Remfry's Letter from India and China

INTELLECTUAL PROPERTY
CORPORATE LAW

Issue 22 February, 2009

AT A GLANCE

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India bid farewell to the year gone by with mixed emotions. While the successful conclusion of the controversial bi-lateral agreement for nuclear commerce with the U.S.A., medallions at the Olympics and its first unmanned mission to the moon filled the hearts of Indians with feelings of triumph, the mindless acts of terrorism at Mumbai towards the end of the year dampened celebrations. Nevertheless, with the renewed resolve to never give in, India warmly welcomes the New Year and is set to meet all challenges.

The last year was significant for Remfry, which entered its 182nd year of existence and its China office turned two. Remfry also expanded its presence in India with the opening of a new office at Chennai. We, in the latest issue of our newsletter, bring to you landmark cases in the field of Intellectual Property, changes in the Foreign Direct Investment Policy and as promised, updates from the young but fast evolving legal system in China. As always, our endeavour is to make each issue enjoyable and informative.

HARRY POTTER VS. HARI PUTTAR– WITH A WAVE OF THE GAVEL

Warner Bros. Entertainment Inc. and Anr. Vs. Harinder Kohli and Ors. – one of the most talked about trade mark litigations in the past year – the Hon'ble High Court of Delhi rejected the Plaintiffs' plea for injuncting the screening of 'Hari Puttar', a movie in Hindi/Punjabi on the basis of the trade mark 'HARRY POTTER'. 'Hari' is a common Indian first name whereas the word 'Puttar' literally means 'son' in Punjabi, a popular language common to Northern India and Pakistan.

The Hon'ble Court held that even assuming there is any structural or phonetic similarity in the words 'HARRY POTTER' and 'Hari Puttar', what has to be borne in mind is that the 'HARRY POTTER' films are targeted to meet the needs of an elite and exclusive audience, cognoscenti and an audience able to discern the difference between a film based on 'HARRY POTTER' books on the one hand and the film 'Hari Puttar', which is a Punjabi comedy, on the other. Further, it observed that it is not the case of a consumer good or product, which stands on an entirely different footing. Necessarily, the yardstick must also differ, bearing in mind the fact that a consumer product such as a soap or even a pharmaceutical product may be purchased by an unwary purchaser or even an illiterate one, but the possibility of an unlettered audience viewing a 'HARRY POTTER' movie is remote.

An illiterate or semi-literate movie viewer, in case he ventures to see a film by the name of 'Hari Puttar', would never be able to relate the same with a 'HARRY POTTER' film or book. Conversely, an educated person who has pored over or even browsed through a book on 'HARRY POTTER' or viewed a 'HARRY POTTER' film, is not likely to be misled.

ALTERNATIVE MEDICINE

In ***Wyeth Holdings Corporation & Anr. v. Burnet Pharmaceuticals (Pvt.) Ltd.,*** the issue in debate was whether there is any need to apply strict standards in matters of infringement and passing off involving pharmaceutical products having same compositions. The Hon'ble High Court of Bombay held that a less than strict standard cannot be applied on the hypothesis that the ailment which the drug is intended to treat is not life threatening or that the composition is the same and the confusion caused by mistaking one for the other would not result in a danger to health. It opined that a manufacturer builds up a reputation for quality and standards and an established mark assures to the consumer that the medicine which he has purchased is of a requisite quality.

Well Known Marks – Scope Extended

Recently the Hon'ble High Court of Delhi in ***Ford Motor Company of Canada and Anr. v/s Ford Service Centre*** while adjudicating a dispute between a well-known automobile manufacturer and an entity engaged in the vending of petrol and diesel expanded the scope of section 29(5) of the Trade Marks Act, 1999 (hereinafter referred to as the Act). As per the literal reading of the said provision, a registered proprietor is entitled to the statutory remedy of infringement against a person using the registered trade mark as a part of the trade name/ trading style of its business concern, only if the said business concern is dealing in goods or services in respect of which the trade mark is registered.

