Q&A: key IP issues affecting licensing agreements in India

News & Updates • February 24, 2022

This QnA was first published in Lexology on 22.02.22

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Intellectual Property Issues

Paris Convention

Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes, India is a party to all of the above.

On 7 September 1998, India deposited its instrument of accession to two international treaties – the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty (PCT).

Contesting validity

Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee can be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations unless the licensor has committed misrepresentation or fraud on the licensee. The licensee is also prohibited under the law of estoppel to contest the validity of a foreign licensor's intellectual property rights, once contracted as a licensee.

Invalidity or expiry

What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Invalidity or expiry of registration of a trademark does not have any effect on a related licence agreement since the trademark rights can also be acquired through use under common law, but invalidity or expiry of registration of a patent or design renders the licence on that patent or design

invalid. The invalidity or expiry of registration of copyright would also render the licence invalid since the work would go into the public domain, unless protected otherwise, such as by a trademark.

Requirements specific to foreigners

Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No. India is a 'first to use' country and thus original registration or evidence of use in the jurisdiction of origin is not necessary prior to the registration of intellectual property.

Unregistered rights

Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks can be licensed. A licence agreement pertaining to a pending trademark in India cannot be recorded with the Trademarks Office. However, since a patent is required to be compulsorily registered or filed for protection on priority in order to gain protection, the patent licence should be in writing and registered (section 68 of the Patents Act 1970). However, inventions that are not patented can be protected as trade secrets without registration.

Similarly, copyright law requires the licence to be in writing (section 30 of the Copyright Act 1957) although it is not mandatory to register a copyright with the Copyright Office.

Security interests

Are there particular requirements in your jurisdiction to take a security interest in intellectual property?

Validity Patents

According to section 69(1) of the Patents Act 1970, where any person becomes entitled by assignment, transmission or operation of law to a patent or to a share in a patent or becomes entitled as a mortgagee, licensee, or otherwise to any other interest in a patent, he or she shall apply in writing in the prescribed manner to the Controller for the registration of his or her title or of notice of his or her interest in the register.

Trademarks

Trademark law allows the licensee to either be a registered or unregistered user. The licensee of a trademark enjoys the same rights as those enjoyed by a registered trademark proprietor. Thus, the benefit of use of the mark by an unregistered user also accrues to the registered proprietor. The Trade Marks Act also recognises non-registered licensed use. The benefit of recording a licence agreement with the Registrar of Trademarks is that the licensee can institute proceedings for infringement in his or her own name. The licensor can unilaterally apply in writing to the Registrar of Trademarks to cancel the registration of the licence agreement. No consent is required from the licensee for such cancellation.

Copyrights

The owner of a copyright in any existing work or the prospective owner of the copyright in any future work may grant any interest in the right by licence in writing, signed by him or her, or by his or her duly authorised agent, under section 30 of the Copyright Act 1957. Further, a licence of copyright in any work shall identify such work, and shall specify the rights assigned and the duration and territorial extent of such assignment. It shall also specify the amount of royalty payable, if any, to the author or his or her legal heirs if the licensee does not exercise the rights licensed to him or her within a period of one year from the date of licence; the licence in respect of such rights shall be deemed to have lapsed after the expiry of the said period unless otherwise specified in the licence agreement. Moreover, if the licensee fails to make sufficient exercise of the rights assigned to him or her, and such failure is not attributable to any act or omission of the licensor, then the Copyright Board may, on receipt of a complaint from the assignor and after holding such inquiry as it may deem necessary, revoke such assignment (sections 19, 19A and 30A of the Copyright Act 1957).

Opposable to a third party

Third parties may oppose the licence, for example, when the same breaches competition laws or consumer protection laws, or goes against morality, public health and security or public policy. Under the Trade Marks Act, a third party may oppose the grant of trademark licence if it is likely to cause confusion or deception in the minds of consumers as to the origin of the product or service (see section 40 of the Copyright Act 1957).

Security Trademarks

It is not mandatory to file the document that creates security over the trademark under the Trade

Marks Act 1999. The Act does not set out any procedure or any specific form for recording a security interest, such as a mortgage. If required, however, a document can be filed with the Trade Marks Registry with a simple cover letter more for evidentiary purposes. If there is a change in the proprietor of the trademark under the security or the charge, that change must be recorded with the Trade Marks Registry. However, if no trademark application has been filed or no registration has been obtained for the trademark in India, no documents need to be filed. It is usually a better practice to file the documentation with the Registrar of Companies as part of board resolutions empowering the creation of security or vested interests.

Copyright

It is not mandatory to file a document that creates security over the copyrighted work (sections 18 and 19 of the Copyright Act 1957 as amended by the Copyright (Amendment) Act 2012). However, if required, a document that creates security can be filed with the Copyright Registry, with a simple cover letter more for evidentiary purposes. If there is a change in the proprietor of the copyright under the security or charge being created, the change must be recorded with the Registrar of Copyright. However, if no application has been filed for the registration of copyright, or no registration has been obtained for the copyrighted work in India, no such documents need to be filed.

