TRIPS, PATENTS AND PARALLEL IMPORTS IN INDIA: A PROPOSAL FOR AMENDMENT

Shamnad Basheer
*Mrinalini Kochupillai**

I. INTRODUCTION

India's amendment to her patent regime in 2005[1] to introduce pharmaceutical product patents attracted unprecedented attention, both domestically and globally. While multinational pharmaceutical companies were concerned that the Act withered away their exclusive rights, civil society activists decried the new product patent regime, fearing that it would cause steep hikes in the price of life saving drugs. This politicization of patent law produced some interesting results; most recently, a Delhi High Court decision that denied an injunction to a multinational patentee on the ground that it sold a more "expensive" drug than the infringing generic manufacturer.[2]

While some provisions in the new patent regime, such as section 3(d) continue to attract significant attention,[3] others have been lost in the legalese.

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* Shamnad Basheer is the Ministry of HRD Professor in IP Law at the National University of Juridical Sciences (NUJS), Kolkata. Mrinalini Kochupillai is an intellectual property law consultant and is currently working as a research scholar at the Max Planck Institute, Munich. The authors would like to thank the numerous readers of the Spicy IP Blog for providing their comments to our posts dealing with parallel imports. These comments greatly enriched our understanding and appreciation for the various interpretative nuances relating to section 107A(b). See http://spicyipindia.blogspot.com/2008/05/parallel-import-debate-in-india-some.html. The authors would also like to thank Chris Ohly (Schiff Hardin), Chris Stothers (Milbank, Tweed), Sai Krishna (Sai Krishna Associates), Karan Bharihoke (AZB & Partners), Swathi Sukumar (Anand and Anand), Sneha Jain (ILS Pune), Shouvik Kumar Guha (National University of Juridical Sciences), Abhai (Lex Orbis), Dr. Kalyan Kankanala C (Brain League), Feroz Ali Khader (Chennai High Court), Manoj Pillai (Lex Orbis), Shashwat Purohit (Franklin Pierce Law Center) and J Sai Deepak (Rajiv Gandhi School of Intellectual Property Law) for their inputs and comments. This paper is a newer and revised version of a paper titled *'Exhausting' Patent Rights in India: Parallel Imports and TRIPs Compliance*, 13 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS, 486-497 (2008).

1. The Patents (Amendment) Act, 2005, published as law in the Gazette of India on April 5, 2005, Prior to these amendments, the Patents Act, 1970 (Act No. 39 of 1970) was also amended by the Patents (Amendment) Act, 1999 and the Patents (Amendment) Act, 2002 in order to comply with TRIPS mandates.
2. F. Hoffmann-La Roche Ltd. and Anr. v. Cipla Limited, 48 (2008) DLT 598, MIPR 2008 (2) 35 (Hereinafter, Roche v. Cipla). For an extensive analysis of this decision, see Shamnad Basheer and Prashant Reddy, *Roche vs Cipla: The "Price" of a Patent Injunction in India* (unpublished comment, on file with the authors).
3. This section prohibits the patenting of any pharmaceutical/chemical derivative that exhibits no significantly enhanced efficacy over and above its closest prior art equivalent substance. For a detailed analysis of this provision and the Novartis case where it featured prominently, *See* Shamnad Basheer and Prashant Reddy *The "Efficacy" of Indian Patent Law: Ironing out the Creases in Section 3(d)* 5 SCRIPTED 232 (2008) http://www.law.ed.ac.uk/ahrc/script-ed/vol5-2/basheer.asp.

One such provision is section 107A (b) dealing with parallel imports,[4] which, if read in a literal manner could have far reaching implications for the rights of a patentee. Illustratively, it could permit a generic manufacturer such as Cipla to produce generic versions of a patented drug in Bangladesh, where there may be no patent covering the drug in question, and import such generic versions into India.

This paper aims to highlight this particular provision, which has thus far not attracted the attention it deserves. It explores the perceived ambiguities in this section and discusses the gaps in the Indian law pertaining to exhaustion and parallel imports. Lastly, it goes on to suggest statutory amendments in order to fill these gaps and expand the scope of exhaustion envisaged therein, whilst at the same time remaining TRIPS compliant.

The paper is divided into 4 parts: The first part explains the concept of exhaustion/parallel importation in relation to patents. Part two examines the ambiguities inherent in section 107A (b). It also explores the gaps in the law relating to exhaustion in India and assesses the TRIPS compatibility of the current provision. The third part recommends a harmonious way of interpreting the current statutory provision so as to remove the ambiguities and balance out the rights of patentees and parallel importers in an optimal manner without violating the TRIPS agreement. The final part recommends statutory amendments to section 107A(b).

II. PATENTS, PARALLEL IMPORTS AND EXHAUSTION: A PRIMER

A patent is a bundle of exclusive rights granted to an inventor whose invention satisfies certain pre-requisites such as novelty, non-obviousness and utility.[5] Such exclusive rights include the right to make, use, sell and import the patented goods into such country.[6]

The doctrine of exhaustion imposes certain limits on the patentees' exclusive rights. According to this doctrine, "*a patented item's initial authorized*

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4. This section titled "defences to patent infringement" provides that any import of a patented product into India from a person who is duly authorized under the law to produce and sell or distribute the product will not amount to an infringement.
5. Agreement on the Trade – Related Aspects of Intellectual Property Rights arts. 27.1, 65, 70.9, Apr. 14, 1994, 33 I.L.M 1125 (Hereinafter, TRIPS), which represents the common minimal standard that WTO members are mandated to implement in their domestic patent regimes, provides that "*patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application.*"
6. *See for example*, Article 28(1) of the TRIPS Agreement which states in pertinent part that *"a patent owner shall have the exclusive right to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product."*

sale terminates all patent rights to that item."[7] In other words, the patentee cannot control the resale or re-distribution of the particular item that has already been sold once.[8] Were it not for such "exhaustion" of rights, a purchaser of a patented article might be prevented from selling the said item or even "using" it, since such "sale" or "use" implicates the exclusive rights of the patentee.[9]

Illustratively, a buyer of a patented washing machine is free to do what she wishes with the machine: this includes the freedom to use the said machine, re-sell it, etc., without fear of being sued for patent infringement. The rationale underlying the theory of "exhaustion" and the doctrine of first sale is that a patentee has already been rewarded through the first sale and should not be allowed to profit repeatedly on the same good by controlling its use, resale or distribution.[10] However, the doctrine of exhaustion is circumscribed by the following factors:

i) "Exhaustion" kicks in only if the "first sale" is made by or with the authorisation of the patentee.

ii) "Exhaustion" in relation to a particular patented article does not impact the patentee's other exclusive rights. Nor does it affect the patentee's rights with respect to "other" patented articles. In other words, the buyer of a patented article, in respect of which the patent right has been exhausted does not get the right to "sell" or "distribute" "other" patented articles that she has not purchased.[11]

Depending on the territory in question, exhaustion can be either "national" (confined to a single state) or "international" (across the globe). Legitimate "parallel imports" are but a natural corollary of the doctrine of international exhaustion and envisage the following:

