

# WHETHER INDIAN LAW ALLOWS PARALLEL IMPORTS OF COPYRIGHTED WORKS: AN INVESTIGATION

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## Abstract

Parallel imports, also called gray-market imports, are goods produced genuinely under protection of a trade mark, patent, or copyright, placed into circulation in one market, and then imported into another market without the authorization of the owner of the intellectual property right. The application of doctrine of exhaustion plays a very important role in determining the way the movement of goods takes place in international trade. This paper examines the statutory provisions involving the doctrine of exhaustion and its consequent impact on the legality of parallel imports *vis-à-vis* copyright works. While much has already been said about the benefits of parallel imports for India, this paper only explores the existing law together with an examination of judicial decisions on this point. Further, the paper also investigates the relevance of the attempted amendment to section 2(m) which was seen as an effort to clarify or introduce the doctrine of international exhaustion in Indian copyright law.

## I Introduction to the doctrine of exhaustion and parallel imports

INTELLECTUAL PROPERTY (IP) laws grant a number of exclusive rights to the owners, such as right to reproduce, right to distribute, right to sell, right to communicate the work to the public, *etc.* The distribution right is one of the most important commercial rights of an IP owner. It allows the IP owner to decide whether he wants to put a work into the market or not, and in which form. It also gives the IP owner an option to decide if a work would be sold, rented, lent or freely given away. Pricing of a product and determination as to the territory in which a work will be distributed also depend upon this right of distribution.

The doctrine of exhaustion seeks to limit the right of distribution. The doctrine of exhaustion simply means that once goods which have an underlying element of IP are sold in the market, rights to control the further distribution of such goods do exhaust with their first sale. This means that once an owner of a patent, trade mark or copyright sells a particular article bearing such intellectual property, he ceases to have any further rights over the subsequent sale or distribution of that article and the buyer of any such article becomes free to resell it. When such a buyer imports it for further selling the same, such practice is termed as parallel imports. So, parallel imports connote trade in goods without actual authorization from the proprietor of underlying IP in them. The exhaustion principle thus limits the distribution right, by excluding control over the use of copies after they have been put into circulation for the first time. However, the owner of IP had authorized the initial sale of the article subjected to parallel importation.

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Goods are imported through the route of parallel importation because a particular version or style of the goods is either unavailable in the country of import or the price of such imported goods is lower in the country of import in comparison with same goods put in the market by the owner of IP. Such lower price could be the result of fluctuations in currencies, or it may be due to the structure of distribution chosen by the owner of underlying IP in the goods.

Whether parallel imports are permissible or not has been a matter of debate at national and international fora. Further, it has also been controversial whether a particular national legal regime actually permits it or not. The reason of such controversy is a conflict of rights and interests of the owner of IP and a person who buys such an article from open market in one country and seeks to import and sell it in another country. While such imported goods certainly cannot be described as counterfeit goods, the moot point is that whether such parallel imports amount to infringement of owner's IP rights or not in a particular country. Such a question can be answered by an appreciation of the national legal regime of that country. In this regard, the national laws of a country could potentially provide for the following four alternatives:

- (i) No exhaustion
- (ii) National exhaustion
- (iii) Regional exhaustion
- (iv) International exhaustion

When the law says that the right of the owner of IP over the subsequent sale or transfer of article once sold will never exhaust, then it is the case of no exhaustion. When the law says the buyer of an article bearing IP can resell or transfer the same within the country itself, then it is the case of national exhaustion. In these two cases parallel imports are not permitted and if someone does it his conduct would amount to infringement of the relevant IP rights. When the law permits such a buyer to resell or transfer the article within a region comprising a few countries then it is a case of regional exhaustion. In this case parallel imports are permitted from a country belonging to that region only. Regional exhaustion is best exemplified by the European Economic Area (EEA) where a number of countries treat themselves as one economic entity so that resale rights are considered exhausted if products are first distributed anywhere within that trading block. When such a buyer is permitted to resell or transfer the article anywhere in the world, then it is a case of international exhaustion and in such cases parallel imports from anywhere in the world are permitted and the person importing cannot be said to have infringed the underlying IP.

The laws of a particular country may potentially apply the principle of exhaustion differently for different forms of IP like patents, trademarks and copyrights. Further, within a particular form of IP such as copyright, the treatment of this doctrine could

be different for different classes of works. Where IP laws recognize international exhaustion, the parallel imports are legal, and where it recognizes only national exhaustion or no exhaustion then parallel imports would be illegal.

## II International law *vis-à-vis* parallel imports

Though the issue of parallel imports is ultimately to be decided by national laws yet, international treaties form the borders in which national legislations grant IP rights to owners. Therefore, it is fruitful to examine international copyright treaties as to their treatment of parallel importation. The first and most important copyright treaty, *i.e.*, the Berne Convention, 1876 does not specifically address distribution right or its exhaustion. Because this right is not mentioned in the convention, therefore, it could be stated that contracting parties are not prohibited from applying the exhaustion doctrine with respect to the distribution right. The other international convention related to copyright is Universal Copyright Convention, 1952 which also does not present any restriction for application of exhaustion doctrine.

