

ARTICLES

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NOTES AND  
COMMENTS

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BOOK REVIEW

Raj Bhala *et al.*, *Scrutinizing RTAs: A Comparative Review of David Gantz, Regional Trade Agreements: Law, Policy and Practice (Durham: Carolina Academic Press, 2009)*

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## BORDER ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN INDIA: RECENT DEVELOPMENTS

ADITYA GUPTA\*

*With the recognition of the need to heighten protection of intellectual property especially with regard to counterfeit trademark and pirated copyrighted goods, the enforcement of intellectual property rights at the borders has emerged as a significant issue in recent times. In view of this, the scheme of border measures has been discussed internationally at various fora including the World Trade Organization, the World Customs Organization, and the World Intellectual Property Organization as well as during negotiations of many multilateral and bilateral free trade agreements. India too, sought to enable right holders to enforce intellectual property rights at the border and, thereby, enhance border protection of intellectual property rights. In this regard, the Government of India notified the Intellectual Property Rights (Imported Goods) Rules, 2007 in May, 2007. The Rules, based on the model legislation by the World Customs Organization, seek to empower the Customs authorities to suspend the clearance of goods suspected to be infringing intellectual property in India. Further, they empower the Customs authorities to adjudicate on the issue of infringement and to seize or dispose the goods on finding in favour of the right holder. The Rules, however, present a major source of concern for importers. They fail to strike a balance between the rights of the right holders and the safeguards provided to the importers or the obligations of the right holders. In view of this, they present immense potential for abuse and their implementation has had a chequered history. The controversy surrounding the dual – SIM patent, presently being argued before various Indian fora, highlights the issues raised by the implementation of these rules, and presents a case for their re-evaluation.*

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The author wishes to acknowledge the comments on the “SpicyIP India” blog (<http://spicyipindia.blogspot.com/>) which have significantly contributed to the development of the arguments presented in this comment.

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## I. INTRODUCTION

Developed countries have traditionally been the centres of innovation and research. In such countries, there exists good evidence to support the assertion that intellectual property is important for the promotion of creative pursuits and innovative activities.<sup>1</sup> In contrast, developing countries have traditionally provided comparatively weaker intellectual property protection and have viewed intellectual

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<sup>1</sup> ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS THROUGH BORDER MEASURES: LAW AND PRACTICE IN THE EU 3 (Marius Schneider & Olivier Vriens eds., 2006).

property reforms as prejudicial to their national interests and indigenous needs.<sup>2</sup> Though the fundamental incentives posed by various forms of intellectual property are similar for all nations, developing nations differ from their developed counterparts in their innovative potential, the education of their workforce, the structure and funding of research and development, and the management of technological assets.<sup>3</sup> This forms the basis for the development of different standards of intellectual property protection among developed and developing countries. However, it is now well recognized that such different standards of intellectual property protection may act as impediments to trade. Studies have indicated that increased intellectual property protection has a significant link with trade.<sup>4</sup> In view of this, efforts have been made at an international scale to harmonize standards of intellectual property protection with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (hereinafter TRIPS or TRIPS Agreement) forming one of the most significant advances in this respect.

During the initial stages of the drafting of the TRIPS Agreement, one of the aspects negotiated between the developing and developed countries was the standards of enforcement of intellectual property.<sup>5</sup> In this regard, the enforcement of intellectual property rights at the border emerged as a significant issue and the provisions in the TRIPS relating to border measures borne out of such negotiations represent a fine balancing act between the rights of the right holders and those of the importers. Apart from the negotiations during the formulation of the TRIPS agreement, the role of customs administrations in fighting counterfeiting and piracy in international trade through strengthening of border measures for enforcement of intellectual property rights has been discussed in various fora at the international level. These include discussions at the World Intellectual Property Organization (WIPO) and the World Customs Organization (WCO). The experience of customs administrations in numerous countries has indicated, however, that only by granting certain powers and measures that go beyond the minimum requirement set forth in the TRIPS Agreement, governments can provide an effective and efficient level of IPR protection and enforcement at their borders.<sup>6</sup>

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<sup>2</sup> For detailed analysis of concerns of developing countries in adopting higher standards of intellectual property protection see INTELLECTUAL PROPERTY AND DEVELOPMENT: LESSONS FROM RECENT ECONOMIC RESEARCH 3 - 6 (Keith Maskus & Carsten Fink eds., 2005) (hereinafter Maskus & Fink).

<sup>3</sup> *Id.* at 5.

<sup>4</sup> Carsten Fink & Carlos Braga, *How Stronger Protection of Intellectual Property Rights Affects International Trade Flows*, in Maskus & Fink, *Id.* at 19.

<sup>5</sup> TERENCE P. STEWART, *THE GATT URUGUAY ROUND: A NEGOTIATING HISTORY* (1995).

<sup>6</sup> See Introduction to WORLD CUSTOMS ORG. [WCO], *Model Provisions For National Legislation To Implement Fair And Effective Border Measures Consistent With The Agreement On*

India, too, has sought to strengthen the protection of intellectual property through border measures, both by legislative as well as executive mechanisms. The notification of the Intellectual Property Rights (Imported Goods) Enforcement, Rules, 2007 seeks to further this objective. Based on the WCO Model Law,<sup>7</sup> these Rules empower customs authorities to suspend the clearance of goods suspected to be infringing intellectual property. The Rules introduce provisions which go much beyond the minimum standards prescribed by TRIPS. Further, the implementation of these Rules has highlighted the lacunae therein and raises concerns for importers who have been subject to frivolous claims. This comment seeks to examine the propriety of the mechanisms and the procedures provided by the Rules and argues for their re-evaluation.

The comment proceeds as follows. First, it examines the procedure of border enforcement of intellectual property rights as laid down by the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007, critically analysing the propriety of specific Rules. The comment then proceeds to provide a general analysis of the Rules and their repercussions. Third, the implementation of the Rules is analysed by providing examples of recent litigations under the Rules, highlighting on the concerns raised therefrom. The comment concludes by summarizing the arguments raised by the author in a nutshell.

This comment is based on the recent developments in the area of border enforcement of intellectual property rights in India. In view of this, this comment has restricted its analysis to the border measures under the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007 and has not ventured into an analysis of the parallel import provisions under the Trademark Act, 1999 and the Copyright Act, 1957 which have been commented upon extensively by other scholars.<sup>8</sup>

## II. THE IPR (IMPORTED GOODS) ENFORCEMENT RULES – AN ANALYSIS

The Department of Revenue under the Ministry of Finance of the Government of India in exercise of the powers conferred by sub-section (1) of

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*Trade-Related Aspects Of Intellectual Property Rights*, WCO IPR Model Legislation, available at: [http://www.wcoipr.org/wcoipr/Menu\\_ModelLegislation.doc](http://www.wcoipr.org/wcoipr/Menu_ModelLegislation.doc) (last visited December 9, 2009) (hereinafter WCO IPR Model legislation).

<sup>7</sup> Hemant Singh & Mamta Rani Jha, *Government Steps up Border Enforcement Measures*, MANAGING INTELLECTUAL PROPERTY, SUPPLEMENT – PNDIA IP FOCUS, 2008 <http://www.managingip.com/Article/1969095/Government-steps-up-border-enforcement-measures.html> (last visited December 9, 2009).

<sup>8</sup> Harsh Kumar, *Border Areas for the Protection of Intellectual Property Rights: An analysis*, 9 J. INTELL. PROP. RTS. 43 (2004); Sneha Jain, *Parallel Imports and Trademark Law*, 14 J. INTELL. PROP. RTS. 14 (2009) (hereinafter Jain).

section 156 of the Customs Act, 1962<sup>9</sup>, read with Rules (n) and (u) of sub-section (2) of section 11 of the said Act notified the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007<sup>10</sup> (hereinafter the Rules) on the 8<sup>th</sup> May, 2007. The Rules have come into force on the date of publication in the Official Gazette, *i.e.*, 8<sup>th</sup> May, 2007<sup>11</sup> and applies to imported goods<sup>12</sup>.