It was held that confining infringement to the scenario mentioned above would be contrary to the objects and reasons of the enactment. In effect, the Hon'ble Court has extended the ambit of the said provision of the Act for well-known trade marks to all goods/services, whether covered by the trade mark registration or not.

FOREIGN DIRECT INVESTMENT – THE EVOLUTION

Today, India is one of the world's favourite investment destinations. On account of continuous development and liberalization of the Foreign Direct Investment ("FDI") Policy ("the Policy"), there has been a significant increase in the FDI inflow and so far (till September 2008), India has received a total of USD 96,425 million. The year 2008 has been more promising than ever before as the total inflow from January to September 2008 reached USD 29,090 million, a growth of approximately 112% as compared to the corresponding period in the previous year.

The Policy has been reviewed and amended regularly in order to cope with the requirements of the changing times. Substantial changes which have been made in the recent past vis-à-vis various sectors of significance are detailed as under.

CREDIT INFORMATION COMPANIES: Equity investment up to 49% is allowed in this sector, subject to the prior approval of the Government and adherence to certain conditions.

COMMODITY EXCHANGES: FDI up to an equity cap of 49% (26% FDI+23% FII i.e. Foreign Institutional Investors) is permissible subject to adherence to certain conditions and prior FIPB approval.

PETROLEUM AND NATURAL GAS: FDI up to 100% was permitted under the 'automatic route' (without any Government Approval) in exploration, petroleum product marketing, petroleum product pipelines, natural gas/LNG pipelines and petroleum refining in the private sector. FDI up to 26% was permitted with prior Government approval in petroleum refining by Public Sector Undertakings (PSUs). In the case of actual trading and marketing of petroleum products, FDI was allowed up to 100% under the 'automatic route' with the condition that 26% foreign equity would be disinvested in favour of the Indian partner/public within a period of five years.

The Government has further liberalized the Policy for this sector as a result of which the condition of compulsory disinvestment has been done away with. Further, the FDI cap in petroleum refining (by PSUs) has been raised from 26% to 49%.

MINING OF TITANIUM BEARING MINERALS/ORES: FDI cap has been raised from 74% to 100% subject to prior Government approval and adherence of certain prescribed guidelines.

DRUGS AND PHARMACEUTICALS: FDI up to 100% under the 'automatic route' has been permitted in the field of "manufacturing of drugs and pharmaceuticals" including those involving use of recombinant DNA technology.

CONSTRUCTION DEVELOPMENT PROJECTS: It has been clarified that FDI in 'real estate business' is not permissible. Subject to adherence to certain conditions, 100 % FDI under the 'automatic route' is however, permissible in construction development projects which include housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure and townships since such activities do not fall within 'real estate business'.

INVESTING COMPANIES IN INFRASTRUCTURE/SERVICES SECTOR: For investing companies in infrastructure/services sector (except telecom sector), the FDI cap has been increased from 49% to 100%, subject to prior Government approval and adherence to certain prescribed conditions.

PATENTS- NOTEWORTHY DECISIONS

The Novartis Case: Further Developments

Pursuant to the notification dated April 2, 2007 issued by the Central Government, the Intellectual Property Appellate Board (IPAB) became functional for handling patent matters. In view of the aforesaid notification, Novartis' 'Glivec' case pending before the Hon'ble High Court of Madras, was transferred to the IPAB. Novartis challenged the constitution of the Bench by moving an application before the IPAB for removal of Mr. S. Chandrasekaran as a technical member of the Bench as he had deposed an affidavit in the same proceedings thereby taking a stand in the matter. Accordingly, if Mr. S. Chandrasekaran would have continued to be the technical member, the same would have been against the principle of "*Nemo debet esse judex in propria causa*" (no one should be a judge in his own cause). The IPAB dismissed the application filed by Novartis. The said order, challenged by Novartis, was reversed by the Hon'ble High Court of Madras. Against the said order, Natco, a pharmaceutical company and one of the respondents before the Hon'ble High Court of Madras approached the Hon'ble Supreme Court of India by filing a Special Leave Petition.

