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## **ANALYSIS OF CONCEPT OF EXHAUSTION UNDER INDIAN PATENT, SEMICONDUCTORS AND PLANT VARIETIES**

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### **Introduction**

Exhaustion of rights, which limits the rights of the Intellectual Property (IP) owner thus reducing the monopolizing tendency of the IP, has been for the same reason debated vehemently between the developed and the developing nations. Developing nations, even in the midst of pressure from the developed nations, has tried to incorporate this flexibility inside the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). India is one of the forefront-runners who advocated for international exhaustion to facilitate parallel imports for access and affordability of cheap products.<sup>2</sup> The economic conditions and the public interest of this country compels for such an effort. The area where parallel imports create a hefty impact is the Patent and Copyright regimes. The Indian law has categorically tried to recognize international exhaustion especially in the Patent arena, immediately upon the onset of TRIPS era. In this paper the author tries to analyse the exhaustion provisions under the Indian Patent Law, Design Law, Semiconductor Law and Plant Varieties Law.

### **Exhaustion under Indian Patent law**

The Indian Patent Act of 1970 was the first Act, which was made in Indian legislature in the field of Patents. However, it had two important predecessors which were introduced by British- Patent Act of 1856 and Indian Patent and Designs Act of 1911. Both the laws did not contain any express provisions on exhaustion. They were indeed based on England's Patent Act of 1852. However, they did not contain any provisions on

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<sup>2</sup>See MTN.GNG/NG11/W/37, Submission of India in the Second phase of TRIPS negotiation, (1988-1989).

importation rights of the patentee. This point to the fact that importation from outside India was not aimed to be prohibited in the Patent Act of 1856 and Indian Patent and Designs Act of 1911.

After independence, it was felt that a major amendment was needed in the area of Patent law in order to suit the national interests and economic policies (Ayyangar 1959: 3). Therefore a committee was formed with Justice N. Rajagopala Ayyangar chairing it. The committee report specifically raises many questions about the existing patent system and one of the main worries expressed was the misuse of the patent right to import (Ayyangar 1959). The report suggested

*“...the existence of patent prevents the importation of the product manufactured by the same or similar process from a country which might offer the article at a lower price. In this connection, it might be pointed out that where the same patentee manufactures the same article in different countries, the price of the product might not be the same in each country...”*

This explains that the committee was aware of the existence of differential pricing mechanisms and the misuse that can occur due to importation right. The committee also justified differential pricing, terming it as a market mechanism but failed to visualize how it can be utilized for the benefit of the Indian consumers. The report further says that, process patent is what should be granted under the Indian law because a patent for a process confers merely an exclusive right to use the patented process, and not any exclusive right to sell the product made by the process.<sup>3</sup> The importation of the product made abroad by the patented process and its sale would not constitute an infringement of the patentprocess. The result would be that any one is free to import any article made abroad and sell it in India. This would lead to increase in competition between products leading to reduction in price. The competition in the market between low priced imported product and product produced in India would lead to a reduction in price. Such a situation will arise particularly in cases where the article is produced in countries where the invention patented in India does not enjoy patent protection. It is also

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<sup>3</sup> It would be seen that under that rule, since a patent for a process confers merely an exclusive right to use the patented process, and not any exclusive right to sell the product made by the process, the importation of the product made abroad by the patented processand its sale would not constitute an infringement of the process patent. The result would be that as any one was free to import the article and sell it, the competition would lead to a reduction in price, and this would be particularly so in cases where the article is produced in countries where the invention patented in India does not enjoy patent protection. *See*Ayyangar (1959), para. 478.

interesting to note that in the recommendations, right to import was not included as a right of the patent holder (Ayyangar 1959). This could have been provided so as to curb the misuse of the importation right. This suggests the fact that the committee was pointing in the direction of international exhaustion even though no express mention of the same is present in the report. Since no right to import was recognised, any person could import a patented once sold product from any part of the world. The reason for the same would be that there was no need for express mentioning of international exhaustion since there was no right to import granted to the patent holder. This means that the patent holder cannot prohibit the importation of patented products produced elsewhere unless they are infringing goods. Further the rights to be granted under the Ayyangar report was right to sell the patented product and not reselling right.