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7. Quanta Computer, Inc. v. LG Electronics Inc., (No. 06-937) 453 F. 3d 1364, reversed (Supreme Court June 9, 2008).
8. This principle is also commonly referred as the "first sale doctrine", a doctrine which *"...stands for the proposition that, absent unusual circumstances, courts infer that a patent owner has given up the right to exclude concerning a patented article that the owner sells." S*ee Glass Equipment Development Inc. v. Besten Inc., 174 F.3d 1337 as quoted in Words and Phrases (Permanent Edition Vol. 17), "First Sale".
9. The "use" of a patented product that had been legitimately purchased from a patentee or her authorized representative may be exempt from patent infringement under an "implied licence" theory. *See* Anton/Bauer, Inc. v. PAG Ltd., No. 3:01 CV 577 (CFD), 2002 U.S. Dist. LEXIS 11583, (D. Conn. June 12, 2002).
10. The exhaustion doctrine, thus, serves to allow the patentee to extract full consideration for a patented article, but no more. See J.C. Paul et al, *US Patent Exhaustion: Yesterday, Today, and Maybe Tomorrow*, 3 JOURNAL OF INTELLECTUAL PROPERTY LAW & PRACTICE 461-469(2008).
11. *Illustratively, see* US v. Moore 604 F. 2d 1228 as quoted in Words and Phrases "First Sale" see supra note 8.

i) An export of a patented good from country X (such as Bangladesh)

ii) Import of such patented good into country Y (such as India).

A parallel importer essentially engages in price arbitrage and exploits the price difference between the exporting country (Bangladesh) and the importing country (India). Several countries therefore encourage such imports to ensure lower priced patented goods for their consumers.

It bears noting that the key players who effectuate "parallel imports" are third parties, normally unrelated to the patentee. As to whether or not the import of such goods into India (importing country) can be stopped by the patentee by recourse to an Indian court will depend on the laws of India. Illustratively, since the laws of India provide for "international exhaustion", such imports into India are legal.[12] Contrast this with the US, which does not provide for international exhaustion: any import of patented goods from Bangladesh to the US can therefore be prevented by the patentee, even if the patentee herself had placed the goods in the Bangladeshi market. We discuss the various kinds of "exhaustion" below. It is important to bear in mind that the scope of "exhaustion" depends upon the kind of intellectual property right in question i.e. the rules relating to "exhaustion" in relation to patents are quite distinct from those in relation to copyrights and trademarks.[13] Although our paper is restricted to the norms of exhaustion that apply in the context of patents, we also refer to exhaustion in the context of other intellectual property rights, where necessary.

National, Regional and International Exhaustion

Consider the following hypothetical built around a recent case in India,[14] albeit with appropriate modifications to illustrate our point better. Roche, a Swiss multinational corporation owns a patent over an anticancer drug, Tarceva in India. It sues Cipla for introducing a generic version of this drug and requests the Delhi High court for an interim injunction against Cipla. The court decides in favour of Cipla on grounds of "public interest" i.e. Cipla was selling a cheaper and more affordable version of Tarceva. Upto this point, our hypothetical mirrors the actual case itself that is currently pending before the Delhi High Court.

12. We discuss the Indian position in great detail in the ensuing sections of this paper.
13. In fact, the rules in relation to copyrighted works are likely to differ, depending upon the kind of work in question. Thus, under the Indian copyright regime, although a buyer of a literary work (such a book) is free to sell or distribute her copy, a buyer of a computer program cannot sell or distribute the copy. See Copyright Act, (Act No. 14 of 1957), sections 14 (a) and (b) of the. Similarly, in relation to sound recordings, the author/owner has the exclusive right to "*sell or give on hire, or offer for sale or hire, any copy of the sound recording regardless of whether such copy has been sold or given on hire on earlier occasions*" (Section 2(e)(ii)).
14. *See supra* note 2.

Let us now assume that CIPLA is enjoined (at the final stage) by the Delhi High court and cannot sell generic versions of Tarceva in India. Let us also assume that Roche has patents covering this drug in Bangladesh and Pakistan. However, there is a price differential, with the highest price being charged in India and the lowest in Bangladesh. The following questions arise:

i) Can Cipla import the drugs from Bangladesh to India and avail of the price differential?

ii) Can Cipla buy the drug from Roche in Bangladesh and resell within Bangladesh (particularly to areas that are not serviced by Roche or its distributors)?

iii) Can Cipla import the drugs from Bangladesh to Pakistan and avail of the price differential?

The answers to the above questions depend upon the kinds of "exhaustion" and "parallel import" regimes prevailing in India, Bangladesh and Pakistan. Let us assume for the purpose of our hypothetical that Bangladesh and Pakistan follow the doctrine of national exhaustion, while India follows international exhaustion. Let us also assume that Pakistan and Bangladesh are part of a regional bloc and they follow "regional exhaustion" principles as well.

International Exhaustion

In our hypothetical, Indian patent law follows international exhaustion i.e. once Roche sells Tarceva capsules in Bangladesh, either through itself or an authorised representative ("first sale"), its rights stand "exhausted" vis-à-vis that product. Cipla is free to bring these very same capsules into India and sell at a higher price.

While countries such as India and Japan recognize the principle of international exhaustion,[15] countries such as the US, EU and Brazil do not.[16]

15. The Indian position will be discussed at great length later in this paper. The Japanese Supreme Court endorsed international exhaustion in BBS Kraftfahrzeugtechnik AG v. Rashimekkusu Japan Co. Ltd. and JAP Auto Prods Co. Ltd., Case No. H-6-(Ne)-3272 (Supreme Court of Japan 1997), translated in 29 International Review of Industrial Property & Copyright 331 (1998). See also, *International Patent Exhaustion and the Global Semiconductor Industry*, http://semiconductorlawblog.com/blog/?p=18.

16. See Jazz Photo Corp. v. International Trade Commission, 264 F 3d 1094 (Fed Cir 2001). In this case, the plaintiffs held patents in relation to a disposable camera which was not designed for reuse after its film was exposed. However, the shells of the camera were reused by certain Chinese refurbishers and the defendants purchased the same, supplied the films and imported these cameras into the US market. Rejecting the doctrine of international exhaustion, the

National Exhaustion: Bangladesh

In our hypothetical, Cipla can buy Tarceva capsules from Roche in Bangladesh and then resell them or re-distribute them anywhere in Bangladesh. Naturally, it will do so only if it can engage in price arbitrage i.e. sell at higher prices in remote areas not serviced by Roche. Here again, since Roche has already sold the drug once (first sale), it cannot control the further sale or distribution within Bangladesh. The key limitation of the doctrine of national exhaustion is that the purchase of the patented article and its subsequent resale or its re-distribution ought to be confined within the territorial limits of Bangladesh.

Regional Exhaustion: Pakistan and Bangladesh

Some countries permit parallel import of goods within a specific regional bloc, so long as the first sale is legitimately made by the patentee or her authorized representative within one of the countries that are part of the bloc. Illustratively, the laws of the European Community (EC) provide that patented goods that have been subjected to a first sale anywhere in the community (e.g. France) can be imported and sold in any other EU country (e.g. UK) without the permission of the patentee;[17] provided of course that the first sale is made by or with the authorization of the patentee. Similarly, since Bangladesh and Pakistan are members of a regional bloc in our hypothetical, a sale in Bangladesh would exhaust the patentee's rights across the entire bloc. And the goods can cross over to Pakistan without the express permission of the patentee.