The issue before the Apex Court was whether or not it is necessary to have a technical member with requisite qualification in the Bench of the IPAB.

The Apex Court observed the following:

> *"It is under these peculiar facts and circumstances of the case and, particularly, in view of the fact that the controversy involved before IPAB is concerning crystal*

modification of a N-Phenyl-2-Pyrimidineamine derivative and since the dispute is regarding patentability of the process as well as the product that we are of the view that such complicated disputes need to be resolved by IPAB which must have a Technical Member in it.

From the list submitted to us, we have opted for the name of Dr. P.C. Chakraborti, Deputy Controller of Patents & Designs, who holds post-graduate degree of M.Sc. (Chemistry) as well as Ph.D."

With the reconstituted Board, Novartis's appeals on merits have been heard and orders have been reserved thereon.

Bayer Corporation & Anr. Vs Union of India & Ors. – This is the first case in India wherein the issue of Patent linkage has been highlighted. Bayer was granted a patent for Nexavar and its active ingredient 'sorafinib tosylate' on March 3, 2008. Prior to the grant, it had received marketing authorization therefor from the Drug Controller General of India (DCGI) in August 2007, for the treatment of advanced Renal Cell Carcinoma (RCC), or kidney cancer, and for the treatment of Hepato Cellular Carcinoma (HCC), or liver cancer. Bayer became aware that Cipla Ltd. has also filed an application for the grant of marketing approval for the same product, 'sorafinib tosylate', before the DCGI.

On November 1, 2008, Bayer Corporation and its subsidiary Bayer Polychem (India) Ltd. filed a writ petition with the Hon'ble High Court of Delhi, seeking a Court order to restrain the DCGI from granting Cipla Ltd. market authorization to bring a spurious version of Nexavar to the market in India.

On November 7, 2008, the Hon'ble High Court of Delhi granted an *ex-parte* injunction and directed the DCGI to not give marketing authorization to Cipla Ltd. On December 18, 2008, the Hon'ble High Court of Delhi continued the injunction originally granted. While it is pertinent to note that the Hon'ble Court appreciated the necessity of protecting patent rights even if the impugned product was not in the Indian market, this decision has stirred up controversy on account of the fact that it establishes a link between patent and drug regulatory laws.

In ***F. Hoffmann-La Roche Ltd. and Anr. Vs Cipla Limited*** the Plaintiff/Patentee approached the Hon'ble High Court of Delhi by filing a suit for infringement of its patent for the anti cancer drug 'Tarceva' against Cipla. At the interlocutory stage, the question before the Court in the pending suit was whether the Plaintiff had been able to make out a *prima facie* case of infringement for grant of interim injunction against the Defendant.

The Court while refusing the grant of *interim* injunction to the Plaintiff directed the Defendant to:

i) Furnish an undertaking executed by a competent person to pay damages in the event of the suit being decreed, regardless of change in the Defendant's composition;

ii) Maintain faithful accounts of sale of the product in question; to file quarterly accounts in the Court, supported by an affidavit of one of its Directors, affirming the veracity of the same; and

iii) File an annual statement of the sales figures, of the product in question, duly authenticated by its chartered accountants, on the basis of its records, including the sales tax and excise returns.

In ***J. Mitra and Co. Pvt. Ltd. Vs Kesar Medicaments and Anr.*** the Plaintiff/Patentee moved the Hon'ble High Court of Delhi with a claim of infringement of its patent in respect of 'a device for detection of antibodies to Hepatitis C Virus (for short, HCV) in human serum and plasma'. At the interlocutory stage, the Hon'ble Court once again had to ascertain as to whether the Plaintiff had been able to make out a *prima facie* case of infringement for grant of *interim* injunction against the Defendant.

