrants on a preferential basis and detachable warrants to foreign investors as part of FDI. However, 10% of the price fixed for detachable warrants would have to be paid on the date of allotment. The pricing of the detachable warrants would have to be according to SEBI guidelines and the takeover code would apply, if the takeover code is triggered through this route.

Print Media open to foreign Investment

In a landmark decision the government opened up the print media to foreign direct investment (FDI), allowing 26% foreign stake in newspapers and current affairs periodicals and 74% in other forms of print media including medical and technical publications. However the government has not allowed foreign institutional investors (FIIs), non-residents Indians (NRIs) and overseas corporate bodies (OCBs) to invest in news and current affairs print companies. According to I & B Ministry sources a detailed policy statement on FDI in print media would be issued shortly. Foreign investment in news agencies however remain barred. The I & B Ministry Sushma Swaraj stated that at least three-fourth of the board of a print media company with FDI must be Indian, in addition to that all key editorial posts must also be with resident Indians. Any print media company wishing to change its shareholding pattern would require to obtain prior government approval.

Cabinet clears 100% FDI in tea sector with riders

In a major decision that will bring a big boost to the agricultural sector, the Union cabinet approved 100% foreign investment in tea plantation subject to case-by-case approvals. Companies opting for this route would be subject to a mandatory divestment of 26% stake in favour of a local partner or public within five years. The Cabinet also clarified that the approval of the State Government concerned would be required for any change in the present land use.

DCA to go easy on cartel-busters, Leniency clause put in Competition Bill

The Department of Company Affairs (DCA) has incorporated a leniency provision for cartel-busters in the Competition Bill. The augmented version of the Bill will now be circulated among members of the DCA-related standing committee on home affairs. The Bill has already been introduced in Parliament after the Union Cabinet's approval. If the standing committee approves the Bill, members of cartels disclosing information about their operations will be able to avoid stringent punishments such as stiff penalties amounting to average turnover of the previous three years. It will also make the vigilance job of the proposed Competition Commission of India (CCI) simpler.

FERA- sunset clause expired on May 31, 2002

The sunset clause deadline for filing of cases under FERA expired on May 31, 2002. No new cases or investigations can be launched under FERA from June 1, 2002, since all pending investigations under FERA will lapse as per the sunset clause incorporated into pending investigations under FERA will lapse as per the sunset clause incorporated into FEMA, unless concretized either into a show cause notice for civil proceedings or into a complaint in a court for launching criminal proceedings by May 31, 2002.

FEMA- Current Account Transactions

The authorised dealers while permitting Indian companies to open trading office/branch office/ representative office/ non-trading office abroad need not forward Form ORR to Reserve Bank. However, statement in Form ORA should be submitted to the Regional office of Reserve Bank on half yearly basis instead on a monthly basis by the authorised dealers.

NRI's can repatriate funds from Re a/c

The Reserve Bank of India (RBI) has further liberalized exchange control regulations, allowing non-resident Indian (NRI's) and Persons of Indian Origin (PIO) to repatriate upto $30,000 for children's education and $ 100,000 for medical expenses of account holder and family members. It has also permitted the repatriation of proceeds from property sales upto $100,000 per year. The property however will have to be held by them for a period of not less than 10 years. In addition to the above, in order to facilitate setting up base abroad, RBI has enhanced the repatriation limit to $25,000 to residents who have obtained emigration visas.

Meet the A.R.A. LAW Team:

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In each issue, we profile one person who is a part of A.R.A. LAW. They will also be sharing their experiences of being with A.R.A. LAW.

Mini . K. Krishnan graduated from the Calicut University in 1998 and was enrolled as an Advocate with the Bar Council of Kerala. She has done her Masters in Law, having specialised in the area of Criminal law. She has over two years experience in litigation primarily in the areas of civil and criminal law and consumer protection. She submitted a thesis on Intellectual Property Rights and Bio-Piracy for her Masters. She has litigated under Senior Counsels in Kerala and has worked for corporate houses, which has given her primarily an exposure in the area of customs, intellectual property rights, amalgamation and litigation involving mainly consumer protection. She was a university rank holder for both her graduation and Masters. .

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Editorial Board

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