Now that the concepts have been fleshed out, let us examine the regime pertaining to "exhaustion" of patent rights in India.

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court enjoined the defendants from importing. Some countries in Europe follow a similar rule as the US; *see generally* Christopher Stothers, Parallel trade in Europe: Intellectual Property, Competition and Regulatory Law (Hart Publishing 2007). Others such as the UK appear to follow a rule of limited international exhaustion. See Betts v. Willmott, (1871) 6 Ch.App. 239, where it was held that any unconditional first sale in a foreign market amounts to an implied license to import the product to the UK. Subject to certain exceptions involving the non-working of a patent in Brazil or a compulsory license, Brazilian law prohibits all imports of patented products. *See International Exhaustion of Industrial Property Rights: Brazil* (AIPPI Congress in Melbourne 2001), http://www.aippi.org/reports/q156/gr-q156-Brazil-e.htm.

17. Illustratively, see Centrafarm BV v. Sterling Drug Inc., [1974] 2 CMLR 480 where the European Court of Justice (ECJ) held that once the patentee had consented to the marketing of patented goods anywhere in the common market, then irrespective of national patent rights which may exist, the goods could be sold and marketed anywhere in the community. Allowing the patentee to prevent such sales would be akin to partitioning national markets which is anathema to the principle of free movement underlying the entire existence of the EU. For a good summary of European case law in this regard, see Arghya Sengupta, *Parallel Imports in the Pharmaceutical Sector: Must India be More Liberal?* 12 Journal of Intellectual Property Rights 400-409 (2007).

National Exhaustion: The Indian Legal Regime

Curiously, although the Indian patent regime recognizes international exhaustion, a literal reading of the section suggests that it does not provide for "national" exhaustion. Contrast this with other IP legislations such as the Trademarks Act, 1999,[18] whose wording is broad enough to subsume both national and international exhaustion principles. Section 30(3) of the Trademarks Act provides in pertinent part that:

> *[w]here the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of- (a) ... or (b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.*

Although the section does not use the term "exhaustion", the use of terms such as "sale of goods in the market" or "otherwise dealing in those goods" clearly indicates that what is envisaged is "exhaustion". Unlike section 107A(b), section 30(3) is not limited to "imports" and can therefore be read to allow both domestic and international exhaustion. A recent decision of the Delhi High Court makes this clear:

In *Xerox Corporation v. Puneet Suri*,[19] the plaintiff owned the trademark "Xerox" and claimed that the defendant's act of importing and selling second hand Xerox machines constituted trademark infringement.

The defendants argued that their acts were covered under Section 30(3), which recognized the principle of international exhaustion.[20] Justice Sanjay Kishen Kaul of the Delhi High Court agreed with the defendants, holding that the "*import of [second hand] Xerox machines that have proper documentation*" is permissible under the Trademarks Act, provided that *"there is no change or impairment in the machine."*[21]

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18. Act No. 47 of 1999 dated 30th Dec., 1999. The Trademarks Act, 1999 came into force in September 2003.
19. C.S. (OS) No. 2285/2006; (Feb 20, 2007).
20. To this extent, the defendants relied on the *Notes on Clauses* under the Trademarks Bill, 1999 (Bill No. XXXIII of 1999) which, in relation to sections 30(3) and 30(4), states: *"Sub-clauses (3) and (4) recognize the principle of 'exhaustion of rights' by preventing the trade mark owner from prohibiting on ground of trade mark rights, the marketing of goods in any geographical area, once the goods under the registered trade mark are lawfully acquired by a person. However, when the conditions of goods are changed or impaired after they have been put on the market, the provision will not apply."* Interview with counsel for defendant, Sai Krishna of Saikrishna Associates, New Delhi (Jul. 3, 2008).
21. The latter part of the order appears to be have been based on a straightforward application of Section 30(4) of the Trademarks Act, 1999, which provides that *"...sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market."*

Given this statutory endorsement of exhaustion, both national and international, in the Trademarks Act, might one argue that the absence of a similar clause envisaging "national exhaustion" in the Patents Act meant that Parliament did not intend to provide for such a doctrine?

Since the Patents Act expressly provides for "international exhaustion" in section 107A(b), (a point we will elaborate in detail in the ensuing paragraphs) which is a relatively more liberal defence to infringement, it is unlikely that an Indian court will refuse to endorse a narrower "national exhaustion" exemption in India. Particularly since the lack of a specific national exhaustion principle appears to be an oversight rather than a deliberate attempt by Parliament to restrict the scope of Section 107(A)(b). Even if a court does insist on a strictly technical reading of the Patents Act to deny scope for national exhaustion, a purchaser would nevertheless have an implied right to use and re-sell a patented good purchased in the market under the Sale of Goods Act, 1930 (section 14[22] and section 19[23] of the said Act). Absent this implied right, a patentee could sue the buyer of a patented product for violating the exclusive right to "use" the patented good or to resell it.[24] Surely, such an absurd result was not intended by Parliament.

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22. Section 14 of the Sale of Goods Act, 1930 states that "*In a contract of sale, unless the circumstances of the contract are such as to show a different intention, there is- (a) an implied condition on the part of the seller that, in the case of a sale, he has a right to sell the goods and that, in the case of an agreement to sell, he will have a right to sell the goods at the time when the property is to pass; (b) an implied warranty that the buyer shall have and enjoy quiet possession of the goods.*" In Microbeads AC and Another v. Vinhurst Road Markings Ltd., 1 All ER 529 (1975), it was held that breach of the warranty of quiet possession would not be confined to physical interference with the buyer's possession of the goods; in case of a claim made by the patentee of a patent affecting the goods, courts in UK have held that a breach has occurred.

23 . Section 19(1) of the said Act provides that "*where there is a contract for the sale of specific or ascertained goods the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred*." Furthermore, as per Section 19(2), "*for the purpose of ascertaining the intention of the parties regard shall be had to the terms of the contract, the conduct of the parties and the circumstances of the case*." Therefore, when a patent-holder is selling a patented product, in the absence of any indication to the contrary in course of the sale, the property and hence the associated rights with respect to that specific product is transferred to the buyer, who then has the right to resell that product if she so desires.

24. Section 48 of the Indian Patents Act grants exclusive rights to a patentee, including the right to "use" the patented product. One might argue that such a buyer could "use" the patented product under an implied license theory. In a recent House of Lords decision in United Wire Ltd. v. Screen Repair Services (Scotland) Ltd., 4 All ER 353 (H.L.)(2000), Lord Hoffman distinguished the doctrine of exhaustion with the theory of implied license and stated that "*The difference in the two theories is that an implied licence may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no patent rights to be enforced*." In the light of section 68 of the Indian Patents Act, which requires every license be in writing and registered, it is unclear if courts would endorse an "implied" license theory in such a context. It is more likely that Indian courts will rely on the Sale of Goods Act to permit "use" and "resale" of patented goods by a consumer, provided there is no agreement to the contrary.

Therefore, a court is likely to eschew a strict literal reading in favour of a more purpose driven interpretation to enable subsequent sales or distribution of patented products within India.

Regional Exhaustion: The Indian Legal Regime

Although India is a member of a number of associations and trading blocs (such as SAARC and Commonwealth),[25] none of these blocs require "regional exhaustion" to be built into the respective domestic patent regimes. Consequently, India does not have any such provision in its statute.