It was based on the Ayyangar committee report that the Indian Patent Act of 1970 was enacted. The 1970 Act was born with several layers of public interest provisions ensuring access to patented products (Pai 2016: 324-340). The 1970 Act did not have any provisions regarding exhaustion, probably because Ayyangar never mentioned the same as there was no importation right. Later in the TRIPS negotiation in the Uruguay round, the right of import and exhaustion was a subject which led to hot debates. It thus ended up in granting the so called flexibility under TRIPS providing parties the freedom to adopt any mode of exhaustion.<sup>4</sup> Developing and the underdeveloped countries demanded the recognition of international exhaustion in the TRIPS negotiation. Among the patent rights granted to patent holder, even though there exists a right to import, the said right is subject to Article 6.<sup>5</sup> This was highly necessary since when an exclusive license to import is granted, this would mean that any act of distribution without the permission of patent holder could be called infringement (Pai 2016: 324-340). The implication of the footnote 6 to Article 28 is important. The exhaustion extends, as per the footnote 6, not just to imports but also to use and sale or distribute. This means that the right to use a patented product too gets narrowed without the exhaustion of the same right. This could be, coupled with the access and market problems that India could face due to granting of importation right, the reason India demanded for the recognition of

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<sup>4</sup>Article 6 of the TRIPS provides that “For the purposes of 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”.

<sup>5</sup>Footnote 6 to Article 28 says, “This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6.”

international exhaustion.<sup>6</sup> Further in the Declaration on the TRIPS Agreement and Public Health of the WTO ministerial conference held at Doha<sup>7</sup> it was clarified that the effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge, subject to the most favoured nation (MFN) and national treatment provisions of Articles 3 and 4<sup>8</sup>.

With the onset of the TRIPS regime, India was on the path of revising the IP laws so as to make it complying with TRIPS standard. The flexibility provided under the TRIPS regime, which was further clarified by the Doha declaration, granted India the right to recognize the international exhaustion in its Patent law. The Patent law underwent two major revisions in the years 2002 and 2005. In 2002 amendment, right to import was granted as a right under Article 48 of the Indian Patent Act. The amendments never granted a right to resell the product patented but merely right of selling. However, in the very same amendment for the first time a provision was inserted for providing exhaustion (though not through using the express word exhaustion) as a limiting factor on right to import. Section 107 A(b) was inserted so as to provide for exhaustion by Patents (Amendments Act) 2002. In the Second amendment Bill introduced in 1999, the Statement of Objects and Reasons stated that the salient feature of the Bill was to provide for provisions relating to parallel import of patented products. Clause 51 of the Bill recommended the inclusion of the provision of parallel imports. The Notes on Clauses appended to the Bill provides in relevant part,

*“Clause 51- This clause seeks to insert a new section 107A in the Act, relating to certain acts which are not to be considered infringement. It is also proposed that the importation of patented products from the person who is duly authorized by the patent holder shall not constitute an infringement. This provision is proposed to ensure availability of the patented product in the Indian market at minimum international market price.”*

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<sup>6</sup>See MTN.GNG/NG11/W/37, Submission of India in the Second phase of TRIPS negotiation, (1988-1989).

<sup>7</sup>See Ministerial Conference Fourth Session, Doha, 9 - 14 November 2001, WT/MIN(01)/DEC/2.

<sup>8</sup>See Ministerial Conference Fourth Session, Article 5 (d).

Thus it is clear that market accessibility and public interest was a major aim for bringing parallel import provision. Also it made clear that the amendment aims at international exhaustion rather than national exhaustion. Section 107 A(b) read as importation of patented products by any person from a person who is duly authorized by the patentee to sell or distribute the product, shall not be considered as an infringement of patent rights.<sup>9</sup>

Thus, the amendment clearly enabled any third person to import a “patented” product provided that he purchases the product from a person who is authorised by the ‘patentee to sell or distribute the product’. The section however was said to have certain problems. The main and obvious problem was the condition attached for the provision to kick in i.e. that the importer should have purchased the product from the patentee himself or any person who is authorised by the patentee to sell or distribute the product. This could restrict the scope of the provision and really could hamper the real public interest aimed by the provision. Another problem raised was about the word Patented and patentee. Section 2(1)(m) defines “patent” as a patent for any invention granted under this Act. Thus, the patentee and patented product refers to any patent granted under Indian law, reiterating the territorial nature of patent whereby exhaustion is also restricted (Deepak 2011: 121-138).