#### A. *Definitional Hurdles*

##### 1. Categories of Intellectual Property Within the Scope of the Rules

Rule 2 of the Rules provides definitions of the terms mentioned in the Rules, providing the scope of application of the Rules. These definitions are borrowed from the model legislation by the Geneva based World Customs Organization,<sup>13</sup> based on which these Rules have been drafted. Rule 2(b) and 2(c), defining the term “intellectual property” and “intellectual property law” respectively, indicate that the Rules are applicable to those imported goods suspected to be infringing rights either in a trademark,<sup>14</sup> copyright,<sup>15</sup> geographical indication<sup>16</sup> or patent.<sup>17</sup> It bears noting that the Article 51 of the TRIPS mandates to introduce provisions only with respect to counterfeit trademark or pirated copyright goods.<sup>18</sup> India is

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<sup>9</sup> Customs Act, 1952 [Act no. 52 of 1952].

<sup>10</sup> Notification no. 47/2007- Customs (N.T.).

<sup>11</sup> Rule 1 of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>12</sup> The term “imported goods” has been defined in Section 2(25) of the Customs Act, 1962 (52 of 1962) which reads as “imported goods means any goods brought into India from a place outside India but does not include goods which have been cleared for home consumption”.

<sup>13</sup> See art. 1, WCO IPR Model Legislation, *supra* note 6.

<sup>14</sup> As defined per the Trademark Act, 1999 [Act no. 47 of 1999].

<sup>15</sup> As defined per the Copyright Act, 1957 [Act 14 of 1957].

<sup>16</sup> As defined per the Geographical Indications of Goods (Registration and Protection), 2000 [Act no. 48 of 1999].

<sup>17</sup> As defined per the Patent Act, 1970 [Act no. 39 of 1970].

<sup>18</sup> Art. 51 of the WTO Agreement on the Trade Related Aspects of Intellectual Property Rights (hereinafter TRIPS) reads as:

Members shall, in conformity with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of *counterfeit trademark or pirated copyright goods* may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding



not obligated to introduce border measures with respect to other categories of intellectual property such as patents or geographical indications. This establishes the “TRIPS plus”<sup>19</sup> nature of the Rules. The extension of border measures to other categories of intellectual property, especially to patents becomes significant in view of the institutional incompetence of the customs authorities to deal with complex matters relating to patent law. This aspect is discussed in detail in the next section.

## 2. Institutional incompetence of Customs Administration to Deal with Patent Related Issues

As mentioned above, the TRIPS does not require members to introduce provisions with respect to all categories of intellectual property and the mandate to introduce border measures under TRIPS extends only to copyright and trademark related matters.<sup>20</sup> This exclusion of other forms of intellectual property, especially patents, is with good reason. In relation to patents, the most relevant argument against introduction of border measures is that patent infringements are difficult to assess at first sight. This difficulty arises from the technical complexity of products to which patents are attached and the complex nature of patent law itself. The assessment of patent infringement requires a determination of the scope of the claims, an activity which is much more complex than the usual visual inspection involved in determining copyright or trademark infringements.<sup>21</sup> The customs administration is an administrative body which does not possess expertise in matters relating to intellectual property law.<sup>22</sup> The field of intellectual property law is a specialized field, requiring both legal and technical expertise. In fact, in view of the special nature of intellectual property matters, the Courts have been divested of their authority to hear such matters which are now heard by a specialized Intellectual Property Appellate Board.<sup>23</sup> It is a well recognized principle that when

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procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.

<sup>19</sup> The term “TRIPS plus” is commonly used for standards of IP protection beyond the minimum standard prescribed by the TRIPS.

<sup>20</sup> See arts. 51 – 60 of the TRIPS, *supra* note 18.

<sup>21</sup> Xavier Seuba, *Border Measures Concerning Goods Allegedly Infringing Intellectual Property Rights: The Seizures of Generic Medicines in Transit*, at 10, (International Centre For Trade And Sustainable Development [ICTSD] Working Paper (2009)), available at: <http://ictsd.org/i/publications/53747/> (last visited December 9, 2009) (hereinafter Xavier).

<sup>22</sup> The CBEC Circular No. 41/2007 issued by the Ministry of Finance to the Commissioner of Customs recognizes this fact and states that the systematic enforcement of IPR is “new to Customs”.

<sup>23</sup> The Intellectual Property Appellate Board (IPAB) was constituted by a Gazette notification of the Central Government in the Ministry of Commerce and Industry on 15<sup>th</sup> September 2003 to hear appeals against the decisions of the Registrar under the

the adversary process yields conflicting testimony on complicated and unfamiliar issues and the participants cannot fully understand the nature of the dispute, adjudicatory authorities may not be competent to make reasoned and principled decisions.<sup>24</sup> This principle is relevant to determination of patent law issues by customs authorities and it is doubtful whether they are competent to make reasoned and principled decisions regarding such issues. Similar observations were made by the High Court of Delhi with respect to the power of the Drug Controller General of India to decide on matters relating to patent infringement, wherein the Court opined that the Drug Controller lacks the technical expertise to deal with matters relating to patentability and patent infringement.<sup>25</sup>

Customs authorities may not be the appropriate authority to deal with complex issues of patent infringement since the Customs administration lacks the expertise and skill required for the determination of such disputes. Patent law requires the understanding of complex technology for the purposes of claim construction, and customs administration lacks the infrastructure to undertake such a process. It is, therefore, suggested that the Customs administration must establish a specialized cell for intellectual property matters comprising of specialized members possessing both technical and legal expertise in such matters.<sup>26</sup> The establishment of such cells will further allow such matters to be disposed expeditiously. In the alternative, the Rules may be amended such that the customs authority is divested with the power to decide on issues of infringement, and make the power of the customs authorities to seize and dispose the allegedly infringing goods contingent upon a decision in legal proceedings before the courts or the Intellectual Property Appellate Board. The latter alternative will also serve to avoid multiplicity of litigation which may arise under the current scheme due to the wide array of fora which the right holder is enabled to agitate for enforcing his rights.

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Trade Marks Act, 1999 and the Geographical Indications of Goods (Registration and Protection) Act, 1999. For more information on IPAB see <http://www.ipab.tn.nic.in/> (last visited December 9, 2009).

<sup>24</sup> For instance, see similar discussions with respect to the need for specialized environmental courts in *AP Pollution Control Board v. MV Nayadu*, AIR 1999 S.C. 812.

<sup>25</sup> *Bayer Corporation and Ors. v. Union of India and Ors.*, Judgement of the High Court of Delhi dated August 18, 2009 in Civil Writ Petition no. 7833/2008.

<sup>26</sup> The Customs administration has undertaken the task of establishment of such IPR Cells within the Customs administration and has proposed the appointment of Customs officers in such Cells. However, it is proposed that the members appointed to such Cells must have specific legal or technical expertise in such matters for achieving just results.

### 3. Definition of Right Holder

Sub-Rule (d) of Rule 2 defines right holders to mean a natural person or a legal entity, which according to the laws in force is to be regarded as the owner of protected intellectual property right, its successors in title, or its duly authorized exclusive licensee as well as an individual, a corporation or an association authorized by any of the aforesaid persons to protect its rights. This provision indicates that the owners of intellectual property rights as well as their assignees and licensees are entitled to seek protection under the Rules.

### 4. Definition of “Goods Infringing Intellectual Property” – A Conundrum

Sub-Rule (a) of definitional Rule defines the term “goods infringing intellectual property” to mean “goods which are made, reproduced, put into circulation or otherwise used in breach of the intellectual property laws in India or outside India and without the consent of the right holder or a person duly authorized to do so by the right holder”.