Risks pertaining to copyright owner's rights to prevent reproduction of his work must be mutually agreed upon by the parties in advance to ensure fair use of such copyrights by third parties, in activities that the securities may be used for.

Patents

Registration of the agreement that creates a security interest in the patent is compulsory under the Patents Act 1970. Any security interest or a mortgage in a patent is not valid unless it is in writing and registered with the Controller General of Patents within a period of six months (or within a further period not exceeding six months in the aggregate as the controller on the application made allows) under section 68 of the Patents Act 1970. The document must contain all the terms and conditions governing their rights and obligations. The application for registration of the document must be filed in Form 16 with the Controller of Patents.

Designs

A licence, mortgage or any other interest in a registered design is not valid unless it is in writing and the agreement between the parties clearly sets out the terms and conditions governing the rights and

obligations (section 30 of the Designs Act 2000). The agreement creating a mortgage or any other interest in the registered design must be filed with the Controller General of Designs on Form 12 within six months of the execution of the instrument or within a further period not exceeding six months in the aggregate as the controller on the application made allows.

Intellectual property valuation

Upon creation of security interest of intellectual property (IP), it is imperative that the parties are aware of the changing valuation and its assessment and its business basis therein. Specifically, in cases of IP such as computer software, databases, algorithms, user interfaces, among others, that are considered weaker IP rights due to reverse engineering, parties should seek legal and commercial advice and clarity before taking a security interest in IP on the basis of pre-decided mutually agreed upon terms and conditions.

Proceedings against third parties

Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor of intellectual property may institute proceedings against a third party for infringement without joining the licensee as a party to the proceedings.

Patents

The licensee of an exclusive patent can, where the subject matter of the patent is a product or process, use the exclusive right to prevent third parties, who do not have his or her consent, from the act of making, using, offering for sale, selling or importing for those purposes that product in India or the product obtained directly by that process in India (section 48 of the Designs Act 2000).

Thus, the proprietor of the patent has to be included and made a part of the infringement proceedings if being initiated by the licensees as the principal defendant or as co-owner of the patent. Until the licensee has an exclusive right in terms of the patent obtained and registered it with the Patent Office within six months, it cannot initiate or charge infringement proceedings against the third parties.

The exclusive licensee has the right to institute a suit in respect of any infringement of the patent

committed after the date of the licence (section 109 of the Patent Act 1970). The non-exclusive licensee also has the right to institute a suit in respect of any infringement of the patent committed after the date of the licence provided the patentee refuses or neglects to institute proceedings within two months after being so called upon (section 110 of the Patent Act 1970).

Trademarks

Section 29(1) of the Trade Marks Act states:

A registered trade mark is infringed by a person who, not being a registered proprietor or a person using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to the trade mark in relation to goods or services in respect of which the trade mark is registered and in such manner as to render the use of the mark likely to be taken as being used as a trade mark.

A foreign owner or licensor of a trademark can institute proceedings against a third party for infringement without joining the licensee as a party to the proceedings.

However, a trademark licensee cannot institute a proceeding against an infringer of the licensed intellectual property without the consent of the owner or licensor except when an agreement is entered into to the contrary between the licensor and the licensee.

Section 52 of the Trade Marks Act 1999 states that a registered user may institute proceedings for infringement of a trademark in his or her own name as if he or she was the registered proprietor, making the registered proprietor a defendant.

Further, a passing-off action cannot be filed by the licensee of an unregistered trademark until consented to by the licensor.

Copyright and registered designs

An 'exclusive licence' means a licence that confers on the licensee or on the licensee and persons authorised by him or her, to the exclusion of all other persons (including the owner of the copyright), any right comprised in the copyright in a work, and the 'exclusive licensee' shall be construed accordingly. Thus, only a person having an exclusive right over the copyright can commence proceedings in the case of infringement of the same.

Section 61 of the Copyright Act 1957 states that in every civil suit or other proceeding regarding infringement of copyright instituted by an exclusive licensee, the owner of the copyright shall be made a defendant.

A non-exclusive licensee does not possess the right to claim for such infringement. This condition is also applicable for registered designs.

The licensee can be contractually prohibited from instituting proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor.

Sub-licensing

Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

In India, no legislation enables a licensee to sub-license the trademark to a third party until it is expressly or impliedly mentioned in the licence agreement entered into between the licensor and the licensee. Where there is a specific condition captured in the licence agreement stating that the licensee has no right to sub-license the trademark then it contractually binds the licensee from such a right.

Jointly owned intellectual property

If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

If intellectual property is jointly owned, each co-owner must deal with that intellectual property with the consent of the other. One co-owner cannot enter into deals, transactions or contracts concerning the jointly owned intellectual property without the consent of the other. Each co-owner has equal rights in intellectual property. By way of a contract, the joint or co-owners may mutually carve out their rights or obligations to make decisions about different aspects involving the intellectual property. For example, by way of a contract, the co-owners may decide that regarding the commercialisation of the concerned intellectual property, one co-owner has the right to make decisions regarding entering into a licensing or a franchising arrangement with a third party. However, when such a contract is being executed with a third party, both co-owners must jointly execute such a contract.