However, in the 2005 amendment to the Patent Act, the issue of authorization from the patentee was removed. The new section reads as “*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*”<sup>10</sup>. Therefore the new amendment replaced patent holders consent with the consent of the law. Any person who buys the patented product from a person who is authorised under the law to produce and sell or distribute can legally import the product to India. Amendment was also made regarding the activities for which authorization was to be granted. Earlier it was authorised to ‘sell or distribute’, which was amended to be authorised under the law to ‘produce and sell or distribute’.

Even the current provisions are not without ambiguities. What does “under the law” in Section 107 A(b) refers to? Is it the Patent law or does it simply imply that the product should be a legal good? Does the law refer to Indian law? What does “authorised under

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<sup>9</sup>See Notes and Clauses to the Second Amendment Bill, 1999.

<sup>10</sup>See S.107 A(b) of the Indian Patent Act 1970.

the law to distribute” refers to? Should the authorization be to produce and sell or produce and distribute?

There are different methods to do away with these confusions. First obvious way would be to find out the legislative intent behind introducing these provisions. During the debates in the Rajya Sabha, the Minister of State for Commerce and Industry, stated,

*“... the relevant sections are Section 47, Sections 82-84 and Section 107 (a) and (b) which deals with parallel imports. .... The short point that I want to make is that, on the issue of prices, on the issue of availability of patented medicine, on the issue of the ability of the Government to retain the right of ensuring that the patent is translated into a product, there are enough safeguards in the existing legislation both in the 1970 legislation, but more importantly in the revised Patents Act of 1970 reflecting the new provisions for compulsory licensing, reflecting the new provisions for parallel import particularly; and also reflecting the new provisions for enabling the Government to import; and use and distribute for its own use either through itself or through the third party.”<sup>11</sup>*

The statement gets all the more importance because it explains (a) Section 107 A(b) aims at facilitating parallel imports (b) it also differentiates the reservation of right of the government to import and use and distribute from parallel imports. Therefore, the section talks about importing goods from outside the territory of India (Deepak 2011: 121-138). Therefore, necessarily it must refer to any good, which has been legally produced under the foreign law and not the Indian law. Now as to the matter of whether the word law in section 107 A(b) means patent law, the words used in the section are ‘authorised under the law’, and does not specify to patent law. This must only imply legal goods since there could be nations where no patent law exists or where even if patent law exists no patent exists. So if a product is manufactured in a country where no patent exists and is imported into India, does S.107 A(b) makes it illegal? Does that mean the production of goods there with the permission of the government makes the product illegal? It is the law, which has authorised the production of the goods. It can also include patent law.

Turning to the next question, how can one read the last portion of the section? Should the law be giving authorization to produce and sell or produce and distribute?

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<sup>11</sup>See Rajya Sabha Debate available at [http://rajyasabha.nic.in/rsdebate/deb\\_ndx/204/](http://rajyasabha.nic.in/rsdebate/deb_ndx/204/).

Alternatively, can it be read as authorised to produce and sell or authorised to distribute? The logical interpretation and the aim of the provision suggest that the authorization to distribute can be seen separately. The words produce and sell has been used together while distribution has been used separately. Further, reading otherwise would only narrow the scope of the provision since purchasing and importing from a person authorised to distribute would otherwise become illegal.

Having said all these, it could be safely said that Section 107 A(b) enables a third party to import patented products including those which are covered price control measures or compulsory license provisions and also products from places where no patent law exists (Pai 2016: 324).