International Exhaustion: The Indian Legal Regime

Although the terms "parallel imports" and "exhaustion" have not been expressly used in the Patents Act, these terms find mention in the Statement of Objects and Reasons appended to the Patents (Second Amendment) Bill, 1999, which became the Patents (Amendment) Act, 2002.[26] Further, from the various Parliamentary debates[27] preceding the passage of the Patents (Amendment) Act, 2005 as well as from official press releases in relation thereto[28], it is clear that section 107A(b) was aimed at permitting parallel imports and endorsing the principle of international exhaustion. We take a closer look at the history of the provision hereunder.

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25. The South Asian Association for Regional Cooperation (SAARC) is an association of countries seven countries (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) and aims to accelerate the process of economic and social development in Member States, http://www.saarc-sec.org/main.php. The Commonwealth is an association of 53 sovereign nations, most of whom were former British colonies that support each other and work together towards international goals. Countries such as India, Sri Lanka, Australia and New Zealand are members of the commonwealth, http://www.thecommonwealth.org.
26. *See infra* note 29.
27. See debates in the Rajya Sabha (upper house of Indian Parliament), http://rajyasabha.nic.in/rsdebate/deb_ndx/204/23032005/3to4.htm where Shri Jairam Ramesh, the Minister of State for Commerce and Industry, states that *"... the relevant sections are Section 47, Sections 82-84 and Section 107 (a) and (b) which deals with parallel imports. .... The short point that I want to make is that, on the issue of prices, on the issue of availability of patented medicine, on the issue of the ability of the Government to retain the right of ensuring that the patent is translated into a product, there are enough safeguards in the existing legislation both in the 1970 legislation, but more importantly in the revised Patents Act of 1970 reflecting the new provisions for compulsory licensing, reflecting the new provisions for parallel import particularly; and also reflecting the new provisions for enabling the Government to import; and use and distribute for its own use either through itself or through the third party."*
28. See for example, a press release from the Press Information Bureau (the nodal agency of the Government of India tasked with disseminating information on government policies, programme initiatives and achievements.), http://pib.nic.in/release/release.asp?relid=8096, which notes in connection with the amendment to section 107A (b) that *"...this has been amended to say that the foreign exporter need only be 'duly authorised under the law', thus making parallel imports easier. A parallel import is a mechanism that helps in price control."* See also the official website of the Ministry for Commerce and Industry, which carries a short note on this aspect, http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=1633.

The first statutory provision on parallel imports was introduced by the Patents (Amendment) Act, 2002.[29] This section provided that the *"....importation of patented products by any person from a person who is* ***duly authorized by the patentee*** *to sell or distribute the product, shall not be considered as an infringement of patent rights."*

However, the above provision was considered restrictive in scope, as evident from the following hypothetical:

Assume that Roche has a patent over Tarceva in both Bangladesh and India. However, Roche sells the drug (through its licensee, X) at Rs 100 in Bangladesh and Rs 300 in India. Cipla buys the drug from X at Rs 100, imports it to India and thereafter re-sells at Rs 200 per capsule. Since X qualifies as "*a person duly authorized by the patentee*", Cipla's import is legal and falls within section 107A(b). Now let us assume that X discovers that Cipla is engaging in parallel trade and undercutting her market in Bangladesh and therefore stops selling to Cipla. Cipla then approaches a drug store (Y) in Bangladesh that has brought supplies from X. Although Y is not a licensee of Roche, under Bangladeshi law (which, for the purposes of our hypothetical, recognizes national exhaustion), it is free to resell or redistribute goods bought from Roche/X.

However, under Indian law, Y may not qualify as "*a person who is duly authorized by the* ***patentee*** *to sell or distribute the product".* In other words, although Y may be authorized under the "law" of Bangladesh to sell and distribute the drug, one may argue that she is not specifically "authorized" by the patentee in this regard.

This interpretation gains credence in the light of section 68 of the Indian Patents Act, which categorically states that every license ("due authorization") has to be in writing and duly executed.[30] Therefore, if Cipla buys from Y, it may not be protected under section 107A(b) and could be sued for patent infringement by Roche in India. Needless to state, if such a

29. The Patents (Second Amendment) Bill, 1999 (which eventually became the Patents (Amendment) Act, 2002) was introduced in the Parliament on 20th December, 1999. See http://rajyasabha.nic.in/journals/188/20121999.htm. Thereafter, a motion was passed and adopted by the Rajya Sabha on 21 December 1999 and by the Lok Sabha on 22 December, 1999 to refer the Bill to a Joint Committee of both Houses of Parliament See http://www.parliamentofindia.nic.in/ls/bulletin2/01/D151101.htm. The Bill was placed before the Rajya Sabha for consideration on 9 May, 2002. *See* http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=880.

30. Given that the term "duly authorized" has not been defined in the Indian Patents Act, one commentator opines that it is likely to be construed in accordance with "implied license" theories and English precedent in this regard. See Sonia Baldia, *Exhaustion and Parallel Imports in India* in PARALLEL IMPORTS IN ASIA 164-165 (Christopher Heath ed., Kluwer Law International 2004). However, in the light of section 68 which requires every license to be in writing and registered, it is not clear if Indian courts would endorse an implied licence doctrine in India.

construction were to be adopted by Indian courts, it would thwart the very idea of international exhaustion and the laudable intent of helping Indian consumers avail of lower prices, when the patentee has already placed a product in the global market and made profits on the first sale thereon. It is pertinent to note in this connection that according to the "Notes on Clauses" appended to the Patents (Second Amendment) Bill, 1999, section 107A(b) was introduced to "*ensure availability of the 'patented product' in the Indian market at minimum international market price*.[31] "

The potential for a restrictive interpretation of section 107A and the consequent thwarting of the principle of international exhaustion as articulated above may have prompted the Indian Parliament to effectuate an amendment via the Patents (Amendment) Act, 2005[32] and provide that there would be no infringement if there has been an *"importation of patented products by any person from a person who is duly authorized* ***under the law*** *to produce and sell or distribute the product"*.

Therefore, in contrast with the earlier position under the 2002 Act, once the "first sale" of any product had been authorized by the patentee, a parallel importer could buy that product from any reseller and not necessarily from the one that had the express permission of the patentee to resell or distribute. In other words, such importer does not need to ensure that any of the sellers from whom she buys the goods (whether second, third or fourth) were expressly or impliedly authorized by the patentee. Of course, this assumes that Bangladeshi patent law recognized "national exhaustion" and therefore the second or the third seller was "duly authorized under Bangladeshi law to produce and sell the product". To this extent, the 2005 amendments implement the principles of international exhaustion and parallel imports in their true spirit.

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31. According to the "Statement of Objects and Reasons" appended to the Patents (Second Amendment) Bill, one of the salient features of the Bill was "to provide provisions relating to parallel import of patented products;" Clause 51of the Bill recommended the inclusion of Section 107A. The Notes on Clauses appended to the Bill provides in relevant part, "*Clause 51. - This clause seeks to insert a new section 107A in the Act, relating to certain acts which are not to be considered infringements.... It is also proposed that the importation of patented products from the person who is duly authorized by the patent holder shall not constitute an infringement. This provision is proposed to ensure availability of the patented product in the Indian market at minimum international market price.*"
32. This amendment was first introduced under the Patents (Amendment) Ordinance, 2004 promulgated by the President in order to meet the deadline of January 1, 2005 required by the TRIPS Agreement to introduce product patents. Section 107A(b) of the Ordinance provided that there would be no infringement if there has been an "*importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product*". This language was retained in the Patents (Amendment) Bill, 2005, which eventually became the Patents (Amendment) Act, 2005.