The Court while granting *interim* injunction in favour of the Plaintiff observed as follows-

> *"I am of the view that the plaintiff has made out a prima facie case. The <u>use of patent being limited</u>, irretrievable prejudice will be caused to the plaintiff if interim orders are not granted. The balance of convenience lies in favour of the plaintiff as the plaintiff's patent cannot be permitted to be infringed."*

In ***Bajaj Auto Ltd. Vs TVS Motor Company Limited*** the consistent problem as to whether at the interlocutory stage the Plaintiff/Patentee has been able to make out a *prima facie* case of infringement for grant of *interim* injunction against the Defendant was highlighted once again in this case.

Bajaj, the Patentee filed a suit for infringement. Likewise, TVS filed a suit under Section 106 of the Patents Act on the basis of groundless threats of infringement perceived to have been issued by Bajaj. The Hon'ble High Court of Madras while granting interim injunction in favour of the Patentee, observed-

> *"the novelty stated to have been achieved by the applicant by way of patent, coupled with its enablement, as proved by putting the product in the market and that has earned usage in large extent and <u>both novelty and enablement</u> have been established by the applicant for the purpose of granting the order of injunction in favour of the applicant/plaintiff."*

THE AMENDMENT OF DESIGNS RULES

With effect from June 17, 2008, the Designs (Amendment) Rules, 2008 came into force with the following salient features:

- Incorporation of provisions for extension of time upto three months for placing the application in order for acceptance, after filing a request at the Design Office along with prescribed official fee. Hitherto, filing such request for extension of time was at the discretion of the Design Office.

- Substitution of the third schedule to include additional subclasses with respect to specific articles viz. screen display and icons.

THE PROTECTION OF PLANT VARIETIES AND FARMERS' RIGHTS ACT, 2001 REVISITED

The Plant Varieties Registry has further notified on December 31, 2007, two more crops for registration viz. Cotton - *Gossypium hirsutum* L., *Gossypium barbadense* L., *Gossypium arboreum* L., *Gossypium herbaceum* L. and Jute - *Corchorus olitorius* L., *Corchorus capsularis* L.

After initial scrutiny, the Distinctiveness, Uniformity and Stability (DUS) Test is to be conducted for each of these varieties in order to evaluate whether the seeds of such variety along with parental material conform to the criteria of distinctiveness, uniformity and stability. Now separate DUS testing guidelines for each of the 14 notified crops are available.

Section II - CHINA

The past year has been quite eventful for The People's Republic of China with it hosting the Games of the XXIX Olympiad. Many regard August 8, 2008 as one of the greatest days in modern Chinese history and the slogan of the games "One World, One Dream" has left a lasting impression on the country. The year also evidenced major headway being made in the field of law and administration of justice. With Remfry & Sagar celebrating its second anniversary in China, we provide a first hand account of a few major developments.

OUTLINE OF THE NATIONAL INTELLECTUAL PROPERTY STRATEGY

On June 5, 2008, the State Council of The People's Republic of China issued a ***Compendium (Outline) of the National Intellectual Property Strategy*** formulated for the purpose of improving China's capacity to create, utilize, protect and administer intellectual property.

The Compendium puts forward strategic measures to achieve certain goals by 2020. The measures envisaged under the Compendium are five fold:

1. IMPROVING THE INTELLECTUAL PROPERTY REGIME

The Compendium calls for the prompt revision of laws and regulations concerning intellectual property rights, especially those related to Patent, Trade Mark and Copyright Law. It also expresses the requirement of formulating legislation concerning genetic resources, traditional knowledge, folklores and geographical indications. Intellectual property-related provisions contained in laws and regulations concerning unfair competition, foreign trade, science and technology and national defence need to be improved as well.

The Compendium states that intellectual property law enforcement and administration systems need to be strengthened and judicial protection should play a leading role in the enforcement mechanism of intellectual property rights.