The issue of parallel imports relates to trade and because it involves an element of import as well, it was subjected to extensive debates at the forum of World Trade Organization (WTO). However, contracting parties could not come close to agreeing upon a single set of exhaustion rules for all members. They instead agreed that each WTO member would be entitled to adopt her own exhaustion policy and rules. This consensus was embodied in article 6, which states:<sup>1</sup>

For purposes of the dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Parallel trade was one of the most contentious issues under the TRIPS negotiations where most of the developing countries supported parallel imports including India.<sup>2</sup> Some developed countries like New Zealand and Australia also strongly argued in favour of a country's freedom to impose appropriate parallel import regimes as this would grant them freedom to offer a range of goods to foreign buyers. Negotiations on parallel imports were led by Hong Kong, Australia, New Zealand, Singapore and India.<sup>3</sup>

## III Parallel imports of copyrighted works under Copyright Act, 1957

As stated earlier, whether or not parallel imports amount to infringement can only be addressed by the municipal law of a country. This part examines the provisions of

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1 Art. 6, TRIPs, 1994. Art. 6, TRIPs does not, however, prohibit a WTO member from taking recourse to other measures such as unilateral measures to prevent parallel imports.

2 See, Indian submission to TRIPs Negotiations, *available at*: [http://www.wto.org/gatt\\_docs/English/SULPDF/92070115.pdf](http://www.wto.org/gatt_docs/English/SULPDF/92070115.pdf) (last visited on Jan. 17, 2013).

3 See, Jayashree Watal, *Intellectual Property Rights in the WTO and Developing Countries* 295, 300 (Oxford, 2001).

Copyright Act, 1957 as to its treatment of exhaustion and consequently on its impact on the legality of parallel imports in India. The Act provides the owner of the copyright in literary, dramatic or musical works other than a computer programme with a number of rights including the right of distribution. The exact language of the statute embodying this right is:<sup>4</sup> “to issue copies of the work to the public, not being copies already in circulation.”

Out of the four potential alternatives of exhaustion doctrine, as stated above, which one could be covered by the Act for literary works such as books, would depend upon an interpretation of the above wording of section 14(a) (ii).<sup>5</sup> For the purpose of analysis this provision could be divided into two parts. First, there is a grant of exclusive right to the owner to issue copies of the work to the public. One could issue copies to the public either by sale or free distribution. The second part is restrictive of the first in so far as it qualifies that this right to issue copies is available only in respect of copies which are not already into circulation. An explanation attached to section 14 clarifies the meaning of what is meant by the expression ‘copies already in circulation’. It states:<sup>6</sup>

A copy which has been sold once shall be deemed to be a copy already in circulation.

What type of exhaustion is covered by section 14(a) (ii) is not stated in so many words and therefore it needs to be explored. One might argue that the term ‘copies already in circulation’ could be taken to mean copies in circulation anywhere in the world. However, one might equally well argue that since the Indian Copyright Act extends only within the four corners of India, a copy ‘already in circulation’ necessarily has to mean a copy that is in circulation within the territory of India.<sup>7</sup> Six arguments have been made below which seek to establish that the expression ‘copies already in circulation’ means copies put to circulation anywhere in the world:

- (i) The legislature has not chosen to qualify this expression within India deliberately and there is no room for making this implication when the language is amply

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4 S. 14(a)(ii), Copyright Act, 1957.

5 It is to be noted that in case of computer programmes, cinematograph films and sound recordings the Copyright Act under s. 14 grants to their owners an additional right ‘to sell or give on commercial rental or offer for sale or commercial rental any copy of the work’. This would mean that distribution rights in respect of such works would never exhaust. The copyright owner, therefore, continues to be entitled to exercise right of distribution in a particular copy of such works regardless of whether it has been sold previously- in contrast to literary works. Therefore, a ‘buyer’ of software is not permitted to ‘sell’ the same after having used it. This differential treatment of different classes of works as to distribution right serves dual purpose— it keeps one class of owners free to place restrictions on further distribution of sold goods and at the same time it restricts the second class of owners to place any such restrictions.

6 S. 14 (Explanation), Copyright Act, 1957.

7 See, Shannad Basheer, *et.al.*, “Exhausting Copyright and Promoting Access to Education: An Empirical Take” 17 *JIPR* 335 at 338 (2012).

clear to mean copies already in circulation anywhere. In other words, you need to qualify the expression 'copies already in circulation' by making an implication at the end to read 'copies already in circulation in India' to interpret it for national exhaustion, whereas 'copies already in circulation' is wider in itself and needs no implication to carry the effect of international exhaustion. It is an established principle of the law that when a plain and a natural reading and meaning of a provision is clear and unambiguous, then there is no need to insert or introduce any words to the provision and cannot depart from the plain reading principle or literal rule. In *Association for Development v. Union of India*,<sup>8</sup> it was observed:<sup>9</sup>

[I]t is not the duty of the court to enlarge the scope of the legislation when the language of the provision is plain and unambiguous. The court cannot recast or reframe the legislation for the very reason it has no power to legislate. The court cannot add words to a statute or read words into it which are not there.