On a plain reading of this Rule, the language of which is rather confusing, two interpretations may arise. These revolve around the use of the words “in India or outside India”. The first interpretation, which the author proposes, is that the term “goods infringing intellectual property” means the goods which are made, reproduced, put into circulation or otherwise used in India or outside in breach of intellectual property laws. (On such a reading, the term intellectual property laws shall be interpreted as per Rule 2(c), and shall mean the Copyright Act, 1957, the Trade Marks Act, 1999, the Patents Act, 1970, the Designs Act, 2000 or the Geographical Indications of Goods (Registration and Protection) Act, 1999.) Under this interpretation, the term “in India or outside India” qualifies the place where the infringing act takes place. This begs the question whether goods made, reproduced, put into circulation or otherwise used outside India can breach the intellectual property laws abovementioned? The simple answer is no. The Patent Act, 1970 under S. 48<sup>27</sup> provides that the patentee has the exclusive rights

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<sup>27</sup> Section 48 of the Patents Act, 1970 reads as

Rights of patentees: Subject to the other provisions contained in this Act and the conditions specified in section 47, a patent granted under this Act shall confer upon the patentee— (a) where the subject matter of the patent is a product, the exclusive right to prevent third parties, who do not have his consent, from the act of making, using, offering for sale, selling or importing for those purposes that product in India;

(b) where the subject matter of the patent is a process the exclusive right to prevent third parties, who do not have his consent, from the act of using

mentioned therein in India. Similarly, Section 13(1)<sup>28</sup> of the Copyright Act, 1957 provides that copyright shall subsist throughout the territory of India. Further, trademark law in India is territorial in nature<sup>29</sup> and requires that the infringing activity must take place within the territorial limits of registration, *i.e.*, within India<sup>30</sup>. The geographical indications law in India applies principles which are similar to those under trademark law and does not enable the right holder to initiate action for the use of the registered geographical indication goods outside India.<sup>31</sup> None of these “intellectual property laws” as provided for under the Rules stipulate their breach by acts taking place outside India. Further, if the infringing act is to take place “in India”, it is unlikely that such infringing goods will be exported from India and then imported again through the Indian ports. In any case, if such an interpretation is adopted, the scope of the applicability of the Rules will be unduly narrow.

At this juncture, it is pertinent to compare this definition with the definition under the Model Law as prescribed by the World Customs Organization.<sup>32</sup> The Model Law, under Article 1, includes a clause which states that “if such making, reproduction, use or putting into circulation of the goods took place outside the country the goods are deemed to be infringing if the acts would have constituted an infringement in the country had they been undertaken in the country”. Such a deeming provision creates a legal fiction wherein the infringing acts outside the country of importation are deemed to have taken place in the country of importation. It is only where such deeming provision exists that the infringing acts taking place outside the country of importation can be considered to be in breach of intellectual property law of the country of importation.

It is noteworthy that the Government of India issued Notification no. 49/2007 on May 8, 2007 (which is curiously the same date on which the Rules were notified) which provides for the categories of goods whose importation is prohibited, subject to the conditions and procedures of Rules. The goods on which the notification is applicable, *inter alia*, includes products which are made or

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that process, and from the act of using, offering for sale, selling or importing for those purposes the product obtained directly by that process in India;

<sup>28</sup> Section 13(1) of the Copyright Act, 1957 states that: “Works in which copyright subsists – (1) Subject to the provisions of this section and the other provisions of this Act, copyright shall subsist *throughout India* in the following classes of works, that is to say – (a) original, literary, dramatic, musical and artistic works (b) cinematograph films; and (c) sound recording

<sup>29</sup> See Jain, *supra* note 8, at 14.

<sup>30</sup> P. NARAYANAN, LAW OF TRADEMARK AND PASSING OFF 570 (2004).

<sup>31</sup> For territoriality of geographical indications see LATHA NAIR AND RAJENDRA KUMAR, GEOGRAPHICAL INDICATIONS: A SEARCH FOR IDENTITY 147 (2005).

<sup>32</sup> See WCO IPR Model legislation, *supra* note 6.

produced beyond the limits of India and intended for sale for which a patent is in force under the Patents Act, 1970 and where the import of such goods is not allowed under the Patents Act, 1970. Therefore, by virtue of Notification no. 49/2009, even where the infringing activity occurs outside India, the importation of such goods can be prohibited. However, the notification is not instructive as to the scope of the definition of “goods infringing intellectual property” under the Rules, though it does clarify that the goods made or produced outside India can be prohibited at the borders.

The alternative interpretation of the Rule 2(a) involves reading the terms “in India or outside India” as qualifying the term “intellectual property law”, rather than defining the place where the infringing acts occur. On such an interpretation, irrespective of whether the acts are infringing as per the Indian intellectual property laws or the intellectual property laws outside India, the goods shall be considered as goods infringing intellectual property. Under such an interpretation, it is apposite to conclude that those goods which are made, reproduced, put into circulation or otherwise used in breach of intellectual property laws of countries other than India shall be considered to be “goods infringing intellectual property”. However, this leads to an extremely absurd situation where the goods entering the Indian borders shall be detained on basis of breach of intellectual property laws of other countries even if the same are not in breach of the Indian intellectual property laws. By way of example, one may consider the case of the patent laws of India and the United States of America. Section 271 of Title 35 of the United States Code defines the acts constituting infringement under the United States law and includes within its scope acts such as inducement of infringement and contributory infringement.<sup>33</sup> In contrast, under Indian law, Section 48 of the Patent Act, 1970 proscribes only direct infringement. The said section stipulates that making, using, selling, offering for sale and importing of the invention shall be considered as acts constituting infringement. Therefore, for instance, the goods of an importer may be classified as “goods infringing intellectual property” under the Rules on the basis that he induced or contributed to infringement (and, therefore, was in breach of intellectual property laws outside India), even though he does not directly infringe any of the rights of the patentee under Section 48 of the Patents Act, 1970. Such an interpretation will be absurd and makes the definition overly broad. The border measures for enforcement of intellectual property rights have been introduced to ensure that goods which are infringing according to the country of importation do not enter the free circulation of the internal market.<sup>34</sup> The intention is to allow the right holder to exercise his rights which are guaranteed to him under the law at the customs level itself, since it is often

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<sup>33</sup> See 35 U.S.C. § 271(f).

<sup>34</sup> This is one of the main arguments raised against the seizure of goods in transit based on the border measures for intellectual property protection. See Xavier, *supra* note 21.

impossible for him to trace the goods once they enter the free circulation. The Rules, under such an interpretation, in effect allow the right holder to rely on rights which are available under intellectual property laws outside India, even where such rights are not available under the Indian laws. Such an interpretation would render the provision arbitrary and in discord (without a “reasonable nexus”) with the object of the legislation, thereby making them susceptible to being struck down as unconstitutional.<sup>35</sup>

Therefore, both the abovementioned interpretations lead to absurd conclusions. Whereas one interpretation unduly narrows the scope of the legislation, the other is liable to be struck down as unconstitutional. In view of this, it is recommended that an amendment be brought about to Rule 2(a) to clarify the position the scope of applicability of the Rules. Insertion of a deeming provision such as the one contained in the definition provided under the WCO Model Law appears to be appropriate to remedy the absurdities arising from the interpretations. In any case, in the author’s opinion, if such a provision, in its present state, is interpreted by a court of law, in view of the provision’s legislative history (it is borrowed from Article 1 of the WCO IPR Model Legislation) and in view of the legislative intent emerging from Notification no. 49/2007, the court is likely to read such a deeming provision into the definition in order to avoid the words “outside India” being rendered otiose and redundant.<sup>36</sup> However, it bears noting that such an interpretation shall have serious repercussions, especially with respect to goods in transit, an aspect which has been discussed in detail in later sections.<sup>37</sup>

It is interesting to compare and contrast the definitions provided in the Rules to those provided under the TRIPS Agreement. The TRIPS Agreement mandates the WTO member countries to introduce border measures with respect to counterfeit trademark and pirated copyright goods. The terms “counterfeit trademark goods” and “pirated copyright goods” have been defined in the Agreement itself,<sup>38</sup> and stipulate that such goods must infringe the rights of the right holder “under the law of in the country of importation”. The Agreement is silent with respect to border measures for goods infringing intellectual property laws in countries other than the country of importation. The Agreement further does not provide any indication regarding the interpretation of the term “country of importation” and it is unclear whether the same

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<sup>35</sup> For the ‘reasonable relation with the object of the legislation’ test under art. 14 of the Constitution of India, 1950 in *Anwar Ali Sarkar v. State of West Bengal*, AIR 1952 S.C. 75.

