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Local working requirements and enforceability of patents: an Indian perspective of challenges and opportunities surrounding a granted patent

Generally, 'local working' refers to the conditions imposed by some countries on patentees that their patented product or process must be used or produced in the patent-granting country. It is also known as commercial working (or exploitation) of a patent in a country.

With regards to the enforceability of patents in India, it is crucial to note that since the advent of a pharmaceutical patent regime in 2005, the number of patent litigations in India has witnessed a rapid increase. However, courts have not yet reached a level wherein the correct standards for the grant (or non-grant) of an injunction or a restraining order may be determined.

This article will provide a basic overview regarding local working requirements of granted patents in India in light of recent developments, and a brief analysis of enforceability of patents in India.

Development of the intellectual property regime

Historically, the intellectual property regime of a country was based on the fundamental principle that it promotes the progress of science, innovation and useful arts. Additionally, patent rights are the strongest rights among all of the intellectual

property rights as it gives an exclusive right to make, sell or use the subject matter of the patent through its term of protection. Conventionally, patents were granted to promote transfer of technology, especially the domestic application of foreign technologies and dissemination of new technologies in the country granting such patents. Local working requirements and compulsory licences enable the countries granting patents to force foreign patentees to transfer technology in these countries.

International agreements have played a crucial role in developing the intellectual property regime of various countries. As it is well known, the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is an international agreement administered by the World Trade Organization (WTO) that sets down minimum standards for many forms of intellectual property (IP) regulation as applied to nationals of other WTO members.

Specifically, Article 27(1) of the TRIPS states that the patents shall be available and patent rights enjoyable without any discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. Hence, it may be argued that Article 27(1) of the TRIPS precludes the member countries

from making any laws mandating the local working of the patents.

Additionally, it is important to read Article 27(1) of the TRIPS with Articles 2, 7, 8 and 30 of the TRIPS to understand the full purport of the TRIPS agreement. Article 7 of the TRIPS sets out the objectives of the TRIPS agreement, stating that the protection and enforcement of intellectual property rights should result in the promotion of technological innovation and technology transfer. It further states that such technology transfer and dissemination should be for the mutual advantage of producers and users in a manner beneficial to their social and economic welfare, and should create a balance of rights and obligations. Therefore, it may be adequately said that Article 7 recognises both the private interest of the patent holder and public interest in the transfer or dissemination of technology and creation of a balance of rights and obligations.

Furthermore, Article 8(1) of the TRIPS allows member countries to adopt measures necessary to promote the public interest in sectors of vital importance to their socio-economic and technological development. Similarly, Article 8(2) of the TRIPS recommends member countries to adopt measures that prevent the abuse of intellectual property rights by right-holders as well as stopping them from resorting to practices which may unreasonably restrain trade or adversely affect the international transfer of technology. TRIPS also provides for exceptions to exclusive rights under Article 30 of the TRIPS agreement which allows member states to provide limited exceptions to exclusive rights conferred by patents. However, such exceptions should not unreasonably conflict with a normal exploitation of the patent and should not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

Consequently, as is evident from above, it is clear that Articles 7, 8 and 30 restrict the operation of Article 27(1) of the TRIPS. However, in order to avoid any ambiguity when interpreting Article 27(1), Article 2 becomes vital as it makes the Paris Convention part of TRIPS and provides for compliance of the Paris Convention with respect to all member states.

In addition to TRIPS, the Paris Convention for the Protection of Industrial Property (the Paris Convention), signed in Paris, France, on 20 March 1883, was one of the first

intellectual property treaties. Article 5(A) of the Paris Convention deals with the working of patent and the grant of compulsory licences. It provides that importation of the patented articles should not result in forfeiture of the patent. This provision is similar to Article 27(1) of the TRIPS agreement providing for import of patented products.

Moreover, Article 5(A)(2) provides that each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licences to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work. Article 8 of the TRIPS also talks about the abuse of intellectual property rights by right holders or resorting to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

Conversely, Article 5(A) further provides that the Convention countries have the right to make laws providing for the grant of compulsory licences in the case of the non-working of a patent. It is worthwhile to consider that the Paris Convention clearly stipulates that a patent cannot be revoked unless the grant of compulsory licences was not sufficient to work the patent, whereby making the grant of compulsory licence as a precondition to the revocation of the patent on grounds of non-working. Article 5(A)(3) of the Paris Convention also states that no proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory licence.

In addition to the above, Article 5(A)(4) of the Paris Convention states that a compulsory licence may not be applied for on the grounds of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last. It further provides that such an application shall be refused if the patentee justifies their inaction with legitimate reasons.

Henceforth, it is reasonable to conclude that the legislation requiring local working of patents would not be in contravention of TRIPS in light of Articles 7, 8 and 30 and the explicit reference to the Paris Convention under Article 2 of TRIPS.