- (ii) In this regard, an argument could be made that since this is a matter that arises out of an Indian statute so the copies already in circulation must mean copies already in circulation in India. However, this argument has no merit because by literally reading it to carry international exhaustion one is not extra territorializing the scope of the Copyright Act.
- (iii) There is well-known maxim of common law which states that everything that is not prohibited is permitted. Since the Indian legislature chose not to prohibit international exhaustion in so many words, one does not require that many words to permit it. Therefore, delving on the theories of freedom and law one may say that section 14(a) (ii) allows international exhaustion.
- (iv) India has always been a votary of international exhaustion and has made her stand clear at international fora on a number of occasions.<sup>10</sup> International exhaustion is the norm and anything less than that is an exception for India. In this regard it may be said that section 14(a) (ii) of Copyright Act, 1957 is, at best, permissive of parallel imports and at worst it is doubtful as to the legality of parallel imports. So, if a provision has created some doubts as to that, it has to be interpreted keeping in mind the assertions of India in international fora. The legislative branch which is tasked with enacting laws and executive branch which has the prerogative to enter into treaties with foreign countries cannot be expected to speak in one tone nationally and another tone internationally. So, a harmonious interpretation of this provision also compels one to adopt international

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8 167 (2010) DLT 481.

9 *Id.*, para 15.

10 See *supra* notes 2 and 3.

exhaustion.

- (v) Parallel imports have been permitted under the Indian Patents Act, 1970<sup>11</sup> as well as the Trade Marks Act, 1999.<sup>12</sup> Therefore, copyright law should be interpreted to keep a happy company of its siblings, *i.e.*, patent and trade mark law. Because wherever Indian law has been permissive of exhaustion, it has always gone for international exhaustion. Further, a large number of products are covered by multiple IPRs. For example, a book has copyright protection and may also bear a trade mark. So, it is desirable that these different legal regimes bear the same attitude as to parallel imports. Otherwise, a specific allowance under one regime could be vetoed by another regime making them contradict each other resulting in policy incoherence.
- (vi) In exercise of the powers conferred by section 40 of the Copyright Act,<sup>13</sup> the Central Government of India has made the International Copyright Order, 1999. Section 3(a) of this order states:<sup>14</sup>

Subject to the provisions of paragraphs 4, 5 and 6, all the provisions of the Copyright Act, 1957, except those in Chapter VIII, and other provisions which apply exclusively to Indian works, shall apply – to any work first made or published in a country mentioned in Part I, II, III, IV or VI of the Schedule, in like manner as if it was first published in India.

In essence, the above section extends the application of the provisions of the Copyright Act to any work first made or published in convention countries,<sup>15</sup> in the manner as if it was first published in India. That means publication in any of the

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11 See s. 107A(b), Patents Act, 1970: Certain Acts not to be considered as infringement—For the purposes of this Act, 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 shall not be considered as an infringement of patent rights. Where 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) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or (b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent. This provision was interpreted to be permissive of parallel imports by the Delhi High Court in *Kapil Wadbwa v. Samsung Electronics Co. Ltd.*, FAO(OS) 93/2012 (3 Oct. 2012).

12 See, s. 30(3), Trade Marks Act, 1999.

13 S. 40 of Copyright Act extends copyright protection to all works first published in a foreign country or where the author is a citizen of a foreign country. The “foreign countries” are defined in the International Copyright Order, 1999.

14 Available at: [http://copyright.gov.in/Documents/International %20 Copyright %20 Order .htm](http://copyright.gov.in/Documents/International%20Copyright%20Order.htm). (last visited on Dec. 10, 2013).

15 At present there are 166 countries who are members of the Berne Convention. Available at: [http://www.wipo.int/treaties/en/Showesults.jsp?treaty\\_id=15](http://www.wipo.int/treaties/en/Showesults.jsp?treaty_id=15) (last visited on Jan. 18, 2013).

convention countries is deemed to be made in India, 'as if' the works were published in India. Publication has been defined in section 3 of the Act to mean:<sup>16</sup>

[M] Making a work available to the public by issue of copies....

Naturally, therefore, the right under section 14(a)(ii): 'to issue copies of the work to the public, not being copies already in circulation' must be construed to mean 'to issue copies of the work to the public, not being copies already in circulation in any of the convention countries'. This would result in the interpretation of section 14(a)(ii) to carry international exhaustion.

#### IV Judicial interpretation of section 14(a) (ii)

Ultimately law is what the judges state it to be. This part seeks to examine the judicial pronouncements which have referred to section 14(a) (ii) *vis-à-vis* parallel imports either directly or indirectly. Four such cases, all decided by high courts have been examined below and the author finds that none of these cases are interpretative of section 14(a)(ii) as it stands today in the statute book in relation to parallel imports. Therefore, they are not authoritative on the aspect of parallel imports of books or other literary, dramatic or musical works of similar nature. In other words, the courts are yet to examine the aspect of parallel importation based on section 14(a) (ii) of the Copyright Act, 1957 as amended after 1994.