<sup>36</sup> It is a settled principle of statutory interpretation that a Court shall interpret a statute in such a manner so as to ensure that the words of the statute are not rendered redundant or otiose. *See State of Rajasthan v. Gopi Kishan Sen*, AIR 1992 S.C. 1754 at para 6.

<sup>37</sup> *Infra* Section F-1 of Part II of this Note.

<sup>38</sup> *See* footnote 14 to art. 51 of the TRIPS Agreement, *supra* note 18.

includes the country of transit or only the country of final destination. Further, the Agreement does not specify any qualifications regarding the place where the infringing acts take place.

*B. Procedure for Registration*

The Rules provide an elaborate procedure for the enforcement of intellectual property rights of the right holders by customs authorities. The Rules envisage the provision of notice by the right holder to the Commissioner of Customs (or any officer authorized on his behalf) requesting for the suspension of clearance of goods suspected to be infringing intellectual property.<sup>39</sup> The Right holder is required to give the notice in a specified format (provided in the Annexure) along with the payment of Rs. 2000 as application fee.<sup>40</sup> On the receipt of the notice, the Commissioner is required to communicate to the right holder as to whether his notice has been registered or rejected within a period of 30 days.<sup>41</sup> The registration of notice is subject to two conditions, namely: the execution of a bond by the right holder with the Commissioner of Customs undertaking to protect the importer, consignee and the owner of the goods and the competent authorities against all liabilities and to bear the costs towards destruction, demurrage and detention charges incurred till the time of destruction or disposal. Further, the right holder is required to execute an indemnity bond with the Commissioner of Customs indemnifying the customs authorities against all liabilities and expenses on account of suspension of the release of allegedly infringing goods.<sup>42</sup>

On the registration of the notice, the Commissioner is required to communicate to the right holder the validity period of the registration during which the assistance by the customs authority shall be rendered, with the minimum period being one year.<sup>43</sup> Rule 4(3) of the Rules provides that all customs offices shall render assistance to the right holder.

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<sup>39</sup> Rule 3(1) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>40</sup> Rule 3(3) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>41</sup> Rule 4(1) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>42</sup> Rule 5(1) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>43</sup> Rule 3(2) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

C. *Scope of the Power of the Customs to Detain and Seize Goods Under the Rules*

1. Rules 6 and 7: Enabling Provisions

Rules 6 and 7 are the enabling provisions which empower the customs administration to suspend the clearance of goods infringing intellectual property rights. Rule 6 provides that after the grant of the registration of the notice the import of allegedly infringing goods into India shall be deemed as prohibited within the meaning of Section 11 of the Customs Act, 1962. Rule 7(1)(a) of the Rules empowers the customs authority to suspend the clearance of goods on the basis of the notice given by the right holder to suspend the clearance of goods if he has reason to believe that the imported goods are suspected to be goods infringing intellectual property rights.

The Rules further provide for communication of the order of suspension of clearance to both the importer and the right holder, stating the reasons for such suspension. From the date of such communication, the right holder is required to join the proceedings before the customs administration within a period of ten working days (extendable to twenty working days) failing which the goods shall be released provided that all other conditions of import of such goods have been complied with.<sup>44</sup>

The Rules contain special provisions for cases empowering the *suo motu* suspension of clearance of the goods. Rule 7(1)(b) empowers the customs authority to suspend the clearance of goods *suo motu* if it has *prima facie* evidence or has reasonable grounds to believe that the imported goods are goods infringing intellectual property. In case of *suo motu* action, Rule 7(4) of the Rules requires the right holders to give notice under Rule 3 and to fulfil obligations (such as execution of bond under Rule 5) within a period of 5 days from the date of suspension of clearance, failing which the goods shall be released by the customs administration. Further, the customs administration may seek technical expertise and facilities from the right holder for the purpose of determining whether the suspect goods are counterfeit or pirated or otherwise infringe an intellectual property right.

If the right holder complies with the above mentioned provisions (both in case of prior notice or for *suo motu* action), the Deputy Commissioner of Customs or the Assistant Commissioner of Customs is empowered to seize the goods under Section 110 of the Customs Act, 1962 if he has reason to believe that the goods are “goods infringing intellectual property rights” and are liable for confiscation under Section 111(d) of the Customs Act, 1962.

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<sup>44</sup> Rules 7(2) and 7(4) of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.



## 2. Rule 7 and *Audi Alteram Partem*

Rule 7 of the Rules is the enabling provision empowering the Customs administration to suspend the clearance of goods. The order for suspension of clearance of goods under Rule 7(1) is made on the basis of the notice given by the right holder, and this forms the basis for the suspension of clearance. Therefore, the right holder is entitled to make a *prima facie* case for infringement by virtue of the notice. However, the importer is not provided an opportunity to be heard and he is entitled to seek the clearance of the goods only after he receives the communication from the customs authority under Rule 7(2). This amounts to a post-decisional hearing. A post decisional hearing is permitted under exceptional circumstances,<sup>45</sup> and therefore, it begs the question whether the suspension of release of goods amounts to “exceptional circumstances”. In the author’s view, the answer is in the affirmative since the whole process shall be frustrated if the rule of *audi alteram partem*<sup>46</sup> was required to be fulfilled before such detention. The order of suspension of clearance is merely a preliminary order to stop the goods at the port, denying the clearance to enter the mass of goods in India.<sup>47</sup> The very nature of the order is such that the rule of *audi alteram partem* must be excluded. That being said, it is imperative that the post-decisional hearing shall take place “as soon as”<sup>48</sup> the order for suspension of clearance is made. The requirement under the Rules is that the order of suspension must be communicated to the right holder “immediately”. Further, the right holder is required to “join the proceedings” within the prescribed period of time. However, the Rules do not provide an upper limit for the period of suspension. Therefore, the importer’s right may be prejudiced for an unreasonable period of time with his goods being detained at the ports without a decision being reached by the customs authority. Once the right holder has joined the proceedings, the proceedings may prolong for an unreasonable period of time, as is often the case in India given the administrative delays.<sup>49</sup> The requirement, as

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<sup>45</sup> *Maneka Gandhi v. Union of India*, AIR 1978 S.C. 597 per Bhagwati J. at para 65.

<sup>46</sup> The rule of *audi alteram partem* embodies the rule of fair hearing in administrative proceedings. The rule ensures that no one should be condemned unheard, and that a person against whom any action is sought to be taken or whose rights or interest is being affected should be given a reasonable opportunity to defend himself (*See* M.P. JAIN & S.N. JAIN, *PRINCIPLES OF ADMINISTRATIVE LAW* 271 (5<sup>th</sup> ed. 2007) (hereinafter JAIN & JAIN)).

<sup>47</sup> In fact the situation is very similar to the order of impounding of passports, with respect to which post – decisional hearing was held to be valid in the case of *Maneka Gandhi v. Union of India*, AIR 1978 S.C. 597.

<sup>48</sup> *Maneka Gandhi v. Union of India*, AIR 1978 S.C. 597 per Bhagwati J. at para 65.

<sup>49</sup> For instance, see the case of dual SIM Patents (discussed in later sections) where the goods were detained in March, 2009 and released in May, 2009 without any final adjudication being undertaken by the Customs. In fact, on a final determination, the Customs ruled that the claims by the right holder were vexatious and frivolous. Thus, there

laid down in the case of *Maneka Gandhi v. Union of India*,<sup>50</sup> is that in cases of post decisional hearing, a fair opportunity of being heard must be “given immediately” after the impugned order. In the author’s opinion, a requirement that the post-decisional hearing must be concluded within a reasonable time limit must be read into this statement of the Supreme Court of India in order to preserve its purpose. If the post-decisional hearing is commenced immediately but is unreasonably or unduly delayed, the purpose of giving the post-decisional hearing “immediately” would be defeated. Such a reading shall enable importers to seek an appropriate writ in cases where there is an unreasonable delay in the reaching its conclusion, with the reasonableness being tested on a case by case basis.

