

Contracting under Indian or English Law

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Part 3 – Special issues for technology contracts

Introduction

This article is the third in a series of three articles looking at some of the key differences between contracts made under Indian law and those made under English law. The articles assume that the reader is familiar with the principles of English contract law, and so in explaining the differences the focus is on the position under Indian law.

This article considers some of the issues which arise in relation to technology contracts. In our first article we looked at the statutory framework in India to the extent that it is relevant to contracting, and in the second article highlighted a number of key differences between specific contract provisions.

Intellectual Property Rights Protection

As a member of the World Trade Organisation, India is a signatory to GATT and the Trade-Related aspects of Intellectual Property Rights or TRIPS agreement, but the laws relating to intellectual property in India are still in transition and are being harmonised with the corresponding laws in other countries.

Copyright

India's copyright law, laid down in the Indian Copyright Act, 1957 (Copyright Act) as amended by the Copyright (Amendment) Act, 1999, reflects the Berne Convention on Copyrights, an international treaty on copyright, to which India is a party.

Because India is a member of the Berne Convention, registration of copyright is not an essential requirement for protecting that right. However, it is open for copyrights to be registered at the office of the Registrar of Copyright in New Delhi, which is a public register open for inspection once the copyright is registered. Such voluntary registration will, of course, assist to provide a clear record of the date on which a copyright work was created, because a certificate of registration is provided. The certificate of registration can be important in terms of the right to take action for copyright infringement.

Transfers of copyright may also be recorded with the Register of Copyrights. Whilst this is also voluntary rather than compulsory, registration is advised as it provides notice to third parties. Of course, if the transfer of a registered copyright takes place then there is an obvious reason to register the transfer as well!

The term of protection for a copyright literary work is the author's life plus sixty years, which is ten years less than the European Union which provides for life plus seventy years.

The definition of "literary work" not only includes computer programmes but also tables and compilations including databases. Both the object code and source code can be protected as literary works under the Act and the term of protection is sixty years.

Note that in relation to computer programs, the computer program itself is protected as a literary work but the screen

display is considered an artistic work. This means that if copyright is to be registered at the office of the Registrar of Copyright then the screen display can't be registered under the same application as that covering the computer program, so a separate application providing a graphical representation of all of the copyright elements of the screen display is needed.

Copyright Assignments & Licences

The Both assignors and assignees of copyright works from India should note some important features of Indian copyright law:

- Under Section 19 of the Copyright Act, if the period of assignment of copyright is not stated in the agreement, it is deemed to be five years from the date of assignment.
- If the territorial extent of the assignment is not specified in the agreement then it is presumed to extend within India only.
- The copyright assignment must specify the rights assigned. If the assignee does not exercise the rights assigned to it within one year from the date of assignment, then the assignment in respect of such rights is deemed to have lapsed after the expiry of that one year period unless otherwise specified in the assignment.
- Under Section 30A of the Copyright Act, similar provisions apply in relation to copyright licences.

These considerations are particularly important because, whilst the contract may deal with the management of IP, it may still fall to Indian law to determine IP ownership and infringement issues that arise with respect to copyright works which have been created in or licensed from India.

Note that these “default” positions are specific to copyright and do not apply to patents; so if not otherwise stated a patent assignment will be worldwide and perpetual and with no obligation to exercise the assigned rights, in the same manner as a patent assignment under English law.

Section 19A of the Copyright Act also provides for revocation of the assignment in two circumstances:

- (a) if the assignee fails to make sufficient exercise of the rights assigned; and
- (b) if, in any dispute, it is determined that the terms of assignment are harsh to the author.

However, no order of revocation of assignment may be made within a period of five years from the date of the assignment. Further, the order made in the dispute under which the assignor claims that the terms of the assignment are harsh does not have to be an order for revocation – the Copyright Board can pass such order as it deems fit, which might alternatively include the recovery of any royalty payable. The difference is that the Copyright Board can make any order short of revocation if a dispute arises with respect to the assignment of the copyright, but can only make an order for revocation if it is satisfied that the terms of assignment are harsh to the assignor and in that situation the assignor must also be the author.

It is clear that the assignee should therefore try and specify the purpose of the use and include some acknowledgement regarding the sufficiency of that use, although of course this may be easier said than done. The same applies to ensuring that the contract terms are not harsh if the contract is made with the author. Note that the threat of revocation under Section 19A should be of reduced relevance in a business-to-business arrangement where the assignor or licensor is not the author, although there may still be a need to consider any 'chain of title' issues in this respect.