Another amendment in section 107A(b), which bears noting is the addition of the word "produce". The earlier clause which exempted from infringement the *"....importation of patented products by any person from a person who is duly authorized by the patentee* ***to sell or*** *distribute the product..."* was amended in 2005 to *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product"*. (emphasis by authors). Firstly, the phrase ought to read as "produce and sell OR distribute" and not as "produce and sell OR produce and distribute". The latter reading would unduly restrict the provision and thwart international exhaustion principles, as not many entities would have been actually licensed to "produce" the patented good. Indeed, in some cases, the patentee may be the sole producer of the patented goods. Given that the former interpretation is likely to hold sway, it would appear that the phrase "produce and sell" is superfluous,[33] since a parallel importer, in the normal course of events, is likely to purchase goods from a person who is authorized to "distribute" the patentee's goods. It ought not to make a difference to such importer whether this person additionally had the right to produce those goods as well.

III. SECTION 107A(B): ERODING THE EXCLUSIVE RIGHT TO IMPORT?

Section 107A(b), in its current form, exempts from infringement an *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product"*.

A literal reading of section 107A(b) suggests that even the "first sale" need not be authorized by the patentee.

Consider our earlier hypothetical involving Tarceva, an anticancer drug, which is under litigation before the Delhi High Court.[34] Here again, for the purposes of this paper, let us amend the fact situation slightly to assume that that Cipla is restrained (at the final stage) by the Delhi High court and cannot sell in India. Cipla now asks its Bangladeshi partner, Beximco Pharmaceuticals Ltd., to manufacture the drug in Bangladesh. It

33. According to a noted jurist, Justice GP Singh, "*The Legislature sometimes uses superfluous words or provisions or even tautologic expressions because of ignorance of law or as a matter of abundant caution.*" *See* G. P. Singh, Principles Of Statutory Interpretation 76 (Wadhwa & Co 2004), (hereinafter, "GP Singh"). It has been held that "*only when other provisions of an Act give out that a provision in the Act owes its origin to a confusion of ideas or to a misunderstanding of the law or to abundant caution, the court reaches the conclusion that that provision is superfluous.*" See also Shri Gopal Jalan & Co. v. Calcutta Stock Exchange Association, AIR 1964 SC 250 at 253-254, as quoted in GP Singh at 77.

34. *See supra* note 2.

then imports the drug into India.[35] It bears noting that Bangladesh is a least developed country (LDC)[36] and therefore has time till 2016 to implement product patents in pharmaceuticals. Consequently, any manufacture, use, distribution and sale of the drug within Bangladesh does not amount to a patent infringement in Bangladesh.[37]

Under the old regime (prior to 2005), which required any import to be "*duly authorized by the patentee*", Cipla could not legally import Tarceva into India if the seller (in Bangladesh) was not authorized by Roche to sell or distribute Tarceva in Bangladesh. Under the new provision however, one could argue that Cipla can import Tarceva even without the permission of Roche. It has to only comply with the condition that the exporter of such patented product (eg. Beximco) be "*duly authorised under the law to produce and sell or distribute the product*".

The key question we are faced with in the light of the fact that the goods are produced by Beximco and not Roche and there has been no "exhaustion" of Roche's patent right, is: would not such imports hit out at the very essence of the exclusive right to import under section 48 of the Patents Act and Article 28[38] of the TRIPS Agreement? We examine this issue below.

Exclusive Right to Import Under Section 48

By permitting the import of goods manufactured in Bangladesh and other countries (where there are no patents and where the goods are not placed in the market by the patentee), the very essence of the exclusive right

35. Bangladeshi patent law excludes pharmaceutical inventions (products) from patentability. See Patents and Designs Act, 1911, http://bdlaws.gov.bd/pdf_part.php?act_name=&vol=&id=94 However, Bangladesh is considering putting in place a "mailbox" facility so that pharmaceutical patent applications may be accepted and their "novelty" preserved. A news report in the Daily Star ,http://www.thedailystar.net/story.php?nid=27621 states that "*A circular issued by the Department of Patent, Design and Trademarks in January said as per the TRIPS agreement all applications for patents of medicines and agricultural chemicals will be kept suspended until January 01, 2016. It said the previous applications as well as fresh applications relating to patents for medicines and agricultural chemicals will be preserved in a 'mail box' and will be considered after the expiry of the deadline.*" See also ,http://www.bangladeshinfo.com/news/special16.php.

36. *See the* UN list of Least Developed Countries here: http://www.un.org/special-rep/ohrlls/ldc/list.htm.

37. It must be noted that Bangladesh has yet to reach a similar technological capability as India, in so far as the manufacture of drugs is concerned. Although their current strength is limited to the manufacture of formulations, it is only a matter of time before they gain proficiency in Active Pharmaceutical Ingredients (API's) as well. By setting up base in Bangladesh, Indian companies could help Bangladeshi industry acquire the skills necessary for making API's. See Sampath P. Gehl, Intellectual Property Rights and Innovation in a Least Developed Country Context: The Case of Bangladesh (UNCTAD 2007), for the Least Developed Country Report.

38. *See supra* note 6.

to import is eviscerated. In fact, some might even argue that this comes very close to rendering the very patent grant itself a nullity: a third party who cannot manufacture or sell a patented good in India has only to relocate to Bangladesh, manufacture the said good, and import it to India.

One may argue that the above consequence is not as severe as it seems. For one, a literal reading of section 107A would suggest that it is a defence only in so far as the exclusive right to "import" is concerned. In other words, the other exclusive rights guaranteed under section 48, such as the right to sell and distribute are not covered by the section 107A(b) exemption. If therefore, after importing, the good is distributed or sold in India, this could be prevented by the patentee. Such interpretation gains credence when one compares the Patents Act with the Trademarks Act, which endorses the right to "sell" by the parallel importer, once the rights have been exhausted internationally.[39]

However, given the legislative history of section 107A(b)[40] (that makes it clear that the section was introduced with a view to introduce parallel imports of patented products and to ensure availability of the patented product in the Indian market at minimum international market price), it is likely that a judge will likely construe the term "import" in this section to include subsequent sales as well. Particularly when the absence of the word "sale" appears more as an oversight than a deliberate attempt to curtail the scope of the international exhaustion principle envisaged under section 107A(b).[41] If so interpreted, section 107A would result in a drastic impairment of the exclusive rights guaranteed to a patentee under section 48.