First to file

Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

India is a 'first to file' jurisdiction for patents. A foreign licensor can license the use of an invention

subject to a patent application even though the patent has not been issued yet.

Scope of patent protection

Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software

The basic three-part test of novelty, inventive step (non-obviousness) and industrial application is followed in India for a patent to be granted. Further, section 3(k) of the Patents Act 1970 lists non-patentable subject matter. It provides that mathematical or business methods, computer programs per se and algorithms are not patentable.

While the law on the patentability of software in India has not yet been considered by the Indian courts, the Intellectual Property Appellate Board (IPAB) and the Patent Office have issued orders interpreting section 3(k). In *Allani v Controller of Patents* (27 March 2013), the IPAB upheld the controller's order refusing an application for a method and device for accessing information sources and services on the web. The applicant claimed that the invention reduced the time taken to access searched-for information. While copyright affords adequate protection against software piracy, the protection it provides against the non-literal copying of software falls short, leaving the functional aspect of software unprotected. As per the guidelines by the Draft Manual of Patent Practice and Procedure by the Indian Patent Office, claims to computer programs per se, computer-readable media with programs recorded thereon, methods implemented by software that lack technical effect and methods with a technical effect but lacking hardware support in the specification are not patentable.

However, computer programs operating on specific hardware may be patentable. To be patentable, software must be used in relation to specific hardware or, more precisely, a device or apparatus, and the claim must be for the device or apparatus used in conjunction with the software component. Besides novelty, inventive step and industrial applicability, the applicant must prove that the technical effect of the invention is substantial and that it results from the interoperability of the hardware and software components.

Business processes or methods

In 2008, the Indian Patent Office released a Draft Manual of Patent Practice and Procedure providing guidelines on the types of claim allowed in respect of software-related inventions. The guidelines state that in respect of a method:

> *the method claim should clearly define the steps involved in carrying out the invention. It should have a technical effect. In other words, it should solve a technical problem [. . .] The claim orienting towards a 'process/method' should contain a hardware or machine limitation.*

In *Yahoo! Inc v Assistant Controller of Patents* (8 December 2011), the IPAB rejected an application for a computer-implemented business method. The IPAB observed that the technical advance that was claimed over the existing art was merely an improvement in the method of doing business, and therefore the fact that there was an advance did not improve the case.

Living organisms

Up to 2002, as per the prevailing practice in the Patent Office, patents were not granted for inventions relating to:

- living entities of natural or artificial origin;
- biological materials or other materials having replicating properties;
- substances derived from such materials; and
- any processes for the production of living substances or entities including nucleic acids.

However, patents could be granted for processes of producing non-living substances by chemical processes, bioconversion and microbiological processes using microorganisms or biological materials. For instance, claims for processes for the preparation of antibodies or proteins or vaccines consisting of non-living substances were allowable.

In 2002, the Calcutta High Court, in its decision in *Dimminaco AG v Controller of Patents and Designs*, opened the doors for the grant of patents to inventions where the final product of the claimed process contained living microorganisms. The court concluded that a new and useful art or process is an invention, and where the end product (even if it contains living organism) is a new article, the process leading to its manufacture is an invention.

Trade secrets and know-how

Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is no specific legislation regulating the protection of trade secrets in India. India follows common law principles for the protection of confidential information or know-how. It, therefore, becomes imperative to strengthen the confidentiality around the trade secret by ensuring that

contractual obligations are enforced on persons who are allowed to use the trade secret, especially when it is licensed to a third party. So, if the information constituting the trade secret is disclosed without authorisation, legal action can be brought against the party who has disclosed it under the law of contracts and common law. However, in such a case, the protection of the trade secret will be lost and it becomes available in the public domain. It is essential to maintain proof of the creation of a trade secret either by emailing the information to oneself and retaining postmarked and sealed envelopes or by depositing a copy of the information with a third party that would maintain a dated copy.

Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Yes, the law allows a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties both during and after the term of the licence agreement. Careful restrictions should be placed upon the licensee to protect the intellectual property of the licensor, most importantly strict confidentiality obligations should be imposed on the licensee.

Rights over the improvements to which the licensee may have contributed are part of the subject matter of the contract.

Copyright

What constitutes copyright in your jurisdiction and how can it be protected?

Copyright is a right given by the law to creators of:

- original literary, dramatic, musical and artistic works;
- cinematograph films; and
- sound recordings (section 13 of the Copyright Act 1957).

Copyright is a bundle of rights including the reproduction rights, the right to issue copies, the right to communicate, and make adaptations and translations of, the work to the public and the right to perform the work in public. There could be slight variations in the composition of the rights depending on the kind of work.

Copyright in India is automatically protected as soon as the work is created. The Copyright Act 1957 also provides the provisions for the registration of copyright but registration is not mandatory.

KEY CONTACT



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View Bio of Safir Anand

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