### **Section 107 A(b) : A TRIPS Plus Provision?**

A strong argument has been raised saying that Section 107 A(b) goes beyond TRIPS because it allows to import products even from a nation that does not contain Patent but the law allows the production of the product which is patented in other countries and it falls under the category of legal goods. Such a situation, it is argued, goes beyond what is envisioned in Article 6 as no first sale takes place with the consent of the patent holder. Here when the first sale takes place in a place where there is no patent, it is not the patent owner who gets the incentive and thus Article 6 does not come in.

To answer this challenging question one can take many approaches. However, the very first task is to understand the true ambit of Section 107 A(b). The section has never mentioned any word such as exhaustion. Nor does the legislative history of the provision mention Article 6 as the flexibility in TRIPS which has been used to result in the section. It merely has been enacted to encourage parallel imports i.e. import of genuine, cheap, foreign goods to promote consumer welfare.<sup>12</sup> Article 7 of the TRIPS<sup>13</sup> provision provides the countries to adopt measures conducive to their economic conditions considering the public interest and consumer welfare of the nation. Therefore one can safely argue Section 107 A(b) relies on Article 7 promoting consumer welfare

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<sup>12</sup>See Debate in the Rajya Sabha available at [http://rajyasabha.nic.in/rsdebate/deb\\_ndx/204/](http://rajyasabha.nic.in/rsdebate/deb_ndx/204/).

<sup>13</sup>Article 7 of the TRIPS states:*The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.*

and provides basically for parallel imports of cheaper goods rather than clinging on to Article 6.

Another way of looking into it is to analyse the section from a property jurisprudence angle along with WTO jurisprudence. The philosophy underlying exhaustion is that every subsequent purchaser of a genuine patented product must be able to enjoy fruits of ownership that he possesses over the product (Sankar 2014: 96-109). The right to alienate or sell a product is an inherent right of the owner of the product. This implies that when a genuine product is owned by a person, he has the right to sell that product anywhere in the world. The WTO jurisprudence on free movement of goods also is aimed at the same.<sup>14</sup> The Overall philosophy of Article 6 must be viewed from this perspective. Whether Patent law exists or not in the country from where the goods were purchased is immaterial. Therefore the argument that importation of goods from a nation, which does not contain any patent law, overdoes the Article 6 cannot sustain since the underlying principle of exhaustion is to enable the purchaser of a real property to enjoy the full rights attached to it. Irrespective of whether the patent law in India or its rights under Article 48 providing for importation right, it cannot prohibit a legal purchaser from enjoying his right over the property. This would be aggrandizement of the rights envisioned under the Indian Patent law.

It would directly contravene with the WTO jurisprudence on free movement of goods. Under the WTO philosophy, goods across borders cannot be restricted unless justified through express exceptions provided therein.<sup>15</sup> The banning of parallel imports thus contravenes WTO jurisprudence.

Thus, S.107 A(b) must be viewed from the angle of the purchaser and of course with public interest in mind. Thus when a product is imported from a country where the good has been legally produced it cannot be prohibited since protecting the interest of the purchaser is the aim of Article 6. Section 107 A(b) will not only facilitate imports from countries having patent law but also from countries with no patent law compelling the Patent owner to take patents in most countries including under developed countries facilitating technology transfer to these nations while ensuring products at cheap prices to the Indian consumers (Gopalakrishnan et al. 2012: 229).

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<sup>14</sup>See Preamble of the WTO agreement, 1994.

<sup>15</sup>See Article XI of WTO agreement, 1994.



### **Right of import, Section 107 A(b) and Article 6 of the TRIPS**

Express right of import has been granted under the Indian Patent Act to the Patent holder. Does Section 107A(b) makes this right useless? (Basheer et.al. 2009: 63-86). The answer is negative. Importation right is granted so as to enable the Patent holder to stop importing infringing goods. Neither TRIPS nor Indian Patent Act prohibits importation of lawfully made products. TRIPS allow seizure of counterfeit or pirated products at the borders and do not obligate any member country to seize legal products.<sup>16</sup> It should be in the light of this aspect that one should view the right to import under Indian Patent law. Thus, parallel imports do not hamper the right to import of patent holder.