Importantly, the Compendium stresses on improving the intellectual property policy related to foreign trade and the establishment of mechanisms for administering intellectual property, early warning and emergency response. It also recognizes the importance of securing overseas protection and dispute settlement in the foreign trade sector.

2. PROMOTING THE CREATION AND UTILISATION OF INTELLECTUAL PROPERTY

The Compendium advises the country to guide and support business entities in creating and utilizing intellectual property through the use of policies related to finance, investment, government procurement, industrial development, energy and environmental protection. It states that the important role of intellectual property policies in fostering scientific innovation needs to be recognized and strengthened and that policies regarding the ownership and benefit sharing mechanisms for scientific and technological inventions made as part of state-supported projects/institutions need to be formulated. This is an aspect which India is considering under the *Public Funded R&D (Protection, Utilization and Regulation of Intellectual Property) Bill, 2007*.

3. STRENGTHENING THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

The Compendium seeks to revise laws and regulations to curb infringement of intellectual property rights with punishment acting as a major deterrent. It is aimed at assisting right holders in protecting their interest by lowering the cost of enforcement and increasing the quantum of punitive damages.

4. PREVENTING ABUSE OF INTELLECTUAL PROPERTY RIGHTS

The Compendium is aimed at formulating relevant laws and regulations to reasonably define the scope of intellectual property and preventing abuse of rights by maintaining fair market conditions.

5. FOSTERING A CULTURE OF INTELLECTUAL PROPERTY RIGHTS

Given the current abysmally low level of awareness of intellectual property rights, the Compendium calls for a comprehensive long-term campaign to increase awareness in society. The Compendium recognizes that a change in attitude is required wherein the country respects knowledge and is proud of its own indigenous innovation, shunning plagiarism, counterfeiting and infringement.

MAJOR CASES OF PIRACY AND INTELLECTUAL PROPERTY RIGHTS INFRINGEMENT MADE PUBLIC

Eight major cases of piracy and infringement cases cracked in 2008 were made public by the Chinese Government in a deliberate move to demonstrate its resolve to protect Intellectual Property Rights.

The cases, mostly involved large and organized groups generating considerable revenue on account of their illicit activities. One case, in a municipality near the capital of Beijing involved a racket of 30 people dealing in wholesale of pirated audiovisual products since 2005. With crackdowns throughout the country, Police in Tianjin and the southern city of Guangzhou seized more than 200,000 pirated videos.

LIBERAL AWARD OF DAMAGES

In yet another move to establish its resolve to uphold Intellectual Property Rights and acting in furtherance of the new National Intellectual Property Strategy, the Courts in China last year were seen awarding exemplary damages to act as a deterrent towards potential misusers. The following cases serve as illustrative examples:

MESSAGE IN A BOTTLE

Blueblood (Shanghai) Wine Co. has been ordered to pay Dutch liquor giant Diageo 1.25 million RMB (USD183,000) for copying its packaging. Diageo Brands B.V. had discovered that the said firm had used a packaging similar to that of its renowned Black Label blend on its whisky branded as ‘POLONIUS’. The local firm was determined to use Diageo’s packaging in spite of a complaint with the local commerce bureau and imposition of a fine, constraining the Dutch company to file a suit with the Shanghai No. 2 Intermediate People's Court claiming 2 million RMB as damages. According to the verdict, Diageo owns Jonnie

Walker, a Scotch whisky created in 1820. The whisky is sold in 150 cities in China, and achieves sales revenue of 320 million RMB (USD 46 million) a year. Blueblood was suspected to have sold nearly 37,000 bottles of 'Polonius' bearing the objectionable packaging.

SAMSUNG ORDERED TO PAY USD 7.3M

In a reversal, the electronics giant Samsung was ordered to pay 50 million RMB (USD 7.3 million) in compensation to the Hangzhou firm Holley Communications for an infringement of its intellectual property rights. The ruling was made by the Hangzhou Intermediate People's Court.

