Navigating Cross Border Legal Risks in Intellectual Property Licensing and Technology Transfer to India

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NAVIGATING CROSS BORDER LEGAL RISKS IN IP LICENSING AND TECHNOLOGY TRANSFER TO INDIA

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1. INTRODUCTION

India’s emergence in the global marketplace continues to spur dramatic increase in the volume of cross border transactions between United States and Indian companies. These transactions range from simple licensing arrangements to complex joint R&D, manufacturing, marketing and supply agreements for sourcing and commercializing end products. Such cross border transactions are aimed at both the Indian domestic marketplace and the sales of goods and services outside India. By engaging in these transactions, regardless of their form or the end market, US companies transfer, or otherwise make available for use, proprietary technology and know-how (collectively, “intellectual property” or “IP”) to the Indian counterparties. US companies also develop or otherwise generate new IP in India in the course of their business activities there. Such transferred or newly-generated IP can include proprietary designs, electronic components, software, various types of equipment, chemical entities, specifications, business processes, methodologies, geophysical data and other sensitive data.

Technology generation, sharing and transfer transactions involving India expose US companies to significant risks of IP infringement and misappropriation. Moreover, certain mandatory conditions and restrictions that may apply to such transactions pursuant to India’s foreign investment laws can also jeopardize a US company’s rights to its IP. More specifically, IP ownership, infringement and piracy are the most critical concerns from a US company’s perspective. Protection and enforcement mechanisms for IP rights (e.g., patent, trademark, trade secret and copyright) are not harmonized around the world, so a US company doing business in India must understand India’s legal and regulatory regime relative to IP and foreign technology transfer.

For example, unlike the US, India offers no statutory protection for trade secrets. This creates a significant gap in legal protection because, in any technology transfer or R&D project, much of the IP made available to the counterparty or generated locally in India can often be in the form of proprietary technical know-how and confidential data. India’s rules governing joint ownership of IP generated in collaborative projects are also murky, and unless navigated properly can adversely affect a joint owner’s ability to commercialize or enforce jointly-owned IP. India’s enforcement mechanisms relative to IP rights are not as robust as those in the US, and civil litigation remains inefficient because of
substantial case backlog in Indian courts and perceived bias against foreign investors in the resolution of commercial disputes.

For these reasons and more, a US company contemplating transferring its proprietary technology to India faces meaningful, business-affecting issues and challenges involving IP protection and data security. These risks must be carefully considered prior to entering any India-related transaction and knowledgably navigated to realize the full benefit of the underlying business transaction and minimize IP portfolio risk. US investors must rely on thorough and carefully negotiated contracts and information governance strategies to address gaps in the protections available under Indian law and provide effective means of retaining, obtaining, and enforcing IP rights and remedies in India and elsewhere, if necessary. Accordingly, solid upfront due diligence combined with carefully tailored contracts and practical information governance strategies that are reliably enforceable in India are of paramount importance to mitigate the inherent potential risks that any US investor faces in transactions involving the need to protect and enforce legal rights in India.

This article surveys India’s legal and regulatory framework generally with respect to the protection and enforcement of IP and specifically as it pertains to foreign technology transfer and IP licensing transactions. The article also highlights and analyses key issues and risks that any US investor should carefully assess before transferring its IP or proprietary technology to India or generating new IP in India. Finally, the article recommends strategies to mitigate IP-related risk in these transactions.

2. INDIA’S LIBERALIZING REFORMS

For almost four decades after it gained independence in 1947, India was known as a “closed economy,” substantially restricting and controlling all forms of foreign investment and technical collaboration in India. India operated on an economic policy of import substitution and technological self-reliance (swadeshi), making the business climate significantly less conducive to foreign investors. Until the late 1980s, a complex and highly bureaucratic regulatory framework controlled the flow of international capital and technology to local markets. In the late 1980s, however, liberalization efforts began and in 1991 those efforts culminated in watershed regulatory reforms. Beginning in 1991, India substantially liberalised its industrial policy making the investment climate more conducive to foreign investment and technology transfer, including opening up most sectors for foreign investment, except for a short list of industries related to national security and public concerns. These new policies have over time
effectively converted India to a market driven system.

As a result, India today enjoys a vastly different, progressive commercial climate, with a robust and mixed economy in which the private sector plays an increasingly prominent role in the country’s economic development and the attraction of foreign capital. Since 1991, technology inflow and foreign investment have dramatically increased. Today, India is one of the world's largest economies, representing a newly available wealth of business opportunities in a market that offers the second largest population in the world, a rapidly developing middle class, the second largest gross domestic product among developing countries based on purchasing power, and is forecast to continue to grow year over year for the foreseeable future. Furthermore, India has the second largest pool of skilled English-speaking workers in the world and its workforce is globally recognized for its cost effective, high value-added work. These factors, coupled with strategic investment incentives and an increasingly dependable and modernized legal system and capital markets, have served as a catalyst for India to continue its uptrend as a very attractive and lucrative market for foreign investors.