Local working of patents: the Indian perspective

The Indian Patent Act, 1970, in accordance with TRIPS, enlists various provisions relating to the local working requirement of the patent. In simpler terms, the Indian patent law imposes an obligation on the patentee and patent licensees to disclose information relating to the working of their patents in India.

More recently, the Controller General of Patents (the 'Controller') has, by notification dated 24 December 2009, made it mandatory for all the patentees or patent licensees to submit information regarding the commercial working of the patent in India. It should be noted that this requirement for the submission of information about the commercial working of the patent under section 146 is not new, but is only brought to public attention by the Controller.

In accordance with section 146(1) of the Indian Patents Act, the Controller has the power to call for information or periodical statements as to the extent to which the patented invention has been commercially worked in India from a patentee or patent licensees. The patentee or the patent licensee is required to furnish such information to the Controller within two months from the date of such notice or such further period as the Controller may allow.

Additionally, section 146(2) of the Act, read with rule 131(2) of The Patent Rules 2003, provides that every patentee and patent licensee should furnish the details of the workings of the patented invention in Form 27 in respect of every calendar year within three months of the end of each year. Generally, a patentee or patent licensee can file such information for a given calendar year by, at the latest, 31 March of the following year.

Interestingly, even if the patent is commercially not worked in India, the patentee or patent licensee is required to explain the reasons for not working and the steps being taken regarding the working of the invention. On a similar note, in case patented products are imported, details are required regarding the country from which it is being imported.

In addition to the above, the Indian Patents Act also provides for punitive actions for non-compliance with regards to local working requirements, including not completing Form 27 or providing false information. More specifically, section 122(1) of the Indian Patents Act provides a fine of up to ten lakh rupees if any person refuses or fails to provide information under Form 27. Also, section 122(2) provides that if

any person furnishes information or a statement which is false, and which they either know or have reason to believe to be false or do not believe to be true, they shall be punished with up to six months imprisonment or a fine, or potentially both.

Hence, it may be appropriate to summarise that the information sought under section 146 is aimed at keeping the Controller updated about the commercial status of a patent. Non-working of a patent is one of the core grounds for seeking the grant of a compulsory licence under India's patent law.

Compulsory licensing and revocation of patents in India

Compulsory licensing allows a government to license to a company, government agency or other party, the right to use a patent without the titleholder's consent. A competent authority must grant the licence to a designated person or company who is expected to compensate the titleholder by paying a determined remuneration. Though different countries have adopted different standards for granting the compulsory licences, one of the most important uses of compulsory licenses is as a remedy for patent-holder abuses such as non-working, artificially created high prices or 'exclusive grant back'.

In India, section 84(1) of the Patent Act, 1970 allows any interested person after the expiry of three years from the grant of the patent, even if they are a licensee under the patent, to make an application to the Controller for grant of a compulsory licence on the patent on one or more grounds, which may include the argument 'that the patented invention is not worked in the territory of India'. If the requirements specified under section 84(1) are not fulfilled, the Controller may grant a compulsory licence to any interested person for the non-working of a patent in India.

However, section 84(6) provides that the Controller shall take into account several factors while deciding on an application for a compulsory licence. These include:

- the nature of the invention;
- time elapsed;
- the measures taken by the patentee or patent licensee to use the invention;
- the ability and capacity of the applicant to work the invention to the public advantage; and
- the efforts made by the applicant in obtaining a voluntary licence on reasonable terms from the patentee.

While granting a compulsory licence, a reasonable royalty is also paid to the patentee having regard to the nature of the invention, its utility, expenses incurred in maintaining the patent grant in India and other factors. However, in cases of national emergency, extreme urgency, public non-commercial use or anti-competitive practices, these are not applicable.

Moreover, section 84(1) of the Patent Act, 1970 enlists the various circumstances which constitute 'failure to meet the reasonable requirements' of the public in respect of a patent, such as non-working of the patent in India on a commercial scale.

Revocation of a patent

In accordance with the provisions of the Indian Patents Act, the Controller may make an order to revoke a patent for non-working or if the reasonable requirements of the public are not met after the grant of a compulsory licence. As per section 85 of the Patents Act, where, in respect of a patent a compulsory licence has been granted, the central government or any person interested may, after the expiration of two years from the date of the order granting the first compulsory licence, apply to the Controller for an order revoking the patent on the ground that

- the patented invention has not been worked in the territory of India
- that the reasonable requirements of the public with respect to the patented invention have not been satisfied
- that the patented invention is not available to the public at a reasonably affordable price. It is crucial to observe that such an application for revocation of a patent should be decided by the Controller within one year.