Samsung Electronics was deemed to have infringed on Holley Communications' patents in dual-mode mobile phones, which support both GSM and CDMA standards. The compensation is the highest which has been ever awarded in an Intellectual Property Rights case involving China's telecommunications industry. Holley Communications had purchased the chip design from Philips CDMA in 2001 and applied for patents with the Chinese Intellectual Property Office the following year. The ruling comes in the wake of the country issuing third-generation mobile licenses in the world's largest mobile phone market of 650 million users.

THE SAGA CONTINUES

A Taiwanese record company won 2.9 million RMB (USD 425,000) in compensation in two lawsuits against three record companies in Shanghai, Guangdong and Jilin provinces. The record firms were found to have violated the copyright of more than 100 records produced by the Plaintiff.

In addition, a company in Zhejiang province found guilty of violating 3M's rights in a dust-proof face-mask was fined 200,000 RMB (USD 30,000). Similarly, a fruit trading company in the Jiangsu province using a trade mark similar to the trade mark ZESPRI of a New Zealand firm was ordered to pay 300,000 RMB (USD 44,000) in compensation to New Zealand firm.

Since the year 1994 to September last, Courts in Shanghai alone have accepted nearly 10,000 civil cases relating to intellectual property rights. The trend is encouraging as Intellectual Property laws are being actively implemented.

ANTI-MONOPOLY PANEL

Our last issue of the newsletter carried a detailed report on the Anti-Monopoly law to be enacted in China. After 13 years on the drawing board, the said legislation came into force on August 1, 2008. China wasted no time and established the country's first judging panel for monopoly litigations. The panel comprises seven judges from the intellectual property and administrative courts, and a deputy director of the intermediate court. Prior to the establishment of this panel, monopoly cases fell within the domain of the intellectual property Courts.

LABOUR CONTRACT LAW

On the corporate law front, the biggest topic of discussion amongst business and legal circles is the new Labour Contract Law (LCL), which came into effect from January 1, 2008. The LCL is expected to dramatically change the employer-employee relationship in China.

The LCL has made the following fundamental changes to the existing employment practices in China, with significant penalties for non-compliancce:

- **ALL LABOUR CONTRACTS MUST BE IN WRITING**
  Traditionally, companies-especially foreign enterprises – have engaged in "informal" employment relationships without any paperwork. This is no longer possible and the LCL imposes significant penalties on the employer for failure to enter into a written employment contract.

- **ALL EMPLOYERS MUST MAINTAIN A WRITTEN EMPLOYEE HANDBOOK SETTING OUT THE BASIC RULES AND REGULATIONS OF EMPLOYMENT**

- **LIMITATIONS ON EXTENSION OF CONTRACTS**
  Under Chinese law, an employee can be discharged at the expiration of the term of his contract or for 'cause'. To avoid the need to terminate for cause, employers in China have typically engaged employees under a series of short-term contracts. This practice is no longer possible under the LCL. The employer is permitted to enter into a maximum of two term-contracts with the employee. If the employee continues after the expiration of a second term-contract, the subsequent employment contract is deemed to be an "open-term contract."

- **RESTRICTIONS ON PROBATION PERIODS**
  Probationary periods are permitted, but the length is limited based on the term of the employment contract, with the maximum set at six months.

- **NON-COMPETE – SCOPE**

Significant restrictions have been imposed on the use of non-compete clause in employee contracts. A non-compete clause cannot be imposed on all employees but its use is restricted to members of the senior management and other employees having access to critical trade secrets. Further, the duration of the clause has been limited to two years and its geographic scope must also be confined to a reasonable area. A non-compete clause will not be enforceable unless the employer pays compensation to the employee during the period envisaged under the said clause.

AMENDMENT OF CHINESE PATENT LAW

The Patent Law of the People's Republic of China was amended at the sixth meeting of the Standing Committee of the Eleventh National People's Congress on December 27, 2008. The newly amended law will come into force on October 1, 2009. Our next newsletter shall highlight the features of the new law.