#### ***Penguin Books Ltd. England v. M/s India Book Distributors***<sup>17</sup>

In this case, the plaintiffs were owners of copyright in books that were published in the USA and were selling these books in India through their exclusive licensees who also joined as co-plaintiffs. The defendants purchased these books from the open market in the USA and had imported such books in India and had offered them for sale in India. The case of the plaintiffs was that the defendants' conduct amounted to infringement of their exclusive rights as mentioned under section 14 of the Copyright Act. Section 14(1) of the Copyright Act as it stood in 1984 when the present dispute was decided contained the following rights in the case of a literary, dramatic or musical works:<sup>18</sup>

- (i) to reproduce the work in any material form
- (ii) to publish the work;
- (iii) to perform the work in public;
- (iv) to produce, reproduce, perform or publish any translation of the work ;
- (v) to make any cinematograph film or a record in respect of the work ;

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16 See, s. 3, Copyright Act, 1957.

17 AIR 1985 Del 29.

18 Available at: <http://copyright.gov.in/Documents/CopyrightRules1957.pdf> (last visited on Dec. 21, 2013).

- (vi) to communicate the work by radio broadcast or to communicate to the public by a loud-speaker or any other similar instrument the broadcast of the work;
- (vii) to make any adaptation of the work;
- (viii) to do in relation to a translation or an adaptation of the work any of the acts specified in relation to the work in clauses (i) to (vi).

The court held that the conduct of the defendants amounted to infringement of the exclusive rights of the plaintiffs. It was held:<sup>19</sup>

Importation of books which are “infringing Copies of the work” is an infringement. So is the sale thereof. If any person, without the licence of the copyright owner, imports into India for the purpose of selling or distributing for purposes of trade the literary work the copyright is infringed. Any importation of infringing copies is therefore an infringement unless it is for the importer’s own use. American books may be lawfully published in America. But when the copies of those publications are imported into this country, an action for infringement would lie in this country against the importer in respect of those copies. An action would also lie against any person who for instance sold or distributed such copies here.

The court held that the defendants had “published” the books of the plaintiffs in India. The definition of publication as it stood in section 3(a) of the Copyright Act in 1984 was:<sup>20</sup> “For the purposes of this Act, “publication” means, in the case of a literary, dramatic, musical or artistic work, the issue of copies of the work, either in whole or in part, to the public in a manner sufficient to satisfy the reasonable requirements of the public having regard to the nature of the work”. The court held:<sup>21</sup>

It is true that India Distributors (defendants) are not printing these books and are not guilty of what is called primary infringement. But when they issue copies of these titles for public distribution they are guilty of secondary infringement.... Issue of copies for public distribution is publication. Of publication in India the right is given to Penguins (plaintiff) under an exclusive licence. What matters is the issue of copies in India for purposes of infringement. Whether they have already been published lawfully in America is of little consequence. The importation, sale and public distribution of American Editions constitute infringement of copyright of the exclusive licensee.... While publication generally refers to issue to public, importation for the specified purpose may be a necessary step in the process of issuing

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19 *Supra* note 34, para. 22.

20 In the present Copyright Act which was last amended in 2012 the definition of publication stands as: “For the purposes of this Act, ‘publication’ means making a work available to the public by issue of copies or by communicating the work to the public.” See, *supra* note 16.

21 *Supra* note 17 paras. 26, 36 and 37.



to the public, and therefore of publishing. It appears to me that the exclusive right of Penguins to print, publish and sell these titles in India would extend to the exclusive right to import copies into India for the purpose of selling or by way of trade offering or exposing for sale the books in question. This is the true meaning of the word 'publish' as used in S. 14(1)(a)(ii).

The court, in this case, clearly invalidated parallel imports. However, the reason for the court to have opined so was the fact that at that time in 1984 the owners of copyright in literary, dramatic or musical works had an exclusive right to 'publish' their works. And to publish at that time meant 'to issue copies of the work to the public'. However, in 1994, when India had already participated in TRIPs negotiations and had made clear her stand to favour international exhaustion, the Parliament by the 1994 amendment to the Copyright Act took away this right of publication from the owners of literary works and replaced it with the present section 14(a) (ii) containing a right "to issue copies to the public not being copies already in circulation". In effect the earlier absolute right 'to issue copies of a work to public' was curtailed with a qualification 'not being copies already in circulation'. In the backdrop of TRIPs negotiations, it is amply clear that this amendment to section 14(a) (ii) was carried out to validate parallel imports in literary, dramatic and musical works other than computer programmes. Therefore, whatever the court decided in the *Penguin* case cannot be interpretative of the present section 14(a) (ii) of the Copyright Act. In other words, citing *Penguin* it cannot be said that the court has interpreted the present Copyright Act to disallow parallel imports of books. It is rather the other way round; citing *Penguin* along with the subsequent changes made in the relevant law by the legislature, it could be said that the interpretation of *Penguin* as to national exhaustion has been overruled by the legislature in favour of international exhaustion.

***Eurokids International Pvt. Ltd. v. India Book Distributors***<sup>22</sup>

In this case, an enterprise 'Casterman Editions' had the exclusive publishing rights relating to the book 'TinTin'. Defendants no. 2 entered into an agreement with the said Casterman Editions whereby Casterman Editions granted to defendant no. 2 the exclusive right to publish and distribute TinTin books in various territories including India. The plaintiff is the exclusive licensee of the defendant no. 2 for the purpose of importing and distributing TinTin in the territories of India, Srilanka, Nepal, Bangladesh, Bhutan and Maldives. The defendant no. 1 is a distributor of books in India and allegedly purchased some such books through Little Brown & Co. of the USA who is the American licensee of Casterman Editions to sell these books in USA. It is further alleged by the plaintiff that the defendant no. 1 has imported these books and is offering to sell them in India. The substance of the complaint by the plaintiff is that their copyright has been infringed because of the acts of first defendant in importing and distributing in India the TinTin books.