At this juncture, it is interesting to study the corresponding customs procedure with respect to period of detention in the UK. In May 2009, changes were introduced in the UK customs procedure wherein the right holder is required to take a proactive approach inasmuch as he is required to initiate legal proceedings ordinarily within a period of ten days and a maximum period of twenty days, failing which the detained goods are released.<sup>51</sup> Therefore, the onus on the right holder has been increased under the UK customs procedure. Such a provision is likely to deter frivolous claims insofar as the costs incurred in initiation of legal proceedings shall act as a major deterrent for right holders. Further, in cases where legal proceedings are initiated and courts find that the claims are frivolous in nature, they are likely to dismiss the proceeding at a preliminary stage, thereby ensuring that the duration of suspension is minimized.

Similarly, Article 55 of the TRIPS Agreement<sup>52</sup> stipulates a maximum duration of suspension insofar as the goods shall not be detained for a period of more than

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was a delay of more than 2 months in the import of the goods on the basis which was later found to be vexatious.

<sup>50</sup> *Maneka Gandhi v. Union of India*, AIR 1978 S.C. 597.

<sup>51</sup> Letter from Her Majesty Revenue and Customs (UK) to ACG Members (June 22, 2009) (on file with author) available at: <http://bordermeasures.com/IMG/pdf/20090625111101425.pdf> (last visited December 9, 2009).

<sup>52</sup> Art. 55 of the TRIPS Agreements (*supra* note 18) reads as:

If, within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods, the goods shall be released, provided that all other conditions for importation or exportation have been complied with; in appropriate cases, this time-limit may be extended by another 10 working days. If proceedings leading to a decision on the merits of the case have been initiated, a review, including a right to be heard, shall take place

ten days (extendable by ten days) unless customs authorities are informed that proceedings leading to the decision on the merits of the case have been initiated or that the duly empowered authority has taken provisional measures for prolonging the suspension of release of the goods. In fact, under Article 50, paragraph 6 read with Article 51 such measures for prolonging the suspension can remain in force for a maximum period of 20 working days or 31 calendar days, whichever is longer.

This approach recognizes the need to expedite proceedings once the order of detention of goods is made by the Customs authorities. Introduction of similar provisions under the Rules shall go a long way in balancing the interests of the right holder and those of the importer.

### 3. No Need for *prima facie* Evidence: Undue Burden on Customs Administration

The format of notice provided in the Annexure indicates that the right holder is not required to provide evidence to establish that the goods are infringing in cases where he does not seek to prevent the import of a specific consignment. The right holder is required to give *prima facie* proof of infringement only where the infringement by goods in a specific consignment is alleged at the time when the notice for registration is given.<sup>53</sup> Now consider a situation where at the time when the right holder gives the notice of registration there is no specific consignment which infringes the rights of the applicant. The right holder in such circumstances shall be granted the registration of the notice without submitting any proof concerning infringement regarding a specific consignment. Now, on the basis of this notice, the customs administration is required to determine the scope of his intellectual property rights and detain goods which they suspect to be infringing. This places an undue burden on the customs administration since determination of the scope of intellectual property rights is highly technical in nature and often requires expert evidence and testimony, especially where scope of patent claims is to be determined. This issue regarding submission of *prima facie* evidence is recognized by the Notes on Article 3 of the Model Law by the WCO<sup>54</sup> which states that in case of general applications for protection, it would be impossible for

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upon request of the defendant with a view to deciding, within a reasonable period, whether these measures shall be modified, revoked or confirmed. Notwithstanding the above, where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, the provisions of paragraph 6 of Article 50 shall apply.

<sup>53</sup> Annexure to the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007.

<sup>54</sup> See WCO IPR Model Legislation, *supra* note 6.

right holders to provide such *prima facie* evidence as these applications are made absent of any specific evidence of infringement. In such a case, the right holder is entitled to protection under the Rules without providing even *prima facie* evidence regarding infringement. Therefore, without the establishment of even a *prima facie* case, the grant of relief to the right holder is arbitrary, since by virtue of the notice the right holder is merely required to establish his right in general and not with respect to a specific consignment/specific goods. The Rules, further, do not empower the customs to seek technical expertise in cases where notice under Rule 3 has been registered by customs administration. (The provision under Rule 7(5), which empowers the Customs authorities to seek information and assistance including technical expertise, is only applicable where the Customs authorities have taken *suo motu* action.)

It is pertinent to note that under the TRIPS Agreement, the right holder making an application for suspension of clearance of the goods to the Customs administration is required to provide “adequate evidence” to satisfy the customs administration that there is *prima facie* an infringement of the intellectual property right.<sup>55</sup>

#### D. *Right to Examination of Goods and Supply of Information*

Rules 8, 9 and 10 contain provisions for examination of goods by the right holder, supply of information to the right holder and supply of information to the importer, respectively. Rule 8 empowers the Commissioner to allow the right holder/importer to examine the goods, the clearance of which has been suspended, and to provide representative samples for examination, testing and analysis to assist in determining whether the goods are pirated, counterfeit or otherwise infringe an intellectual property right. Rule 9 enables the right holder to seek information such as the name and address of the importer and such additional relevant information regarding the consignment which has been suspended. Similarly, Rule 10 enables the importer to seek information relating to the right holder. However, these provisions are to be applied without prejudice to the protection of confidential information, thereby ensuring that sensitive information regarding the importer or the right holder is not disclosed.

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<sup>55</sup> Art. 52 of the TRIPS (*supra* note 18) which in the relevant part reads as:

Any right holder initiating the procedures under Article 51 shall be required to provide adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is *prima facie* an infringement of the right holder's intellectual property right and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities.

### E. Disposal of Infringing Goods

Rule 11 provides for the disposal of infringing goods. This rule is applicable where upon determination by the Deputy Commissioner of Customs/Assistant Commissioner of Customs, it is found that the goods detained or seized have infringed intellectual property rights, and have been confiscated under Section 111(d) of the Customs Act, 1962 and no legal proceedings are pending in relation to such determination. The said authority in such cases can destroy the goods under official supervision or dispose them outside the normal channels of commerce after obtaining 'no objection' or concurrence of the right holder. The issue of institutional incompetence of customs administration discussed above attains heightened graveness in view of the powers of the customs administration under Rule 11 under which the goods may be disposed off or destroyed by the Customs administration, an action which may often irreparably harm the interests of the importer. Rule 11 raises major concerns for the importer since the disposal of goods by the Customs authority amounts to a final determination of the rights, and the only remedy is to seek monetary compensation from the right holder.

### F. General Analysis of the Rules

#### 1. An Analysis of the Nature of the Right Conferred by the Rules in Relation to Patents

As mentioned above, Section 48 of the Patents Act, 1970 confers on the patentee the exclusive right to prevent others from making, using, selling, offering for sale and importing for those purposes that product in India. It is pertinent to note that the exclusive right to prevent import is available only where the patented article is imported for the purposes of making, using, selling, and offering for sale of the goods in India. Though the right conferred by the Patents Act, 1970 is the right to "prevent" the infringing acts, the right to initiate legal proceedings for an action (*i.e.* cause of action) arises only when the right has been infringed. The Patents Act, 1970 does not enable the patentee to file a suit for infringement of a patent under Section 104 of the Patents Act, 1970 on the basis that there is a likelihood of infringement.<sup>56</sup> Therefore, for instance, the right of the patentee to prevent import can be invoked and subsequently cause of action will arise only when the goods have been imported into India. Now, it is a well established

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<sup>56</sup> The patentee in such cases can bring a *quia timet action* against the defendant in cases where the plaintiff can prove an intention to infringe on part of the defendant. The appropriate remedy in cases of a threat or intent to infringe is the grant of an injunction in favour of the patentee (*See* Rohtas Industries v. Indian Hume Pipes, AIR 1954 Pat 492 at para 18; Thorley *et al.*, TERELL ON THE LAW OF PATENTS 567 (2006). However, such an action is not available under the statutory scheme and is the judicially created remedy.

principle under Indian customs law that import into India is said to be complete only when it is cleared by the customs administration and it enters the mass of goods in India.<sup>57</sup> Therefore, the cause of action to institute proceedings under Section 104 of the Patents Act, 1970 shall arise only when the goods have been cleared by the customs administration and it enters the mass of goods in India. In light of these conclusions, it is interesting to analyse the nature of the right conferred by the Rules.