The only reported case<sup>17</sup> in the area of patent regime concerning parallel imports in the Indian Jurisdiction is *Strix Limited vs. Maharaja Appliances Limited*.<sup>18</sup> The Plaintiff holds a product patent in respect of Liquid Heating Vessels. The Defendant is an Indian company engaged in the business of manufacturing and selling of electrical appliances including electric kettles. According to the Defendant, electric kettles were earlier being supplied by the Plaintiff to the Defendant in the years 2005-2006. The Defendant states that the products of the Plaintiff were of inferior quality and, therefore, the Defendant commenced importing electric kettles containing the impugned heating element, from China. The Defendant states that it did not at any point in time manufacture the said heating element installed in the kettles. The Defendant states that they are traders and have not undertaken any manufacturing activity. The Defendant claims to have imported the product bona fide from China and states that the supplier in China from whom the Defendant imported the product in question held a patent inclusive of the heating element installed in the kettle.

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<sup>16</sup>Article 51 of the TRIPS agreement, 1994.

<sup>17</sup>A Public Interest Litigation was filed before the Hon.Supreme Court of India by a person named J.Sai Deepak claiming the underlying philosophy of Section 107A(b) is national exhaustion. However the Supreme Court dismissed the case on finding lack of locus standi. The arguments raised by the petitioner relied on various erroneous interpretations of the Patent Act relying compulsory provisions under the Patent Act such as Section 84(7) and 90. The author finds no merit in the arguments of the petitioner, hence not discussing it in detail. For detailed reference of the arguments read Deepak (2011).

<sup>18</sup>I.A. No.7441 of 2008 in C.S. (OS) No.1206 of 2008

Defendant in the instant case has argued that they have purchased the product from the patent holder in China and hence they are protected under Section 107 A(b) making the imported goods legal goods. The court demanded evidence from the defendants regarding the existence of patent in the China. However, the court refused to discuss more about the issue since the defendants could not bring about any document proving that the person from whom the defendant purchased had valid patents. The court opined that unless any proof of the same could be produced, court would assume that there exist no patent in China making the imported goods illegal. The implication of the same would be that, if there had been a valid patent in China from whom the defendants purchased the goods, then Section 107 A(b) would kick in which supports the international exhaustion notion of the Section 107 A(b). However, the error which the court construed seems to be that the court failed to understand the meaning of the words ‘under the law’ in section 107 A(b). The demand of the court to produce evidence about the existence patent in China shows that the court has wrongly construed the law to mean patent law rather than simply meaning “legal goods”. The court failed to understand the amendment made to the section and to correctly understand the word law.

Thus, the Indian stand on exhaustion regime has been clearly to recognise international exhaustion from the very beginning after getting Independence. This is clear from the Ayyangar committee reports demining the right to import and the fact that India introduced exhaustion provisions as soon as right to import was granted under its law through Indian Patent Amendments made in 2002.

### **Exhaustion provisions relating to Indian Plant Varieties Act, 2001**

It is worth looking into the International standard of protection regarding Plant Varieties Act before looking into India. International protection for the Plant Varieties Act is provided under International Union for the Protection of New Varieties of Plants (UPOV), provides for breeders rights for any acts requiring offering for sale, selling or other marketing, exporting, importing, shall get the authorisation of the breeder.<sup>19</sup> However the same is subject to the Article 16 of the Convention which provides for exhaustion. Article 16 states that the breeders right shall not extend to materials of protected variety under the Convention which has been sold once otherwise marketed by the breeder or with his consent in the territory of the member of the Union

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<sup>19</sup>See Article 14(1) of UPOV.

concerned, or any material derived from the said material.<sup>20</sup> However, such acts should not involve further propagation of the variety in question<sup>21</sup> or involve an export of material of the variety, which enables the propagation of the variety, into a country, which does not protect varieties of the plant genus, or species to which the variety belongs, except where the exported material is for final consumption purposes<sup>22</sup>. Thus, UPOV recognises national exhaustion. Identifying exhaustion rules under the Indian Plant Varieties Act is quite ambiguous. There are no express provisions on exhaustion under the Plant Varieties Act. Under Section 39(iv) of the Act, a farmer is provided with certain set of rights including the right to resow and sell the farm produce including the seed of a protected variety provided that he shall not be entitled to sell branded seed of a protected variety.<sup>23</sup> One kind of interpretation could be that the section allows the farmer to sell seed which he has produced, with the restriction that this seed cannot be branded with the breeder's registered name.<sup>24</sup> The section thus enables the farmer not only to sell or resell or resow the farm produce but also to sell or resow a seed of a protected variety provided they are not branded and sold. The provision does not clarify whether the prohibition is against the resale of resowed protected seeds that were originally branded or merely against the misuse of the brand name when second generation produce (Ragavan 2012: 299-300). This could lead to misuse by breeders since any extant variety or new variety can be easily made into branded seeds.