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39. *See supra* note 18 and accompanying text for a discussion on this. Further, see also Gramophone Co. v. Birendra Pandey, AIR 1984 SC 667, where pirated cassettes that were "in transit" to Nepal were seized by Indian customs officials on grounds of copyright infringement. The key issue was whether or not such "in transit" goods amounted to "imports" and therefore fell within the ambit of Section 51 (b) (iv) which prohibited the "import" into India of infringing works. The Indian Supreme Court held in the affirmative, noting that: "*It was submitted by the learned Counsel for the respondents that where goods are brought into the country not for commerce, but for onward transmission to another country, there can, in law, be no importation...It is difficult to agree with this submission... In the first place, the language of Section 53 does not justify reading the words 'imported for commerce' for the words 'imported'. Nor is there any reason to assume that such was the object of the legislature.". The Supreme Court reasoning could be transposed to our context as well, and one might argue that an "import" of a patented good into India need not necessarily entail the subsequent "sale" of that good within India.*
40. *See supra* notes 31, 32.
41. In State Bank of Travancore v. Mohammad, AIR 1981 SC 1744, the words "*any debt due before the commencement of this Act to any banking company",* was interpreted to mean *"any debt due at and before the commencement of this Act".* Chandrachud J., delivering the judgment of the court opined that: "*The plain language of the clause, if interpreted so plainly, will frustrate rather than further the object of*

Even assuming that a judge construes the section narrowly to deny any scope for subsequent sale by the importer, the patentee's exclusive right to import under section 48 is likely to be impacted. Consider our hypothetical concerning Tarceva; under a strict construction of section 107A(b), Cipla can only import the drug into India, but cannot sell it to the patients or to medical stores thereafter. Cipla could circumvent this prohibition on sales and distribution by asking patients or stores to order directly from its Bangladeshi suppliers, in which case, the "import" from Bangladesh would be directly by the patient or the store.

In short, any interpretation of section 107A(b) that legalises generic supplies from Bangladesh in our hypothetical is likely to hit at the very essence of the right to import under section 48. Further, such a construction also has serious TRIPS implications, as discussed below.

TRIPS Compatibility?

Article 28 of TRIPS mandates that every patentee shall have the exclusive right to make, use, offer for sale, sell, or import the patented product or process in question.

However, footnote (6) to Article 28 adds a small caveat to the exclusive right to import, by clarifying that *"This right [i.e. the right of importation], like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6."*

Article 6 in turn states that *"nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."*

The meaning of Article 6 is made clear by Article 5(d) of the Doha Declaration which states that *"the effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge ..."*

It is therefore clear that TRIPs permits Member States to limit the exclusive right to import guaranteed by Article 28 to the extent that such limitation relates in some way to the concept of "exhaustion".[42]

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the Act. Relief to agricultural debtors, who have suffered the oppression of private moneylenders, has to be the guiding star which must illumine and inform the interpretation of the beneficent provisions of the Act.... We would have normally hesitated to fashion the clause by so restructuring it but we see no escape from that course, since that is the only rational manner by which we can give meaning and content to it, so as to further the object of the Act. (para. 19)".

42. According to one author, "exhaustion was one of the difficult issues during the TRIPS negotiations" and the compromise reached was to exclude the matter from dispute settlement. This does not mean that it was excluded from the Agreement altogether, but only means that "international exhaustion cannot be invoked before a panel as a direct violation of TRIPS...." *See* Daniel Gervais, The TRIPS Agreement: Drafting History and Analysis 112-113 (Sweet & Maxwell 2003).

It is important to note that in our hypothetical example of Cipla producing generic versions of Tarceva in Bangladesh and exporting to India, there is no first sale by the patentee (Roche) and consequently, no "exhaustion" of Roche's rights. This lack of "exhaustion" means that Article 6 (which only confers flexibilities around determining the scope and extent of "exhaustion") cannot apply in the case of the Indian provision.

And since Article 6 does not apply, it is likely that section 107A(b) will be held to violate the exclusive right to import under Article 28. Further, such a provision virtually eviscerates the patentee's exclusive right to import. Therefore it might be very difficult to argue that it is a "limited exception" to a patent right falling within the scope of Article 30 of the TRIPS Agreement, which provides that "*Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.*"

In *Canada – Patent Protection of Pharmaceutical Products*,[43] the only panel decision to have interpreted Article 30 so far, the panel, while construing the term 'limited' used in Article 30, relied on its close proximity with the word 'exception' and noted that: "*When a treaty uses the term 'limited exception', the word 'limited' must be given a meaning separate from the limitation implicit in the word 'exception' itself. The term 'limited exception' must therefore be read to connote a narrow exception - one which makes only a small diminution of the rights in question.*"[44]

In this way, although the amended provision plugs a loophole in the earlier provision and implements the principle of international exhaustion in its true spirit, it also results in another consequence vis-à-vis the patentee's exclusive right to import under section 48 of the Patents Act and under Article 28 of the TRIPs Agreement. In other words, section 107A(b) as it stands today, is arguably in breach of India's obligations under the TRIPs Agreement.

III. CREATIVELY INTERPRETING SECTION 107A(B)

From the discussions above, it is clear that a plain literal reading of section 107A(b) detrimentally impacts a patentee's exclusive rights under section 48 and also runs the risk of violating TRIPS.

43. *Report of the Panel,* WT/DS114/R (Mar. 17, 2000).
44. *Id.* at para 7.29.

How then ought a judge to interpret section 107A(b), so as to balance out competing interests of the patentee on the one hand, and the desire to make cheaper goods available to the consumer on the other? We discuss here two possible ways in which the section could be interpreted to avoid violating the TRIPs agreement and better achieving this balance.

"Indianising" The Law

One suggestion could be to interpret the term "law" in the section, to mean Indian law. To recapitulate, section 107(A)(b) states that any importation of a patented product *"from a person who is duly authorized* ***under the law*** *to produce and sell or distribute the product"* is legal (emphasis by authors).

The key problem is that with such an interpretation is that one is faced with a logical inconsistency. A parallel import involves an "exporting" country (e.g. Bangladesh) and an "importing" country (e.g. India). The "producer" of the good or the seller/distributor as referenced in section 107A(b) (e.g. Beximco) is more likely to be based in Bangladesh and the importer (e.g. Cipla) is more likely to be based in India. Subjecting the legality of "production", "sale" or "distribution" in Bangladesh to "Indian" law appears incongruous. In other words, was one to interpret "law" as Indian law, one is faced with an absurd question: Under Indian law, can Beximco produce and distribute the drug in Bangladesh? Therefore, any reasonable construction of section 107A(b) would suggest that "law" as used in the section has to mean Bangladeshi law.

Expanding the Locus of the "Patent"

A better alternative would be to argue that in order to harmoniously construe section 107A(b) with section 48, the term "patented product" could be interpreted to mean a product patented in both the exporting country (Bangladesh in our hypothetical) and the importing country (India).

To recapitulate section 107A(b), it exempts from infringement an *"importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product."*

Naturally, the term "patented product" envisages a "patent" in India that covers such product–if this were not the case, then an importer does not need to seek refuge under section 107A(b) at all. Rather, since there is no patent in India, she is free to import into India or even manufacture and sell in India.

Apart from the above ordinary meaning, the term "patented product" could also be interpreted to envisage a patent over the imported product in

Bangladesh. Since a "parallel import" envisages an exporting country and an importing country, it would be logical to assume that the "patent" status of a product that is subjected to such parallel import has to be measured with reference to both the place of export and the place of import.[45]

Consequently, in the context of our hypothetical involving Roche and Cipla, the section would exclude any "generic" versions of Tarceva manufactured in Bangladesh, where there is no patent. In other words, Cipla cannot avail of section 107A(b) to import generic versions of Tarceva manufactured by Beximco.