To state the obvious then, from the assignee's perspective the assignment should do the following:

- Identify the copyright work the subject matter of the contract;
- Specify the term;
- Specify the territory;
- Specify the rights;
- Provide that the rights will not cease if they are not exercised;
- State the purpose of the assignment or licence and acknowledge that any use in accordance with that purpose will constitute sufficient exercise of those rights; and

- Provide for proper consideration if dealing with the author, as this is the most likely item to be used to indicate that the terms are harsh to the author.

And the same considerations apply to a copyright licence.

Work made For Hire

Under the Copyright Act, the creator of a work is treated as its author, and the author of a work stays the same even if the ownership of the copyright work changes.

Copyright arising in the course of employment will vest with the employer and not the employee, but copyright ownership in any work (except a photograph, painting, portrait, engraving or film) created under a "contract for service" vests with the author.

The retention of copyright by the author, even where the author has been specifically commissioned and paid to produce the work, is the same position as under English law. It is worth pointing out that this is also the position in India, as this can be a common misconception even under English law and is different from the position, for example, in the US which has an extended concept of "work made for hire".

In the US, copyright material created by an independent contractor may be deemed to be a "Work Made for Hire" under the US Copyright Act if it falls within one of nine statutory listed categories (for example, a work especially commissioned as part of a motion picture or other visual work, or as a translation or compilation) and where the parties agree in writing that the work will constitute Work Made for Hire.

So where a company outsources to an Indian service provider, for example, it should ensure that the third party contractor has entered into contracts for service with any individual sub-contractors stating that intellectual property rights created on the project will vest with the third party contractor who will subsequently assign them to the company.

Note that again there is a difference between copyright and patents: an invention made by an employee, even in the course of his or her duties, is not assigned to the employer in the absence of a contractual provision to the contrary. So, a company which wishes to hold patent rights to inventions created by an

Indian developer must be sure that the developer has signed legally effective assignment documents.

Fair dealing

"Fair dealing" is the term used to describe the permitted acts under a country's copyright laws, in other words acts that may be carried out in relation to a copyright work without infringing the copyright.

Most jurisdictions will provide some fair dealing exceptions but the scope of these exceptions varies on a country by country basis. In India, the Copyright Act was amended in 1999 to permit the decompilation and reverse engineering of computer programs, and under Section 52(1)(ad) the 'fair dealing' exceptions for computer programs include non-commercial personal use.

This means that when contracting under Indian law the contract should be expressly drafted to protect the copyright owner's IP against exposure to such broad exceptions, for example by prohibiting copying, reverse engineering or distribution of source code beyond the authorised purposes, if this is required. This is particularly the case for non-commercial personal use where, although the statutory exception reflects the historic emphasis of Indian law on public access to knowledge, the doctrine itself has been subject to very limited judicial scrutiny and so the line between lawful and unlawful use remains blurred.

There is an issue here as to whether such a contract provision provides enforceable protection, because as yet there is no legal matter authority as to whether the Indian courts would be prepared to enforce such a contract provision and effectively override India's fair use exception. Nevertheless, if that risk is appreciated, the starting point should still be to include such a provision.

Patents

As noted above, to fulfil its obligations under the WTO agreement and to harmonise its IP laws, India is a party to the Paris Convention and the TRIPS agreement.

The starting point for patent law is the Indian Patents Act 1970 (IPA) which provides for the grant, revocation, registration, licensing, assignment and infringement of patents in India.

The IPA has been amended to become fully compliant with the provisions of TRIPS in 2000, 2003 and most recently in 2005, and this article focuses on the impact of those changes on pharmaceutical patents and software patents, because those are the two technology sectors upon which the changes have arguably had most impact.

Pharmaceutical Patents

The recent amendments to the IPA introduced a product patents system for India allowing protection for pharmaceutical products (drugs and medicines) as well as the existing protection for pharmaceutical processes.

This has changed the way in which Indian pharmaceutical companies do business. Previously they did not have to obtain licences from the original drug manufacturers because only their processes were patent protected and not the products, but now the pharmaceuticals companies not only need to respect international product patents, but may also need to change their own approaches towards investing in research and development and exploring their own potential product patent portfolios.