Factually, the term 'working' or 'local working' has not been defined under the Act. However, sections 83(a), 83(b) and 85(7)(e) refer to the working of a patent in India and thus assist in the interpretation of the term 'working' in India.

As mentioned in section 83, various general principles are applicable to the working of patented inventions in India, which are analogous to Article 7 and 8 of the TRIPS agreement. Section 83(a) specifically states that the patents are granted to encourage inventions and to ensure that the inventions are worked in India on a commercial scale and to the fullest extent that is reasonably

practicable without undue delay. Further, section 83(b) clearly states that the patents are not granted merely to enable the patentees or patent licensees to enjoy the monopoly for importation of the patented article. Section 83(c) and section 83(f) also mention the promotion of technology innovation, technology transfer and the prevention of abuse of patent rights to unreasonably restrain international transfer of technology. Interestingly, section 83 of the Act is merely a guiding principle and is not binding. However, this provision helps in interpreting the local working requirements under the Indian Patent Act.

In stark contrast, section 85(7)(d) states that the reasonable requirement of the public is deemed to have not been met when the patented invention is not worked in the territory of India on a commercial scale to an adequate extent or is reasonably practicable. Further, section 85(7)(e) states that the reasonable requirement of the public is deemed to have not been met when the working of the patented invention in the territory of India on a commercial scale is being prevented or hindered by the importation from abroad of the patented article by the patentee or patent licensees.

Therefore, it shall be appropriate to conclude that 'local working' means that the patented product has been manufactured to some extent in India. On the other hand, if the product is only imported into India, it may become subject to a compulsory licence.

Enforceability of patents: the Indian scenario

As is common in other major jurisdictions, the first pre-requisite to be satisfied for the grant of a temporary injunction is the establishment of a prima facie case. One of the leading Indian cases on this point is *Wander v Antox (Wander Ltd v Antox India Pvt Ltd, 1990 Supp (1) SCC 727)*, wherein the Supreme Court stated that: 'the prayer for grant of an interlocutory injunction is at a stage when the existence of the legal right asserted by the plaintiff and its alleged violation are both contested and uncertain and remain uncertain until they are established at the trial on evidence. The Court, at this stage, acts on certain well settled principles of administration of this form of interlocutory remedy which is both temporary and discretionary.'

Subsequently, the Court then moved on straightaway to assess irreparable injury and

balance of convenience. Further, the Court in this case actually went on to determine that a prima facie case was not established by the plaintiff.

However, in *Dalpat Kumar v Prahlad (Dalpat Kumar v Prahlad Singh, AIR 1993 SC 276)*, the Court used the term 'prima facie' but then went on to say that what has to be seen is the 'probability' of the plaintiff succeeding at the final hearing; the judges noted that the grant of an injunction is subject to the court satisfying that '... there is a serious disputed question to be tried in the suit and that an act, on the facts before the Court, there is probability of his being entitled to the relief asked for by the plaintiff/defendant.'

More recently, the Supreme Court has now proposed in *TVS v Bajaj* that there should be a deviation from existing standards in that there be no 'interim' phase at all, as a result of which, investigating the proper standard for prima facie becomes practically redundant.

TVS v Bajaj

A suit was filed by Bajaj Auto Ltd (the second largest automobile manufacturer in India) before a single judge of the Madras High Court alleging infringement of its Patent No 195904 by TVS Motor Company Ltd (the third largest automobile manufacturer in India) under section 108 of the Indian Patents Act. The technology patented by Bajaj Auto is popularly known as the 'DTS-i-Technology'. TVS Auto also filed an application for revocation of Patent No 195904 before the Indian Patents Appellate Board under section 64 of the Indian Patents Act. Pending the suit, Bajaj Auto Ltd requested an order of temporary injunction before the single judge of the Madras High Court to restrain TVS Motor Company from infringing Bajaj Auto's patent. The judge granted the injunction which was subsequently disallowed by a Division Bench of the same High Court. Bajaj Auto Ltd appealed against this order of the Division Bench. A Division Bench of the Supreme Court deciding the appeal upheld the order of the Division Bench disallowing the injunction against TVS Motor Company.

Factual background of the case

Patent No 195904 relates to the use of twin spark plugs for efficient combustion of a lean air fuel mixture in a small bore ranging from a 45mm to 70mm internal combustion engine working on a four stroke principle with twin

spark plug configuration and two valves. The motorbike launched by TVS Motor Company, called 'FLAME', is powered by a lean burn internal combustion engine of a bore size 54.5mm with a twin spark plug configuration and three valves.