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22 2005 (6) Bom. C.R. 198.

*Prime facie*, the court enjoined the defendant no. 1 from importing and selling the books in question. The court relied on the theory of breach of contract to arrive at the decision. It stated:<sup>23</sup>

The books imported and distributed by M/s. Little Brown & Co. in USA cannot be imported and distributed in India by first defendant. Such an action on their part contravenes agreement at Annexure-B and defeats plaintiff's rights thereunder. Since M/s. Little Brown & Co. itself has no authority to import or distribute the titles in question in India, then they could not have created any rights in favour of first defendant.

Further the court stated:<sup>24</sup>

[I]t is not disputed that first defendant have admittedly imported and distributed the titles in question in India, then there is a breach or violation of the Agreement at Exhibit-B.

It is noteworthy that there was no contract between the plaintiff and defendant no. 1, therefore, the question of any breach of contract could not arise in the first place because of the doctrine of privity of contract.

In granting injunction against the defendant no. 1, the court also relied on the *Penguin* case<sup>25</sup> and said:<sup>26</sup>

As early as on 1st August, 1984 the Hon'ble Delhi High Court in a decision to which first defendant herein is a party, considered more or less identical controversy. In my view, the law laid down by the Delhi High Court cannot be brushed aside by me, at least, at this *prima facie* stage.

The controversy in this case and the *Penguin* case may be 'more or less identical' but the court was completely unmindful as to the fact that the governing law had, in the meantime, undergone a change.

This matter, of course, required an appreciation of the doctrine of exhaustion and the validity of parallel importation in the light of section 14(a) (ii) of the Copyright Act. However, the court based its order on the theory of breach of license contract and relied on the judgement of *Penguin* case<sup>27</sup> to reach such a conclusion. Both these aspects cannot technically be applied to resolve the present dispute. The issues of exhaustion and the validity of parallel importation were not raised at all. Because of these factors this decision of the Bombay High Court cannot be regarded so much as a precedent on the aspect of the legality of parallel importation of books.

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23 *Id.*, para. 6.

24 *Id.*, para. 22.

25 *Supra* note 17.

26 *Id.*, at para. 26.

27 *Supra* note 17.

***Warner Brothers Entertainment Inc. v. Santosh V.G.***<sup>28</sup>

In this case the plaintiffs carried on the business of film production and were the owners of rights in the films produced by them. This involved release of the film in theatres and/or cinema halls. After the film had run its course in the theatres and cinema halls, it was released in other formats and media such as home video, rental, cable and satellite TV. Further, the plaintiffs conformed to a practice of releasing a particular film first in certain countries and thereafter in other countries. The defendant legally bought the copies of these films contained in phonograms and imported them to India and was engaged in giving these films on hire by operating a video library. The issue to be decided by the court was whether the giving on hire or rent in India, by the defendant, copies of such films, authorized for sale or rental only in a particular territory outside India, constitutes infringement under section 51(a) (i) of the Copyright Act, 1957?

The court decided that the doctrine of exhaustion, whether national or international, was not applicable in case of films based on an interpretation of section 14 of the Copyright Act which gives the right of sale and rental to the owner of copyright in a cinematograph film. Though the court was not asked to state the applicability of the doctrine of exhaustion in case of books and other literary or musical works, it had an occasion to state that the doctrine of exhaustion did apply in case of books and other literary works of similar nature. The court, however, fell short of stating, in so many words, whether such exhaustion was national or international. To quote:<sup>29</sup>

The express indication in Section 14(a)(ii) that a copyright owner of literary works cannot exercise domain over copies in circulation, shows that exhaustion, if one may term it, applies only in relation to the class of copyrights in Section 14(a) and to the extent specified in Clause (ii). Thus, the copyright owner of a literary work, cannot dictate how and under what conditions a copy can be re-sold, once it is “circulated”.

***John Wiley and Sons Inc. v. Prabhat Chander Kumar Jain***<sup>30</sup>

In this case the plaintiff no. 1 John Wiley and Sons Inc., is a corporation incorporated under the laws of New York in USA and plaintiff no. 2 Wiley India Pvt. Ltd. is the exclusive licensee of the plaintiff no. 1 having its office at Delhi. The plaintiffs have introduced low price editions (LPEs) in India of their already published books in foreign markets at prices befitting the Asian markets. These books are subject to territorial restrictions imposed by the plaintiff no. 1 and contain the following notice on the copyright page of the books:<sup>31</sup>

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28 MIPR 2009(2) 175.

29 *Id.*, para 67.

30 170 (2010) DLT 701: 2010 (44) PTC 675 (Del).

31 *Id.*, para 5.

Wiley Student Edition Restricted for Sale only in Bangladesh, Myanmar, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam. The book for sale only in the country to which first consigned by Wiley India Pvt. Ltd and may not be re exported. For sale only in: Bangladesh, Myanmar, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam.