In the author's opinion, the Rules create a right of the patentee to prevent "potential infringement" of the patent. This corresponds to the right to bring a "quia timet action" wherein the patentee can bring an action on the basis of a "threat of infringement". Such a right, though available earlier through judicial precedents,<sup>58</sup> was not conferred by any statutory instrument. Though this right existed earlier as well, the shift is significant since the right can be enforced at the level of the customs authority itself, without requiring the patentee to agitate the courts. The Rules, therefore, confer additional rights on the patentee beyond those conferred by the Patents Act, 1970, though such rights are essentially an extension of the right conferred by the patent.

An interesting enquiry at this stage is whether the importer can take the defence that the goods are being imported for the purposes of storage or for further export to another country, *i.e.*, where the goods are merely in transit. In such a case, the right of the right holder, as conferred by Section 48, is not even being potentially infringed (since the exclusive right to prevent import is available only where the import is for the purposes of making, using, selling, offering to sell the goods in India). However, the Rules do not provide any guidance as to the obligation of right holders to prove any such potential infringement of their rights. Due to the ambiguities in the definition of the "goods infringing intellectual property rights" highlighted above, it is impossible to answer this question with any certainty. If the Rules are interpreted according to the former interpretation suggested above<sup>59</sup> (without inserting the deeming provision), the Rules will certainly not be applicable. A similar conclusion would be achieved by application of the latter interpretation suggested above. However, if one adopts the definition as laid down in the WCO IPR Model Legislation, it is likely that the scope of the Rules may extend to goods in transit. The deeming provision, as provided in the WCO IPR Model Legislation, is as follows:

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<sup>57</sup> *Garden Silk Mills Ltd and Anr. v. Union of India and Ors.*, (1999) 8 S.C.C. 744 para 18; *Union of India and Ors. v. Apar Pvt. Ltd. and Ors.*, (1999) 6 S.C.C. 117 at paras 5- 7.

<sup>58</sup> *Rohtas Industries v. Indian Hume Pipes*, AIR 1954 Pat 492 at para. 18.

<sup>59</sup> *Supra* Section A-4 of Part II of this Note.

If such making, reproduction, use or putting into circulation of the goods took place outside the country the goods are deemed to be infringing if the acts would have constituted an infringement in the country had they been undertaken in the country.

The effect of such a provision on goods in transit may be understood by the following illustration. Let us assume a product “X” is patented in India but is not patented in Bangladesh or in Nepal. The product is manufactured in Bangladesh and is imported to India solely for purposes of being further exported to Nepal. Now, if the deeming provision is made applicable, the making of the product in Bangladesh would render the product to be “goods infringing intellectual property” since the act of making the goods in India would have constituted an infringement in India had the goods been made in India. Therefore, such goods in transit may also be detained on the basis that the goods are suspected to be “goods infringing intellectual property”. Such a result would be highly deleterious and would probably be unintended. It is hoped that on being asked to determine the scope of the Rules, the courts would tread carefully and would provide an appropriate interpretation to the Rules which would prevent the words “outside India” from being rendered otiose as well as carve out exceptions for goods in transit. That said, the most appropriate solution to the issue would be an amendment to the notification clarifying the position.

## 2. Analysing the Rules under Article 41 of TRIPS

From the above analysis of the Rules, it appears that the Rules are “TRIPS-plus” as far as the rights of the right holder are considered, but is significantly “TRIPS-minus” as far as the safeguards in TRIPS to protect the interests of the alleged infringer or the obligations of the right holders are concerned (For instance, see the reference above to Article 50 (a safeguard) and Article 52 (an obligation) of TRIPS). This severely disturbs the balance sought to be created by TRIPS between the interests of the right holder and those of the importer/alleged infringer. Article 41.2 of TRIPS requires that the procedures for the enforcement of intellectual property rights shall be *fair and equitable*. In the author’s opinion, this provision should be interpreted to impose a mandate (in view of the word “shall” occurring in Article 41.2) on member countries to ensure that the balance between the rights of the right holder and safeguards provided to the importer/alleged infringer or the obligations of the right holder is not disturbed. The above analysis of the Rules raises concerns as to whether the procedures contained therein can be considered to be “fair and equitable”, as mandated by Article 41.2 of TRIPS.

### 3. The Rules *vis-à-vis* Section 107A(b) of the Patents Act, 1970

Section 107A(b) of the Patents Act, 1970 introduces the concept of international exhaustion to the Indian patent system.<sup>60</sup> The section stipulates that the importation of patented products by any person from any person who is duly authorised under the law to produce and sell or distribute the product shall not be considered to be an act of infringement. Depending on the interpretation accorded by courts to this section, this section may become relevant in determining the scope of applicability of the Rules in patent matters. This section exempts the importer from liability under the patent regime if the products were produced, sold and distributed after due authorization of the law of the exporting country. Now, consider a situation where the product under question is not patented in the exporting country and, therefore, is produced, sold and distributed after due authorisation under the law of the exporting country. It may be argued that the term “patented product” refers to a product patented in India (this flows from the definition of “patented article” under Section 2(o) of the Patents Act, 1970) and, therefore, where the product is not patented in the exporting country, so long as the patentee complies with the other legal requirements in the exporting country, he may import the goods into India without being liable for patent infringement. If such an interpretation is accepted, such a provision shall have far reaching consequences on the scope of applicability of the Rules. In the alternative, it has been argued<sup>61</sup> that the section is inapplicable to cases where the product is not patented in the exporting country (and, therefore, the term “patented” refers to a patent in the exporting country). Admittedly, in such cases the relevance of Section 107A (b) shall be limited in relation to the Rules. It shall be interesting to watch the interplay between Section 107A (b) of the Patents Act, 1970 and the Rules as, if the former interpretation is adopted by courts, the scope of the application of the Rules may be restricted.

### 4. Presumption of Validity of Patents: A Strict “No-No” Under the Indian Law

The border enforcement of intellectual property laws under the Rules proceeds on the basis that the intellectual property right owned by the right holder is valid and the customs authority does not examine the validity of the intellectual property right before granting the registration of the notice. In cases involving trademarks, once granted, the trademark is presumed to be valid, with the original registration of the trade mark being *prima facie* evidence of the validity.<sup>62</sup> However,

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<sup>60</sup> Shamnad Basheer & Mrinalini Kochupillai, ‘Exhausting’ Patent Rights in India: Parallel Imports and TRIPS compliance, 13 J. INTELL. PROP. RTS. 486 (2008).

<sup>61</sup> *Id.* at 493.

<sup>62</sup> See Section 31 of the Trademarks Act, 1999.



the position is different for patents under the Indian patent law. Section 13(4) of the Patents Act, 1970, has been judicially interpreted by the Supreme Court of India,<sup>63</sup> as well as several High Courts,<sup>64</sup> to categorically deny any presumption of validity of a patent and the patentee is required to establish *prima facie* validity of patent in a patent infringement suit. It is improbable that the customs administration would examine issues of validity of patents before granting the registration of notice, especially where the Rules do not expressly require the right holder to prove validity of his right. (However, an implicit requirement may be read from the format of notice by the right holder wherein he is required to furnish proof of ownership and existence of a “valid” intellectual property right.) This question of presumption of validity becomes extremely relevant considering the number of patents which are invalidated after grant during infringement and revocation proceedings. Unfortunately, statistics relating to the number of patents invalidated during the revocation proceedings in India are unavailable. In the United States, however, studies reveal that nearly half of granted patents are invalidated during litigation.<sup>65</sup> This figure is disconcertingly high despite the fact that unlike India, there exists a presumption of validity of patents under the United States patent law.<sup>66</sup> Such a trend where granted patents are invalidated by courts at such a high rate suggests that the practice of enforcing rights of the patentee on the basis that the patent is valid and enforceable is a dangerous one.