US Patent No 4534322 dated 13 August 1985, or the 'US Honda Patent', also employs twin spark plugs and three valves but does not specify the diameter of the bore. There is also a complete specification No 678-2001, dated 17 July 2001, of a Japanese corporation claiming a four stroke engine with plurality of ignition plugs exposed to the same combustion chamber, stating that it can be applied widely to any engine (without any restriction to the size of the bore). TVS Motor Company has alleged that the US Honda Patent and the Japanese patent constitute prior art with respect to Patent No 195904. TVS Motor Company also claims that the engine used in its motorcycle is the result of a Technical Collaboration Agreement with AVL, Austria. AVL holds Patent No 196636 with respect to its three valves, twin plug engine with a small bore diameter. Bajaj Auto however claims that its patent is an improvement over the Honda Patent and the Japanese specification as its patent specifically deals with an engine of a small bore diameter. Bajaj Auto also alleged that the third valve in TVS Motor Company's engine was merely of ornamental value.

Order of the single judge of the Madras High Court

The provisional specification of the Bajaj patent was plug-centric and was subsequently amended to a valve-centric specification in the complete specification. The order held that this amounts merely to giving more construction. The technical reasoning provided by the Court, which led to the above conclusion, raised some reasonable doubts with respect to the appropriateness of a judicial body (lacking experts in the technical field) deciding patentability based on technical aspects of the invention.

Surprisingly, the order failed to consider patent No 196636 (granted to AVL) which has been licensed by TVS Motor Company. The judge failed to consult any expert or a person skilled in the art and arrived at the conclusion based on the economic significance and the economic success of the Bajaj DTS-i-technology and the conduct of TVS Motor Company. The order also lacked consistency in approach and

restricted itself to quoting from judgments and fails to explain the applicability of the ratio of the judgment to the present situation.

Order of the Division Bench of the Madras High Court

Thereafter, the Division Bench prima facie upheld the validity of the Bajaj patent, and after noting the differences between the Bajaj patent and the internal combustion engine of the TVS motorcycle, the Court noted that there is no prima facie infringement. The order further noted that the TVS engine had three valves, whereby the two intake valves provided for a combined air fuel mixture of swirl and tumble action and the third valve was an exhaust valve. The judges thus noted the significance of the third valve in the TVS engine and differentiated it from the Bajaj patent with two valves. The order noted the significance of Patent No 196636 held by AVL and licensed by TVS Motors and upholds its prima facie validity. The judges had engaged in extensive technical reasoning to arrive at the above mentioned prima facie conclusions.

Order of the Supreme Court

Justice Markandey Katju began by expressing his unhappiness at the fact that the original matter had been pending before the single judge in the Madras High Court since December 2007 and not even a written statement had been filed to date. This demonstrated that parties to litigation in patent infringement cases gave more importance to the decision at the interim stage than the final outcome of the case.

Thereafter, the Court noted the case of *Shree Vardhman Rice & Gen Mills v Amar Singh Chawalwala*, where it was ruled that:

‘Without going into the merits of the controversy, we are of the opinion that the matters relating to trademarks, copyrights and patents should be finally decided very expeditiously by the Trial Court instead of merely granting or refusing to grant injunction. Experience shows that in matters of trademarks, copyrights and patents, litigation is mainly fought between the parties about the temporary injunction and that goes on for years and years and the result is that the suit is hardly decided finally. This is not proper.’

Additionally, the Court made a reference to Proviso (a) to Order XVII Rule 1(2) of

the Civil Procedure Code and pointed out that it should be strictly complied with by all courts while dealing with matters relating to trademarks, copyright and patents. The Court said that the hearing of suits with respect to the abovementioned matters should proceed on a day to day basis and that the final judgment should normally be given within four months from the date of filing of the suit. The judgment further directed all courts and tribunals to follow the order to expedite proceedings punctually and faithfully.

To summarise, in order to obtain an interim injunction from an Indian court, a plaintiff has to establish that:

- a prima facie case against the defendant;
- that if an injunction is not granted, the plaintiff would face irreparable damages; and
- that the balance of convenience is in favour of the plaintiff, as opposed to the defendant.

Under normal circumstances, any challenge to the validity of a patent at the stage of an interim injunction application ought to fall within the first category above, ie, the existence or otherwise of a prima facie case in favour of the patentee. Specifically in the context of patent disputes, a prima facie assessment may be categorised into two parts: the first part relates to a prima facie assessment of the validity of the patent, wherein any substantial and credible attack against the validity of the patent may lead to an inference that the plaintiff has failed to establish a prima facie case; and the second part relates to a prima facie assessment of infringement.

Conclusion

In light of the above-discussed enforcement scenario, India may experience an increasing practice of voluntary licensing as various provisions in the Patents Act for the working of a patent in India such as compulsory licence provisions, government-use provisions, provisions for both pre-grant and post-grant oppositions and multiple grounds for revocation of a patent in India are likely to create an atmosphere of conciliation, compromise and co-working rather than confrontation. Needless to say, improving IPR protection is an important element for increasing and making the climate in India more attractive to private investment.