This interpretation does not detract unduly from the patentee's exclusive rights under section 48, complies with TRIPS and fits well within the overall framework of the section. Also, this interpretation furthers Parliamentary intent i.e. to permits international exhaustion and the buying of low priced patented goods, once the patentee has already sold them anywhere else in the world.[46]

In the light of the above, we argue that a judge is likely to interpret the term "patented products" in section 107A(b) to mean products patented in the "exporting country".

As to whether an Indian judge is likely to review and interpret section 107A (b) in accordance with TRIPS is a moot issue. In the Novartis case,[47] the judge refused to entertain a TRIPS challenge to section 3(d) of the Patents Act on the ground that it had no jurisdiction. It held that the Swiss government (home government of Novartis) ought to agitate this before the Dispute Settlement Body of the WTO.

In coming to this conclusion, it referred to a British case, *Salomon v. Commissioner of Customs*,[48] where Lord Diplock had held that: *"if the terms of a legislation are not clear, and are reasonably capable of more than one meaning,*

45. One may argue that the term "patented product" in section 107A(b) is interchangeable as the term "patented article" in section 2(o) and has to therefore only mean an article patented in India. However, in the light of section 2, a definitional section which begins with the qualification "[i]n this Act, unless the **context** otherwise requires....." (emphasis by authors), a judge is likely to find that the specific context of section 107A(b) and the principle of exhaustion and parallel imports envisaged therein warrant a different interpretation of the term "patented product". *See* GP Singh supra note 33 at 174*: "Where the context makes the definition given in the interpretation clause inapplicable, a defined word when used in the body of the statute may have to be given a meaning different form that contained in the interpretation clause; all definitions given in the interpretation clause are therefore enacted subject to the qualification - 'unless the context otherwise requires'*.. See also State of Maharashtra v. Indian Medical Association AIR 2002 SC 302, 307.

46. *See supra* note 31.

47. Novartis AG v. Union of India, (2007) 4 MLJ 1153.

48. 1966-3-All E. R. 871.

the terms of international treaties to which the government is signatory, become relevant..... There is a prima facie presumption that Parliament does not intend to act in breach of International Law, including therein specific treaty obligations; and if one of the meanings which can reasonably be ascribed to the legislation is consonant with the treaty obligation and another or others are not, the meaning which is consonant is to be preferred."

In the context of section 107A(b) therefore, if the terms of the statute are found to be unclear, it is likely that the courts will interpret the section in a manner consistent with TRIPS.

However, despite the interpretation proffered above, there would continue to be gaps in the law relating to parallel imports and exhaustion. For one, imports from foreign jurisdictions where the (Indian) patentee voluntarily places goods in the market, despite there being no available patent protection (in the said foreign jurisdiction) would be illegal.[49]

Secondly, it is unclear as to whether or not a buyer of a patented good has the right to repair or reconstruct such goods.

Owing to the above gaps in the law, and in order to vest section 107A with more clarity, we recommend amendments to section 107A(b) as below.

IV. AMENDING SECTION 107A(B)

Given the strained interpretation needed to make section 107A(b) TRIPs compliant, we suggest amending the section to make it broader and clearer in its scope. Before suggesting an amendment, we also look at court decisions in other countries to determine how the Indian parallel imports provision can be made even more forward looking and comprehensive.

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49. It is pertinent to note that under UK law, such a first sale by the patentee would be construed as triggering off "exhaustion" and therefore any such imports would be perfectly legal. Merck & Co. Inc. v. Stephar BV (C187/80) [1981] 3 CMLR 463, where the European Court of Justice (ECJ) held that "...a patentee could not rely upon his patent to prevent imports of products placed on the market in another member state by him or with his consent, even if the product was not patentable in Member State of first marketing." This case was re-considered and upheld in Merck & Co. v. Primecrown Ltd. (C267/95) 1996 WL 1091573 (ECJ) where the court held that the patentee had exhausted his rights by voluntarily marketing his patented pharmaceutical products in Spain and Portugal, even though at that time, no patent protection for pharmaceuticals for available in Spain and Portugal. Also see note 16. See also, AIPPI report which states: *"...patent rights are exhausted if a patented product is put on the market by or with the consent of the patentee anywhere within the EEA. This applies even when the patentee does not have an equivalent patent in the country of first marketing, when there is no patent protection available there or where the local legislation fixes an artificially low sales price for the products there." International Exhaustion of Industrial Property Rights: United Kingdom* (AIPPI Congress in Melbourne 2001), http://www.aippi.org/reports/q156/gr-q156-United%20Kingdom-e.htm.

Expanding the Scope of Exhaustion: Method/Process Patents

The United States Supreme Court recently dealt with principles of national exhaustion in *Quanta v. LGE.*[50] This case involved a licensing arrangement between LGE, the patentee, and Intel in relation to chipsets. The key issue was whether or not LGE's patent rights had been "exhausted" after the sale by Intel (the licensee) to Quanta (one of Intel's customers), leaving Quanta free to do what it wished with the chipsets. Intel was required under one of the contracts with LGE to give notice to customers that they could not combine the chipsets with devices by other manufacturers. For the purpose of this paper, we limit our discussion to the "patent" issue (as to whether or not there was an exhaustion) and exclude the contractual issue (as to whether or not there had been a breach of contract).

The Supreme Court held in favour of Quanta's right to deal with the product as it wished i.e. Quanta could combine the Intel chipset with other products. Specifically, it disagreed with LGE that "exhaustion" applied only to product patents. It categorically held that it applied to process patents or method patents as well.

It is interesting to note here that section 107A(b) is limited to "patented products". The narrow definition of "patented article",[51] a term used interchangeably with "patented products", may mean that one cannot widely construe such terms to include patented processes as well.[52] One might argue that a judge could, in the light of the section 2 phraseology "unless the context otherwise requires" also interpret "patented article" to mean a patented process in the context of section 107A(b).[53] However, in order to minimize the scope for uncertainty in this regard, we recommend an express amendment to include patented processes within the scope of exhaustion, as discussed in the last section of this chapter.

Conditional Sales

The *Quanta* decision is notable for another reason: it leaves open the

50. *See* Quanta v. LGE, *supra* note 7 . It is pertinent to note that unlike the Indian Patents Act which specifically provides for international exhaustion in section 107A(b), there is no similar statutory provision in the US. Rather most "exhaustion" related principles in the US draw from case law.
51. Striking a distinction between patented article and patented process, section 2(o) states that: ""patented article" and "patented process" means respectively an article or process in respect of which a patent is in force."
52. It is interesting to note that the term "patented invention" as used in some of the provisions of the Patents Act (such as section 84 dealing with compulsory licences) clearly envisages both products and processes.
53. *See supra* note 45.

question of whether or not a "conditional sale" precludes exhaustion. In other words, if the patentee or her licensee imposes a condition on the sale, such as the fact that the product can be used only once,[54] can it be said that the rights in the patented good are still "exhausted" and a buyer is free to ignore the condition? There is a distinction between a suit for patent infringement and a suit for breach of contract.[55] US case law is almost unanimous in accepting that there could be a breach of contract claim in such cases. However, the court in Quanta did not explicitly decide as to whether the breach of such a condition would constitute a patent infringement as well.