The defendants have made purchases of such books from the open market in India and have placed them for selling overseas through their websites. The plaintiffs have contended that any attempt by anyone to sell, distribute or circulate the books outside the territories prescribed by the owners of the copyright shall cause infringement of the copyright. In other words, according to the plaintiffs, when the export of such books is affected to the territories beyond the ones indicated upon the books, then the books which are not in circulation in the public of that territory are made available to them, would lead to infringement of the copyright of the plaintiffs. The court decided the matter in favour of the plaintiff by stating:<sup>32</sup>

The said acts of the defendants of purchase of the books from the exclusive licensees/licensee are legitimate in nature and do not hinder or take away anyone's rights including the rights of exclusive licensees/licensee. But once the said defendant no. 3 offers for sale the books or publications (which are fettered by territorial restrictions purchased from exclusive licensees) and puts them into circulation by selling or offering for sale or by taking orders for sale to the territories beyond the ones for which permission has been granted by the owners of the copyright, the said acts are prima facie tantamount to putting into circulation or issuance of copies not being in circulation in other territories where the right to do so is of the owner to exercise and violates the rights of the owner of the copyright under Section 14 read with Section 51 of the Act, if not the rights of the exclusive licensee.

It is submitted that this decision of the court is not on the aspect of parallel imports rather it is on parallel exports. Therefore, the interpretation of the court cannot be binding for the cases of parallel imports. Whether or not India follows international exhaustion could be decided only in a case of imports to India and it is not possible to decide on this issue in a case of exports from India.

It is further submitted that even on the point of parallel exports, the decision is flawed on multiple counts. The books once purchased are legally purchased in India and they leave the territory of India once they are exported. Thus, no act of infringement is done within the territory of India and thereby the provisions of the Copyright Act are not attracted. By applying the Copyright Act to such a situation the court has wrongfully applied Indian law to a dispute which arose in the country of import, therefore, at most, the same may be infringement of the rights of the plaintiffs in the country where the said books are imported if that country does not follow the principle of international exhaustion.

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32 *Id.*, para. 70.

Various scholars have opined about the errors of this judgement. Noteworthy are the views of two experts. It was laid:<sup>33</sup>

The Delhi High Court endorsed an explicit right to prevent export last year in two cases involving the publisher John Wiley & Sons. However, these decisions are suspect as they conjure up such an exclusive right to prevent exports out of thin air. The Indian Copyright Act, 1957 makes it permissible to circulate freely the copies of any book, which has been sold once by the owner of the copyright (explanation to Section 14). This circulation would ordinarily include an 'export' as well. In fact, the Indian Copyright Act, 1957 expressly states that only those books that are issued under compulsory licenses are prevented from being exported (Section 31). This seems to suggest that for all other books, there is no separate right to prevent exports.

It is also stated that:<sup>34</sup>

All IP laws, such as patents, trademarks including copyright, world over including India, only regulate and restrict imports and not exports. Export of IP incorporated products have never been addressed in IP laws. Such exports do not tinker with any of the rights granted in section 14 of the Copyright Act. Exports from India of copyrighted products even without the consent of copyright owner are perfectly legal from Indian standpoint.

The second aspect which the court considered was that of licensing by the owner and a breach of the conditions of such a license leading to copyright infringement. The court stated:<sup>35</sup>

Section 19(6) postulates that if the covenant is silent about the territory, then said assignment/or licensing by deeming fiction of law shall be limited to India. This is the statutory recognition of the principle that the owner's right under the copyright Act is not circumscribed by the territorial limitation and rather the owner can assign or license its rights worldwide. This is also applicable to an Indian author or owner, for instance, if an Indian person is the author and the owner of the book, then the said person will have a copyright to issue the copies of his work to the public anywhere in the world.

Further the court stated:<sup>36</sup>

The doing of unauthorized acts of the owner of the copyright is only one kind of infringement. The other kind of infringement would be to violate

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33 *Supra* note 7 at 335 & 343

34 Ashwani Kumar Bansal, "Intellectual Property Rights: Judicial Law Making with Foreign Bias" 2 *JOLTI* 1 at 10 (2011).

35 *Supra* note 30 at 722, para. 66.

36 *Id.*, para. 724.

the conditions of the licensee and commission of acts going beyond the fetters imposed by the license.

It is possible for the owner to limit his rights as provided by law but he is not permitted to expand them by private contracts. It is a well-known principle of law that one cannot sell something which one does not have. If A has a car he is free to sell the same. However, if he doesn't have a car how can he sell it? Under section 14(a) (ii) the owner has the right to issue copies of a work to public only once and beyond that it comes to public domain and it becomes then the right of the lawful possessor. If the interpretation of court is right then it would become possible for an owner to extend the duration of protection of copyright or patents beyond what has been carefully determined by the legislature. Such a proposition cannot be accepted and wherever practiced had been struck down by the courts.<sup>37</sup> The enforcement of such conditions mentioned on the books is untenable on another count that there is no privity of contract between the plaintiffs and the defendants and thus the defendants are not bound by the conditions mentioned on the books. It is a cardinal principal of law the only parties to a contract can sue and be sued upon it.