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<sup>20</sup>Article 16 : Exhaustion of the Breeder's Right - *The breeder's right does not extend to acts concerning material of the protected variety, or of a variety covered of its protection which has been sold or otherwise marketed by the breeder or with his consent in the territory of the member of the Union concerned, or any material derived from the said material...*

<sup>21</sup>See Article 16(i) of UPOV.

<sup>22</sup>See Article 16(ii) of UPOV.

<sup>23</sup>Section 39(1)(iv) :- *a farmer shall be deemed to be entitled to save, use, sow, resow, exchange, share or sell his farm produce including seed of a variety protected under this Act in the same manner as he was entitled before the coming into force of this Act: Provided that the farmer shall not be entitled to sell branded seed of a variety protected under this Act.*

<sup>24</sup>An explanation has been attached to the section defines a branded seed which reads "For the purpose of clause (iv) branded seed means any seed put in a package or any other container and labelled in a manner indicating that such seed is of a variety protected under this Act."

However in order to understand what is the mode of exhaustion, if any, that is followed by Indian Plant Varieties Act, one needs to check into the rights of the breeder.<sup>25</sup> A breeder has been granted the right to import which implies that no person can import into the country without the authorisation of the plant breeder. This could imply national exhaustion especially in the scenario where no express provision deals with the exhaustion inside the Act. But the breeder does not have any right guaranteed under the Act from prohibiting the reselling of seeds which are sold to him by the breeder unless the purchaser sells it as his own new variety of seed. Therefore reading the right to import granted to the breeder along with the freedom to resell the seeds purchased, one gets the impression that Indian Plant Varieties Act recognises national exhaustion. One must not forget the fact that unlike other IP regimes, Plant varieties is one area where the development of the protected variety is very much dependent on many external factors like climate and topography of an specific area. Therefore it is highly skeptical as to what extent the international exhaustion or parallel imports can bring benefit to the consumers.

### Indian Designs Act, 2001

In India, international exhaustion applies by way of implied license to designs registered under the Indian Designs Act, 2000 (Baldia 2004:163-175). Section 22 (1) of the India Designs Act enumerates the rights available to a registered design owner.<sup>26</sup> It provides for importation right to registered owner. However, Section 42 talks about unlawful restrictive agreements<sup>27</sup>. Under Section 42 (1) (b) it is unlawful to prohibit the purchaser

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<sup>25</sup>The Protection of Plant Varieties and Farmers' Rights Act (2001), Article 28 (1): *Registration to confer right – Subject to the other provisions of this Act, a certificate of registration for a variety issued under this Act shall confer an exclusive right on the breeder or his successor, his agent or licensee, to produce, sell, market, distribute, import or export the variety.*

<sup>26</sup>The Designs Act(2000) Section 22(1):*During the existence of copyright in any design it shall not be lawful for any person ... (b) to import for the purposes of sale, without the consent of the registered proprietor, any article belonging to the class in which the design has been registered, and having applied to it the design or any fraudulent or obvious imitation thereof...*

<sup>27</sup>The Designs Act(2000) Avoidance of Certain restrictive Conditions:Section 42 (1): *It shall not be lawful to insert-*

*(i) in any contract for or in relation to the sale or lease of an article in respect of which a design is registered; or*

*(iii) in a licence to package the article in respect pf which a design is registered,*