The problem is compounded due to the lack of clarity regarding availability of the defense of patent invalidity in proceedings before customs authorities. Under the Patents Act, 1970, a defendant in an infringement suit can take a defence that the patent in suit is invalid on various grounds such as lack of novelty, inventive or utility (such a conclusion is based on a conjoint reading of Section 107 and Section 64 of the Patents Act, 1970). However, it is unclear whether similar defenses are available to the importer in proceedings before the customs administration. A purposive construction enabling the importers to take such defences shall be appropriate. This construction can be supported by reference the term “in breach of intellectual property laws” in Rule 2(a) of the Rules. It shall be apposite to conclude that an intellectual property law is “breached” only where none of the defenses available under the intellectual property law are applicable. In this regard, a “breach of a law” as a whole must be distinguished from the “infringement of a right” conferred under that law. However, these are merely proposed

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<sup>63</sup> Bishwanath Prasad v. Hindustan Metal Industries, (1979) 2 S.C.C. 511 at 521.

<sup>64</sup> J. Mitra and Co. Pvt. Ltd. v. Kesar Medicaments and Anr., 2008 (36) P.T.C. 568 (Del) at para 49; Standipack Private Ltd. and Ors. v. Oswal Trading Co. Ltd and Ors., 1999 P.T.C. (19) 479 (Del).

<sup>65</sup> Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 SW. U. L. REV. 326 (2008).

<sup>66</sup> The presumption of validity of patents under the United States Law is codified in Section 282 of Title 35 of the United States Code (35 U.S.C. § 282).

interpretations, and the scope of the importer's rights shall remain nebulous till they are judicially determined.

### III. ISSUES RAISED BY THE IMPLEMENTATION OF THE RULES: A CASE STUDY

#### A. *The Ram Kumar Patent Saga*

The implementation of the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007 has led to one of the most publicized intellectual property litigation in India, with the litigation emphasizing on the need to re-evaluate the Rules. This litigation involves a patent granted (Patent no. 214388 granted by the Chennai Patent Office) to Mr. Soma Sundaran Ram Kumar on a "Mobile telephone with a plurality of SIM cards allocated to different communication networks". Mr. Ram Kumar sought to enforce the patent rights against a number of multinational and national importers including Hansum India, Samsung and Micromax. The saga has involved multiplicity of litigation both before the customs authorities and before the Madras and the Delhi High Court, which are discussed in detail below.

Mr. Ram Kumar filed an application in the Chennai Patent office on March 4, 2002 containing 4 claims and 12 drawings and was allotted Patent Application No. 161/MAS/2002 which was granted in 2008. Mr. Ram Kumar, then filed an application under Rule 3 of the Intellectual Property Rights Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007. Mr. Ram Kumar filed an e-application on December 8, 2008 with the Officer of Commissioner of Customs under the Customs Notification No. 47/2000 read with Circular No. 41/2007 Customs Circular dated 29.10.2007 called the Instructions for Implementation of Intellectual Property (Imported Goods) Enforcement Rules, 2007. The Officer of Commissioner of Customs, Intellectual Property Cell on January 27, 2009 communicated to Mr. Ram Kumar that his notice has been registered and has been allotted UPRNo. A01674NMAA4PR.<sup>67</sup>

Subsequently, the patent rights of Mr. Ram Kumar were sought to be enforced by the suspension of clearance of goods imported by both small time importers and multinational corporations at the Mumbai and Chennai ports. Mr. Ram Kumar demanded royalty from the importers in exchange for permission to import the goods in the country.<sup>68</sup> While many of the smaller importers caved in and paid Mr. Ram Kumar "royalty" for obtaining "No Objection Certificates" to have their

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<sup>67</sup> <http://www.aswal.com/article.php#7> (last visited December 9, 2009).

<sup>68</sup> Rajesh Kurup, *Dual - SIM patent holder demands royalty*, BUSINESS STANDARD (Mumbai edition), March 13, 2009 available at <http://www.business-standard.com/india/news/dual-sim-patent-holder-demands-royalty/351708/> (last visited December 9, 2009).

consignments released by customs authorities, bigger players such as Samsung and Hansum refused to pay and challenged his claims before customs authorities.

The first course of litigation before the Indian Courts was with respect to the constitutionality of the Rules. Samsung filed a writ petition before the Delhi High Court challenging the constitutional validity of the Rules contending that the Rules are violative of Article 14. In this petition, Samsung raised the issue of lack of expertise of the Customs authorities. However, the petition had to be subsequently withdrawn for the lack of territorial jurisdiction.<sup>69</sup>

The second course of litigation was before the Madras High Court, wherein Mr. Ram Kumar sought a restraining order against manufacturers such as Samsung, Mirc Electronics and Spice Mobile, restraining them from manufacturing and selling multiple SIM holding mobile phones. The Madras High Court issued an ex-parte injunction, injuncting the said manufacturers from manufacturing and selling the infringing mobile phones in India. This stay was in operation till March 23, 2009 and was further extended to June 9, 2009.<sup>70</sup>

The third course of litigation was before the customs authorities and highlights the concerns on behalf of the importers. In May, 2009, after hearing the parties, the Mumbai Commissioner of Customs, held in favour of Samsung holding that the claim made by Mr. Ram Kumar was vexatious since the impugned goods are covered by prior art declared by him and are not infringing the patent granted to him. The claims related to dual SIM which allowed simultaneous communication *via* multiple headsets. In reaching this conclusion, the customs officer relied on a number of technical points of patent law such as unity of invention, the all elements rule, dependency of claims and file wrapper estoppel. Similarly, the Chennai customs authority upheld the contentions of Hansum India Ltd. holding that the claim 1 of Mr. Ram Kumar patent had limited scope. The customs authority held that from a plain reading of the above claim 1, it is apparent that a provision for a plurality of SIM cards, a plurality of SIM sockets, a plurality of headphone/earphone jacks or a plurality of bluetooth devices should be present in the mobile phones. The claims, therefore, were held not to be infringed by the cell phones manufactured by Hansum since these cell phones used a single headphone/earphone jack.<sup>71</sup> Similarly, the New Delhi customs authority, in an

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<sup>69</sup> Shamni Pande, *Double jeopardy*, BUSINESS TODAY, August 6, 2009, available at: [http://businesstoday.intoday.in/index.php?option=com\\_content&Itemid=1&task=view&id=12318&sectionid=47&issueid=63&page=archie](http://businesstoday.intoday.in/index.php?option=com_content&Itemid=1&task=view&id=12318&sectionid=47&issueid=63&page=archie) (last visited December 9, 2009).

<sup>70</sup> <http://www.indiaenews.com/business/20090430/194873.htm> (last visited December 9, 2009).

<sup>71</sup> Shamnad Basheer, *Ram Kumar Loses Before Indian Customs Authority*, <http://spicyipindia.blogspot.com/2009/05/ramkumar-loses-case-before-indian.html> (May 25, 2009) (last visited December 9, 2009).

order dated 8th June, 2009, by J.P. Kundu, the Assistant Commissioner of Customs, found that claim made by Mr. Ram Kumar was vexatious and the impugned goods were covered by the prior art declared by him. The customs authorities further ordered him to pay demurrage and warehousing charges.<sup>72</sup>

Against these orders of the customs authorities, Mr. Ram Kumar filed writ petition in the Madras High Court. In an interim order, the Madras order an *ex parte* stay of the customs orders. However, after a full hearing of the parties, the Court proceeded to hold in favour of the importers. The Court, dismissing the petition, held that the proper forum for the redressal was the Customs Appellate Tribunal, an authority envisaged as the appellate authority under the Customs Act, 1962. In view of such efficacious alternative remedy, the petition was dismissed.<sup>73</sup>

Therefore, at present, the orders of the Customs administration allowing the clearance of the goods from the Mumbai, Chennai and Delhi ports stand affirmed and, the stand of the importers has been upheld.

#### B. *Issues raised by the Series of Litigations*

##### 1. Vexatious Claims and the Potential for Abuse

The Ram Kumar saga has raised major concerns relating to border measures and the implementation of the IPR (Imported Goods) Enforcement Rules, 2007. As has been noted by the orders of the customs officials at Mumbai and Delhi, the claims made by Mr. Ram Kumar were vexatious and without merit. The vexatious nature of the claims was highlighted since multinational companies were able to dispute the claims before the customs authorities. However, a number of small manufacturers agreed to pay the royalty in order to obtain clearance of the goods at the customs level. Such instances indicate the potential for abuse posed by the implementation of the Rules. In future, the right holders in India may be encouraged to pursue such vexatious claims (claims lacking merit) hoping to derive royalty from small time manufacturers who do not possess the adequate resources to pursue litigation. It is suggested that the customs administration be empowered to award punitive damages in cases where the claims are found to be vexatious, frivolous or baseless.