#### **V Proviso to section 2(m) under the Copyright Amendment Bill, 2012**

The Copyright Amendment Bill, which was passed by the Lok Sabha<sup>38</sup> on May 22, 2012, originally contained a provision which was cited by many as recognizing the principle of 'international exhaustion' in Indian Copyright Act. However, this was dropped in the final version of the bill that was eventually passed, ignoring even the recommendation of the standing committee.<sup>39</sup> This provision was an amendment to an already existing provision, section 2(m) of the Copyright Act which is as follows:<sup>40</sup>

- (i) in relation to a literary, dramatic, musical or artistic work, a reproduction thereof otherwise than in the form of a cinematographic film;
- (ii) in relation to a cinematographic film, a copy of the film made on any medium by any means;
- (iii) in relation to a sound recording, any other recording embodying the same sound recording, made by any means;

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37 *Brulotte v. Thys Co.*, U.S. 29 (U.S. Wash. 1964). See, Raman Mittal, *Licensing Intellectual Property: Law & Management* 141 (Satyam Law International, 2011).

38 Rajya Sabha passed it on May 17, 2012.

39 While other significant aspects of the Copyright Amendment Bill, 2012 were debated, unfortunately little debate took place in the Parliament on this point at the time when the bill was passed. A Parliamentary Standing Committee that reviewed the bill strongly endorsed this provision. See, 227<sup>th</sup> Report on the Copyright (Amendment) Bill, 2010, Department-Related Parliamentary Standing Committee on Human Resource Development, *available at*:<http://www.prsindia.org/uploads/media/Copyright%20Act/SCR%20Copyright%20Bill%202010.pdf> (at visited on Jan. 23, 2013).

40 *Available at*: <http://copyright.gov.in/Documents/CopyrightRules1957.pdf> (last visited on Nov 30, 2013).

- (iv) in relation to a programme or performance in which such a broadcast reproduction right or a performer's right subsists under the provisions of this Act, the sound recording or a cinematographic film of such programme or performance, if such reproduction, copy or sound recording is made or imported in contravention of the provisions of this Act.

The proviso which was sought to be added to section 2(m) is as follows:<sup>41</sup>

Provided that a copy of a work published in any country outside India with the permission of the author of the work and imported from that country into India shall not be deemed to be an infringing copy.

This proviso was widely seen as an insertion into the Indian Copyright Act which would allow parallel imports of copyrighted works in India. Let us examine this proviso on two counts, one the right to sell and two the expanse of its coverage:

One, the proposed proviso to section 2(m) only talks about the import of a copy of a work and states that such a copy shall not be an infringing copy. True if A buys a copy of a book from New York and brings it in India, it shall not become an infringing copy in the hands of A. But this proviso to section 2(m) does not permit the further sale of this copy in India by A. Stand alone the proviso to section 2(m) cannot be interpreted to be permissive of such a sale. As demonstrated earlier, such a permission to resell is already to be found under section 14(a) (ii) of the Copyright Act *vis-à-vis* literary, dramatic and musical works other than computer programmes. However, if the substantive provision of section 14(a) (ii) does not grant such a right to resell, the proposed amendment to section 2(m) cannot be permissive of sale as such a sale would then come within the mischief of section 51(a) (i).<sup>42</sup> In other words, even if the copy of the book is a non-infringing one in the hands of A, a sale of it by her could still amount to infringement under section 51(a) if section 14 grants an exclusive right to sell it to the owner of copyright. The Copyright Act says that sale of infringing copies of a work amounts to infringement<sup>43</sup> but it doesn't say that sale of non-infringing copies would not be an infringement.<sup>44</sup>

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41 Available at: <http://www.thehindu.com/todays-paper/tp-opinion/the-copyright-amendment-bill-2010> (last visited on Dec. 5, 2013).

42 S. 51(a) (i), Copyright Act, 1957: When copyright infringed—Copyright in a work shall be deemed to be infringed when any person, without a licence granted by the owner of the copyright or the Registrar of Copyrights under this Act or in contravention of the conditions of a licence so granted or of any condition imposed by a competent authority under this Act does anything, the exclusive right to do which is by this Act conferred upon the owner of the copyright.

43 S. 51(b) (i), Copyright Act, 1957: Copyright in a work shall be deemed to be infringed when any person makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire any infringing copies of a work.

44 See, s. 51(a) (i), Copyright Act, 1957.

Two, notwithstanding what has been said in the previous paragraph about the right to sell, what is the expanse of the proposed amendment to section 2(m)? Could it be said that this proviso would have permitted the resale of all copyrighted works including books, music DVDs, software CDs, *etc.* beyond their first sale? Now, this cannot be the case at all. Even imagining, for argument sake, that this proviso validated import and sale of imported copies, how could it cover all copyrighted works? For example, the owners of computer software, sound recordings and cinematographic films have been granted the right to sell which is over and above the rights that are available to other literary, musical and artistic works. That means the owner alone has the right to sell his works. Consequently, even old or second hand version of software CDs cannot be resold by their lawful 'purchaser'. When this right to sell is the substantive right specifically granted to the owners of software, films and sound recordings, how can the proviso take away the entire of it in one go. In the author's opinion this would be too far-fetched an assumption whereby the statute has already taken away the rights before it has sought to grant them. Therefore, this amendment to section 2(m) was postulated only *vis-à-vis* literary, dramatic and musical works other than computer programmes.