Software Patents

The IPA amendment in 2005 excluded from patenting “a computer program per se other than its technical application to industry or a combination with hardware”. Prior to 2005 the position was that computer programs per se were excluded, but now patenting is possible when software has a technical application to industry or is combined with hardware. This has opened up the possibility of patenting software in India, so that computer programs have potential protection under both copyright law and patent law. Novel configurations of embedded programs on known components are also protectable..

Patenting strategy

One difference between Indian law and the UK, and indeed most other major jurisdictions, is that, notwithstanding that India is a party to the Patent Co-operation Treaty (PCT), under the IPA no person resident in India shall, except under the authority of a written permit granted by the Controller, make any application outside of India for the grant of a patent for an invention unless:

(a) an application for a patent for the same invention has been made in India not less than six weeks before the application outside India; and

(b) either no direction has been given under the secrecy clause of the Act or all such directions have been revoked.

It will be important to bear this Indian statutory provision in mind when, for example, considering an international patenting strategy, particularly one involving a non-Indian company.

It should also be noted that this Indian requirement for the first filing to be made in India, may create an issue under US law because US law requires that, in the absence of a licence from the US Commissioner of Patents, a primary filing of a patent must be made in the US with a six month delay prior to any foreign filing. So there is a conflict between the Indian and US laws on patent filings, and to date there has been no clear guidance published by either country's government.

Clearly, in the outsourcing context, where inventions are made by the Indian service provider solely in India, the US company should file the patent in India first. In cases where the invention was jointly developed in India and in the US, the issue becomes complicated because it is not possible to comply with the laws of both countries. Consequently, a US company will need to determine in which market it most wants to commercialise the patent. For most US companies, the outcome will usually favour filing in the US with a later “national” application under the PCT.

It is unclear what the penalty is for not complying with the requirement to file first in India as the law is silent on this point. So this may be less of an issue in practice, but it still goes to emphasise the importance of including a patent filing strategy in the contract.

Note also that, in contrast to the US 'first-to-invent' patent system, India has a 'first-to-file' patent system and so does not provide for an interference process to determine priority of invention if an application is contested. On the other hand, the detailed interference processes in the US would permit a subsequent applicant to still obtain patent rights based on documentary proof of earlier conception and reduction to practice.

So if an Indian service provider is not familiar with the US patentability standards – which, of course, will have

little relevance to the Indian patent system – then that service provider may fail to conduct its activities relating to patentable inventions in India in order to preserve its customer's rights in the US or in other jurisdictions relating to that invention; for example, it may fail to maintain documentary proof of inventions in accordance with US evidential standards for 'first-to-invent' purposes.

This failure could potentially jeopardise a non-Indian customer's ability to obtain and enforce its patent rights in jurisdictions such as the US. In this scenario, where the contract may lead to the production of patentable inventions (for example, a contract for the outsourcing of research and development work) it would be important for the contract to clearly define procedures for documenting inventions to serve as proper evidence as to the time of conception and reduction to practice of the invention, in order to protect the customer's rights to seek possible patent rights in its preferred jurisdictions.

Confidential Information and Trade Secrets

As India has no specific trade secrecy laws, and so relies on common law principles and contract law to protect trade secrets. A duty to preserve confidentiality can be imposed by a specific contractual provision, and can also be implied from the nature of the relationship or the circumstances in which the information has been shared.

Confidentiality provisions including requirements for personnel to return all confidential information and material to their employer at the time of termination of their employment are standard provisions enforceable under Indian law. Requirements preventing such personnel from using that confidential information in their new job can also be imposed.

Indian law does also recognise the common law tort of "breach of confidence" irrespective of the existence of a contract, but the tort's use is limited in, say, a global outsourcing transaction context, because the duty of confidence can be enforced only against a party that is either in a fiduciary or an employer/employee relationship with the complaining party. Also, the duty arguably only extends to the unauthorised disclosure of confidential information to a third party and does not prevent the recipient's own "misappropriation" of the information.

By way of example, in 2004 an employee at an Indian-based software development centre of a US customer, Jolly Technologies, misappropriated portions of the customer's source code by allegedly uploading and shipping files that contained source code for a key product to her personal Yahoo e-mail account. The theft was detected in time to prevent the employee from distributing the stolen code but the US customer could not successfully prosecute the employee because the source code was considered a trade secret and Indian law did not recognise misappropriation of trade secrets.

The contract provisions should therefore, as clearly and effectively as possible, prohibit the wrongful disclosure and misappropriation of trade secrets and proprietary data and address the disclosing party's right to claim damages for breach and to restrain such wrongful acts in the local courts.

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