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<sup>72</sup> Shamnad Basheer, *Ram Kumar Patent Case: New Delhi Customs Favours Samsung, Loses Before Indian Customs Authority*, <http://spicyipindia.blogspot.com/2009/06/ramkumar-patent-case-new-delhi-customs.html> (June 17, 2009) (last visited December 9, 2009).

<sup>73</sup> *Id.*

## 2. Multiplicity of Litigation

This case further highlights the multiplicity of litigation likely to arise from the implementation of these Rules. The claims relating to intellectual property can be pursued in a number of forums including the IPAB, the High Courts, the District Courts and the now customs authority in Delhi, Chennai and Mumbai. The likelihood of such multiple litigations is high in most matters under these Rules. This is due to the fact that litigants will often seek to claim that the impugned patents are invalid, giving rise to revocation proceedings. Therefore, it is strongly recommended that the Courts must adhere to the well-recognized concept of alternate efficacious remedy<sup>74</sup> in such cases and, the matters must be pursued only in recognized forums. Further, where issues such as revocation of the patent are pending before appropriate forums, matters before the customs authorities must be stayed till the revocation petition is disposed off.

## 3. Institutional Incompetence Highlighted

Finally, in the proceedings before the Mumbai customs authorities, issues such as unity of invention, the all elements rule, dependency of claims and file wrapper estoppel were raised and decided upon. It is to be noted that most matters involving patent infringement would raise such issues, and as noted earlier, it is doubtful as to whether customs authorities are competent to deal with such issues effectively and accurately. In fact, the customs authorities erred in determining the scope of the patent to include all dual SIM mobile phones. As was later determined, the mobile phones imported should not have been considered as “goods suspected to be goods infringing intellectual property rights” within the meaning of Rule 7 of the Rules since they never were covered by the scope of the patent. This significant error in determination of the scope of the claims of the patent again highlights the institutional incompetence of the customs authorities. If the authorities continue to exercise powers in patent infringement matters, genuine products (not infringing any intellectual property right) may be detained due to errors by Customs authorities.

## 4. Patent Licensing Issues

The Ram Kumar litigation has also revealed another flaw in the practice of the Customs administration with respect to imported goods. The small importers

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<sup>74</sup> The principle of efficacious alternate remedy provides that where an alternate remedy is available, which is equally adequate and efficacious, a court may refuse to exercise its discretionary jurisdiction. This principle has been applied by the Indian courts in matters pertaining to exercise of writ jurisdiction as well as supervisory jurisdiction. (For information on alternative remedies and exhaustion of remedies see JAIN & JAIN, *supra* note 46, at 480.

whose goods were detained agreed to pay “royalty” to Mr. Ram Kumar for obtaining a “No Objection Certificate” on the basis of which the goods were cleared by the Customs Administration. The scope of such certificates is, however, unclear inasmuch the question as to whether the patentee who has “no-objection” to the goods being cleared by Customs has licensed the importer to make, use, sell or offer for sale such goods in India remains open. If such a certificate is to be construed as a “license” under the Patents Act, 1970 a registration of such license is essential for its admission as evidence before the Controller or a court. In absence of such a registration, the patentee may again bring infringement action against the importer for infringing his exclusive rights under Section 48 of the Patents Act, 1970.<sup>75</sup>

#### IV. CONCLUSION AND RECOMMENDATIONS

The minimum level of protection provided by the TRIPS Agreement is no longer viewed as adequate to fight the current cross-border traffic in counterfeit and pirated goods.<sup>76</sup> In order to strengthen the border measures for intellectual property protection, the Government of India notified the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007. These Rules empower the Customs authorities to seize and detain goods suspected to be goods infringing intellectual property and greatly enhances the level of protection to right holders. However, the implementation of these rules offers huge potential for abuse since they lack sufficient safeguards to protect the interests of importers. The Ram Kumar saga has emphasized on the propensity for abuse, wherein the importers had to be involved in multiple litigations in order to obtain clearance for their goods. Further, since the Customs authorities lack the requisite expertise to deal with complex matters relating to intellectual property infringement, it is likely that the decisions will tend to be arbitrary and inaccurate.

On a strategic note, given that India is planning to challenge EC Customs regulations in relation to seizure of “in transit” consignments,<sup>77</sup> it is essential that the Government re-examines its own customs regulations and amends them to obtain fairer and more equitable results. An overall analysis of the Rules indicates that the procedures laid down therein do not satisfy the mandate of Article 41.2 of

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<sup>75</sup> An argument regarding the validity of the no – objection certificates was raised by Hansim India in their reply letter to the Chief Commissioner of Customs, Chennai in relation to the suspension of the clearance of their goods at the Chennai port. The reply letter is available at <http://spicyip.com/docs/our-reply-to-customs.pdf> (last visited December 9, 2009).

<sup>76</sup> Henning Grosse Ruse – Khan, *Time for a Paradigm Shift? Exploring Maximum Standards in Intellectual Property Protection*, 1(1) TRADE L. & DEV. 56 (2009) at 60.

<sup>77</sup> See Shashank P. Kumar, *European Border Measures and Trade in Generic Pharmaceuticals: Issues of TRIPs, Doha Declaration and Public Health*, 15(6) INT'L TRADE L. & REG. 176 (2009).

the TRIPS insofar as that they are not “fair and equitable”. It would be appropriate for India to introduce significant amendments to the Rules with respect to the following issues:

1. Definition of “intellectual property law” and “intellectual property” under Rule 2: A number of concerns raised by this comment stem from the fact that the Rules seek to introduce border measures with respect to patents. Therefore, limiting the scope of the Rules to “counterfeit trademark goods” and “pirated copyright goods”, in accordance with the TRIPS mandate, would be most appropriate.
2. Definition of “goods infringing intellectual property” under Rule 2: The determination of the intended scope of the definition of “goods infringing intellectual property” is tricky and complicated especially due to the use of the term “in India or outside India”. The definition needs amendment which would ensure that the infringement analysis is conducted on the basis of the law of the importation country. Further, the definition may include a deeming provision such as the one contained in the WCO IPR Model legislation. However, a proviso must be incorporated to the effect that the deeming provision must be made applicable only if the goods are intended for internal circulation in India.
3. Reasonable time limit for disposal of proceedings: The Rules must be amended to incorporate a requirement that the proceedings before the customs administration (after the suspension of clearance of the goods) must be disposed off in a reasonable time period. Such a requirement is essential to maintain the spirit of the rule of *audi alteram partem*.
4. Requirement of establishing *prima facie* case: The right holders must be required to establish a *prima facie* case both with respect to the validity of the patent and with respect to the infringing nature of the specific consignment of goods. This is essential in order to ensure that the customs administration is not unduly burdened with the task of determining the validity of the patent and determining whether a particular consignment is infringing or not. Further, a requirement of proof of *prima facie* validity is necessary in order to comply with the well established principle of patent law in India that there is no presumption of validity of patents in India.
5. Institutional incompetence of customs authorities: With the greatest respect to the ability of the customs authorities, it is submitted that the Indian customs authorities at present lack the technical expertise to handle complex issues such as those involved in patent infringement. The

customs administration must establish a separate cell which comprises of experienced in the field of intellectual property. A composition similar to the one of the Intellectual Property Appellate Board shall be appropriate to handle the wide array of intellectual property matters. In the alternative, the Rules can be amended to divest the customs authority with the adjudicatory function and confining their power to seize or dispose the goods contingent on a court order obtained in legal proceedings initiated by the importer.

6. Reducing vexatious claims: The Rules must incorporate provisions empowering the Customs authorities to award punitive damages in cases where the claim of the right holder is found to be frivolous, vexatious or baseless.

The incorporation of such amendments shall go a long way in establishing a fair and equitable procedure with respect to border measures enforcement for intellectual property rights in India.