The real objective of this proposed amendment to section 2(m) was to clarify something which was already there in the statute. This could have been necessitated because of possible readings of section 14 by different courts in different ways. Yes, it was intended to clarify the position of parallel imports of books, but the attempt was aborted and could never reach a stage where it could be debated and voted in the Parliament. Though, strictly speaking, the amendment contained in the proposed proviso is not necessary, however, if the Indian legislature wants to go with this amendment to clarify the situation, it should be done with some changes in the drafting language.<sup>45</sup>

One, it should not be inserted as a 'proviso' because proviso gives an impression that the legislature wants to add something which was not there already. In legislative drafting, a proviso is a provision that begins with the words *provided that* and supplies a condition, exception or addition.<sup>46</sup> Since such an amendment is not desirous of adding something to what was already there, nor does it seek to lay down any condition, the special drafting technique of using a 'proviso' should be avoided. Rather, it could be inserted as an 'explanation' which, in legislative drafting, is attached with the main provision and seeks only to explain and clarify what the main provision already contains implicitly.

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45 This proposed amendment to the Copyright Act was withdrawn owing to protests from certain stakeholders, however, the government stated that it had referred the matter to the National Council of Applied Economic Research (NCAER) and would seek to reintroduce the same in accordance with the findings of the NCAER. See, Lok Sabha, Synopsis of Debates (Proceedings other than questions & answers), 15 (22 May 2012), available at: <http://164.100.47.132/Synop/15/X/Sup+Synopsis-22-05-2012.pdf> (last visited on Jan. 23, 2013).

46 See, Bryan A. Garner (ed.), *Black's Law Dictionary* 1346 (9<sup>th</sup>edn. West, 2009).



Two, the use of the word 'deemed' too suggests to treat something as if it were something really else.<sup>47</sup> The word 'deem' is useful when it is necessary to establish a fiction either positively by deeming something to be what it is not or negatively deeming something not to be what it is. Deeming creates artificiality and artificiality should not be resorted to if it can be avoided.<sup>48</sup> Therefore, in such an insertion which is only for the purpose of explaining and clarifying, the word 'deem' should be avoided.

Three, it should not address the status of an imported copy of a work in the hands of the importer. Because the status of being a non-infringing copy has a limited relevance in the light of sections 51(b) and 53 of the Copyright Act. It should rather address the activity of buying of literary, dramatic and musical works and then selling them in India to be non-infringing. Should the Parliament of India want to reinsert the same in the statute, the following language can be used, "Explanation: Import and sale of copies of a literary, dramatic or musical work, not being a computer programme published in any country outside India with the permission of the author of the work shall not amount to infringement".

Such a language would be embracive enough and would respond to entire section 51. Further, section 2(m) may not be the right place for such an insertion; rather, it should be added beneath section 51 of the Copyright Act.

Would this aborted effort by the government to insert an amendment to section 2(m) of the Copyright Act be seen as an attempt to allow parallel imports of copyrighted works in India or would it be seen just as an attempt to clarify the existing position of law? In the author's opinion not much credence could be given to the exercise of inserting this amendment because the Parliament never had a chance to debate and vote on it. A failed attempt by the government cannot be said to be expressive and enumerative of the legislature's intention. Further, an omission to introduce a proposed change in the statute before the current legislature cannot have a bearing on the intention of the past legislature that had enacted the statute. The proposed amendment to section 2(m) cannot be said to have gathered any legislative history because the Parliament did neither enact it nor did it refuse to do so.

## VI Conclusion

The ability of a right-holder to exclude parallel imports legally from a particular market depends on the importing nation's treatment of exhaustion of IP rights. A regime that is supportive of no exhaustion or of national exhaustion awards the right to prevent parallel imports, while one of regional or international exhaustion makes such imports legal. India has been a strong votary of the principle of international exhaustion while participating in negotiations of international treaties and has successfully led the effort which culminated in the award of freedom to countries to

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47 See, *supra* note 45.

48 G.C. Thornton, *Legislative Drafting* 99 (4<sup>th</sup> edn. 1996).

opt for any theory of exhaustion in their respective legislations. Consequently, one finds the full implementation of international exhaustion principle in case of Patents and Trade Mark Acts of India. Section 14(a) (ii) of the Copyright Act, 1957 which is enumerative of the principle of exhaustion *vis-à-vis* literary, dramatic and musical works other than computer programmes is plainly supportive of international exhaustion and only a crooked reading of it could make it suggestive of national exhaustion. Indeed, there are extremely strong reasons to conclude that section 14(a)(ii) is, in itself, sufficient to carry the principle of international exhaustion and thus parallel imports of books are perfectly legal in India. Moreover, the courts in India are yet to examine and interpret the present section 14(a)(ii) *vis-à-vis* parallel imports. An attempt of the government to clarify this ambiguity in Indian law through adding a proviso in section 2(m) of Copyright Act, 1957 was aborted before it could be debated and voted in the Parliament. In future, it would be good for the Indian Parliament to make such a clarification; nevertheless even in the absence of it Indian law can only be interpreted to have legislated international exhaustion and hence it is permissive of parallel imports of books.