*Condition the effect of which may be-*

*(a) to require the purchaser, lessee, or licensee to acquire from the vendor, lessor, or licensor or his nominees, or to prohibit him from acquiring or to restrict in any manner or to any extent his right to acquire from any person or to prohibit him from acquiring except from the vendor, lessor,*

from using or to restrict in any manner or to any extent the right of the purchaser to use an article other than the article in respect of which a design is registered which is not supplied by the vendor, lessor or licensor or his nominee. This implies that absence an express contract, the goods could be resold by the registered owner. This hints towards international exhaustion, though Indian law has not fully captured the concept of international exhaustion. By giving the right to restrict upon the sold article by way of an express contract, the legislature has narrowed the scope of the exhaustion to a situation where all that the registered owner needs to do is to provide a contract to restrict the transfer by the purchaser. This can even go against the real intention of the Section 42 if the aim of the section is to provide for enjoyment of the fruits of the real ownership of the purchaser.

### **The Semiconductor Integrated Circuits Layout-Design Act, 2000**

As in the Patent and Design Laws, in Semiconductor laws too we do not find much discussion through case laws. Only legislative framework exists in Semiconductor laws. Section 18 of the Semiconductor Integrated Circuits Layout-Design Act, 2000 deals with infringement of layout designs. The owner of designs of semiconductor chips has the right to import under S. 18.<sup>28</sup> However it is provided under S. 18(7) that the rights under S. 18 (1) (b) shall not be considered to have been infringed if any of the acts mentioned under S.18 (1) (b) is performed using an article which has been put on the market once with the consent of the proprietor.<sup>29</sup> The word used is market in the section. The market

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*or licensor or his nominees any article other than the article in respect of which a design is registered*

*(b) to prohibit the purchaser, lessee or licensee from using or to restrict in any manner or to any extent the right of the purchaser, lessee or licensee, to use an article other than the article in respect of which a design is registered which is not supplied by the vendor, lessor or licensor or his nominee and any such condition shall be void.*

<sup>28</sup>The Semiconductor Integrated Circuits Layout-Design Act (2000) Section 18 (1)(b): *does any act of importing or selling or otherwise distributing for commercial purposes a registered layout-design or a semiconductor integrated circuit incorporating such registered layout-design or an article incorporating such a semiconductor integrated circuit containing such registered layout-design for the use of which such person is not entitled under this Act.*

<sup>29</sup>The Semiconductor Integrated Circuits Layout-Design Act (2000) Section 18 (7): *Nothing contained in clause (b) of sub-section (1) shall be construed as constituting an act of infringement where any person performs any of the acts specified in that clause with the written consent of the registered proprietor of a registered layout-design or within the control of the person obtaining such consent, or in respect of a registered layout-design or a semiconductor integrated circuit incorporating a registered layout-design or any article incorporating such a semiconductor*

could be deemed as world market since no qualification or definition is attached to word market.<sup>30</sup> Moreover, if the intention of the legislature was to recognise national exhaustion, then the word country could have been used by the law. Thus, international exhaustion is clearly recognised by the semiconductor law of India.

## Conclusion

Therefore, the Indian law regarding the exhaustion is a mixture of international and national exhaustion. In the patent law regime and Design law, international exhaustion has been clearly recognised. However, in the Semiconductors and Plant Varieties Act and the international exhaustion has not been clearly articulated. There is lacuna in the Indian law regarding the Semiconductors and Plant Varieties Act. Even though in the international platforms India has reiterated that India's policy is international exhaustion<sup>31</sup>, still the legislative framework of Indian law remains ambiguous and still hesitates to expressly recognise international exhaustion.

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*integrated circuit, that has been put on the market by or with the consent of the registered proprietor of such registered layout-design.*

<sup>30</sup>The reasoning gets more concrete support from the international stand that India has adopted in the case of exhaustion especially in TRIPS negotiations. Further the Parliament debate on exhaustion in the Patent law elaborated in the earlier part of this article solidifies the intention of the legislature regarding the mode of exhaustion that India desires is international exhaustion. Thus the word "market" in The Semiconductor Integrated Circuits Layout-Design Act (2000) must necessarily imply international market.

<sup>31</sup>See MTN.GNG/NG11/W/37, Submission of India in the Second phase of TRIPS negotiation, (1988-1989).

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