The court simply stated that in this particular case, the sale was an "unconditional" one. Therefore under US law, it may well be possible to introduce "conditions" to accompany sales and thereby erode the principle of "exhaustion".[56] Indian law ought to prevent against such a possibility by expressly indicating that exhaustion will prevail, notwithstanding any condition attached to the sale.

Repair v. Reconstruction

The courts of many countries draw a distinction between "repair" and "reconstitution/reconstruction" when determining the applicability of the doctrine of exhaustion. Specifically, most countries' laws provide that the doctrine of exhaustion permits the buyer of patented goods to repair them, but not to reconstitute/reconstruct them.[57] The rationale for this distinction seems to be that while a repair may be necessary even for a single "use" of

54. See Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Cir. 1992). It appears that under older decisions of the courts in UK, the rule of international exhaustion applied only if there was no express condition to the contrary. See generally, 35 HALSBURY'S LAWS OF ENGLAND 250, 412 (LexisNexis Butterworths 1994).

55. This distinction is an important one as has been observed by a scholar. See Mark R Patterson, *Reestablishing the Doctrine of Patent Exhaustion*, Patently-O, Nov. 19, 2007 http://www.patentlyo.com/patent/2007/11/reestablishing.html, who suggests that while the "*patentee could still impose limitations on buyers' uses of the products,... those limitations would be solely matters of contract. They could not be enforced through patent infringement actions, and they would be subject to antitrust law limitations*."

56. *See* Halsbury's laws of England, *supra* note 54 where it is stated that: *"...if at the time of sale, the purchaser has notice of some restriction, imposed by the proprietor or those representing him, that restriction will bind the purchaser, although the court will not presume that the purchaser knew of the restriction merely because notice of it was marked on the article, if the marking was not such as to be apparent under ordinary conditions to a customer at the time of the sale*."

57. *See for example*, Dunlop Pneumatic Tyre Co. Ltd. v. Neal, 1899(1) Ch. D. 807 where it was held that *"the purchaser of a patented article can carry out repairs to it; however, he cannot manufacture a new article and claim that he had not infringed the patent because in the manufacture he had used an article derived from a patented article sold by its patentee"*. The principles in Dunlop were endorsed by the House of Lords in British Leyland Motor Corporation and Others v. Armstrong Patents [1986] UKHL 7 (27 February 1986). The most recent case in this regard in the UK appears to be United Wire Ltd. v. Screen Repair Services (Scotland) Ltd [2000] 4 All ER 353 (H.L.) where Lord Bingham of Cornhill

the article in the manner intended by the patentee, a reconstitution would potentially permit more than a single use even though the patentee would have obtained remuneration only for a single item and not for use of this single item multiple times.[58] We recommend that Indian law also strike this distinction between reconstitution and repair, and permit repairs.

Proposed Amendment to Section 107A(b)

We propose amending section 107A(b) to remove the ambiguities discussed above. Our amendments seek to fill the following gaps:

1. A literal interpretation of section 107A(b) appears to preclude "national exhaustion";
2. Section 107A(b) does not appear to envisage "process" patents or "method" patents;
3. Section 107A(b) does not preclude the possibility of introducing "conditional sales" to thwart the scope of "exhaustion" and consequent resale/redistribution.

We therefore propose the following amendment:

"107B. ***Exhaustion of Rights***

(1) For the purposes of this Act, the rights of a patentee or anyone claiming

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held **"***...repair may involve no more than remedial action to make good the effects of wear and tear, involving perhaps no replacement of parts; or it may involve substantial reconstruction of the patented product, with extensive replacement of parts. Both activities might, without abuse of language, be described as repair, but the latter might infringe the patentee's rights when the former did not.***"** Further, Lord Hoffman (reaching the same conclusion) held: " *Where however it is alleged that the defendant has infringed by making the patented product, the concepts of an implied licence or exhaustion of rights can have no part to play. The sale of a patented article cannot confer an implied licence to make another or exhaust the right of the patentee to prevent others from being made. A repair of the patented product is by definition an act which does not amount to making it: as Lord Halsbury L.C. said of the old law in* Sirdar Rubber Co. Ltd. v. Wallington, Weston & Co. (1907) 24 R.P.C. 539, 543*:*
'you may prolong the life of a licensed article but you must not make a new one under the cover of repair.' Repair is one of the concepts (like modifying or adapting) which shares a boundary with 'making' but does not trespass upon its territory. I therefore agree with the Court of Appeal that in an action for infringement by making, the notion of an implied licence to repair is superfluous and possibly even confusing. It distracts attention from the question raised by section 60(1)(a), which is whether the defendant has made the patented product. As a matter of ordinary language, the notions of making and repair may well overlap. But for the purposes of the statute, they are mutually exclusive. The owner's right to repair is not an independent right conferred upon him by licence, express or implied. It is a residual right, forming part of the right to do whatever does not amount to making the product."

58. *See* Aro Manufacturing Co. v. Convertible Top Replacement Co., 365 U.S. 336, 346 (1961) where the US Supreme Court held that "*although there is no right to 'rebuild' a patented combination, the entity 'exists' notwithstanding the fact that destruction or impairment of one of its elements renders it inoperable; and that, accordingly, replacement of that worn-out essential part is permissible restoration of the machine to the original use for which it was bought.*"

through such patentee shall be exhausted after a patented article has been sold once anywhere in the world (including within India), by or with the authorization of such patentee.

(2) The provisions of section 107B(1) shall apply in case of sale of any patented article, notwithstanding:

i) any contractual stipulation to the contrary by the patentee or her authorized representatives.

ii) The specific form of transaction between the patentee or her authorized representative and the buyer.[59] *In particular, any attempt to classify what is in essence a "sale" of an article as a licence shall be ignored for the purposes of this section.*

iii) any notice in relation to the article placed by the patentee or her authorised representatives or any other party selling the patented article; unless such notice is essential to ensure public health or safety.[60]

Explanation 1

The term "exhaustion" (and all its cognates), in relation to a "patented article" shall encompass all situations where the exclusive rights of the patentee and any/all her authorized representatives (under section 48) vis-à-vis such article stand terminated after the first sale of such article any where in the world, provided that such first sale is made by or with the authorization of the patentee.

Any first sale of a patented article shall also exhaust rights associated with any other patent(s) owned by the patentee, provided that the predominant "use" of the article in question is likely to implicate any of the rights associated with such other patents.

Provided that the "exhausted" rights envisaged under this section include the right to repair a patented article but not the right to reconstitute such article.

Explanation 2

The term "patented article" as used in this section, includes, without limitation, any article that implicates one or more patents granted in India, including product, process or method patents.

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59. The form of a transaction does not determine whether exhaustion applies. Therefore the doctrine may apply even though a transaction is not characterized as a conventional sale. *See* United States v Masonite Corporation, 316 US 265, 278 (1942). *See also* JC Paul et al, *supra note* 10.
60. This is to cater to concerns that arise out of a Mallinckrodt, Inc. v. Medipart, *supra* note 54 kind of situation.

Explanation 3

The term "authorized representatives", as used in this section, shall include any person selling the patented article with the consent of the patentee, whether express or implied.

Explanation 4

This section and the various terms used therein shall be construed solely in accordance with Indian law. In particular, Indian law shall exclusively govern any choice of law issues that arise in relation to this section."