3. FOREIGN TECHNOLOGY AGREEMENTS AND IP AGREEMENTS IN INDIA

India encourages acquisition and induction of foreign technology to promote technological capabilities in Indian industry. Foreign technology transfer is generally subject to various statutes and regulations of the government of India (GOI). Various bodies and financial institutions (such as the Secretariat of Industrial Assistance (SIA), the Foreign Investment Promotion Board (FIPB), the Foreign Investment Implementation Authority (FIIA) and the Reserve Bank of India (RBI)) have been established to regulate and administer these laws so as to foster and streamline foreign investment and technology transfer in India.

A popular mechanism to transfer foreign technology to India is what is known as a “foreign technical collaboration agreement” or “foreign technology agreement.” Typically, such agreements involve the transfer of foreign technology or know-how to an Indian counterparty in exchange for royalty payments remitted in foreign currency.

3.1 Regulatory Framework

Historically, foreign technology agreements (FTAs) have been subject to a number of regulatory requirements and greater scrutiny by the GOI. Since 2003, however, India has incrementally and consistently reformed the FTA regulatory
landscape to liberalize and streamline the transfer of foreign technology to India.

Under Indian law, an FTA is permitted either through the “automatic approval route” or the “government approval route,” depending on certain conditions and monetary limits. Irrespective of the applicable approval route, the Indian counterparty may remit royalty payments in foreign currency only through “authorized dealers” appointed by the RBI.  

3.2 Automatic Approval Route

An FTA that falls under the automatic approval route does not trigger any GOI notification or registration requirements or other local approval requirements, provided that the foreign currency payments by the Indian counterparty are remitted within the RBI-prescribed monetary limits and through the RBI-appointed authorized dealers.

More specifically, automatic approval is deemed granted to an FTA if the lump sum payment for foreign technology (which may be in the form of technical know-how fees, payment for design and drawing, or payment for engineering services, etc.) does not exceed US$2 million and the royalty payments do not exceed 5% on domestic sales or 8% on export sales, subject to a total payment of 8% on sales. There are no restrictions on the duration of the royalty payments. There is, however, some ambiguity as to whether the lump sum ceiling of US$2 million would apply to a single technology or a combination of technologies licensed to the Indian counterparty. It is likely that if multiple technologies are licensed for the manufacture of the same product, then the US$2 million cap would apply with respect to all such technologies to be eligible for the automatic approval route. If, however, different technologies are licensed to an Indian counterparty for manufacturing different products, arguably the ceiling would not apply to all such technologies to be eligible for the automatic approval route. Foreign franchise agreements involving an Indian counterparty’s use of a foreign entity’s trademarks or brand names without technology transfer, where royalty payments do not exceed 2% for exports and up to 1% for domestic sales, also fall within the automatic approval route. These payment thresholds are irrespective of

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2 An authorized dealer is a bank specifically authorized by the RBI under India’s Foreign Exchange Management Act, 1999, to release foreign exchange or deal in foreign securities. A list of authorized dealers in India is available on [www.fedai.org.in](http://www.fedai.org.in).
the extent of foreign equity in the Indian counterparty and the royalty rates are net of taxes. In addition, the Indian counterparty may issue equity shares against lump sum fees and royalties in convertible foreign currency.

Until recently, such FTAs were required to be registered with the RBI and such registration automatically subjected the FTAs to a number of RBI-stipulated mandatory terms and conditions described below that were significantly in favor of the Indian licensee. These RBI conditions would supersede any conflicting provisions in the FTAs. Through various liberalization measures in favor of foreign investors, India has eliminated the registration requirement as a result of which the statutory conditions no longer apply to FTAs that fall under the automatic approval route.

3.3 Government Approval Route

FTAs that (1) do not meet the parameters of automatic approval, (2) involve products of manufacture reserved for what is called “small scale sector,” (3) involve activities that require an “industrial license” to operate, or (4) involve a foreign collaborator that has a previous joint venture or technology transfer or trademark agreement in the same field in India (except under limited circumstances, such as if the existing joint venture is defunct or the investment by either party in the existing joint venture is less than 3%), are subject to specific approval from the GOI (which approval may be required from the Foreign Investment Promotion Board in India). The approval process can usually take approximately four to six weeks from the filing of the application.

Separate RBI procedures and rules pertaining to current account transactions govern an Indian party’s hiring of foreign technicians, deputation of Indian technicians outside India, and conducting foreign testing of indigenously developed technologies. In recent times, these procedures and rules have been significantly liberalized to reduce government interference and approval requirements.

3.4 Statutory Conditions Applicable to Foreign Technology Agreements

Foreign investors should be aware that certain conditions mandated by Indian law may apply to government-approved FTAs, depending on the nature and scope of the activities contemplated in India. Typically any such applicable conditions would be included in the government’s approval letter and include one or more of the following:
(i) The royalty payments would be calculated on the basis of the net ex-factory sale price of the product, exclusive of excise duties, minus the cost of the standard bought-out components and the landed cost of imported components, irrespective of the source of procurement, including ocean freight, insurance, custom duties, etc.

(ii) The royalty payments might be restricted to the licensed capacity plus 25% in excess thereof for such items requiring industrial licence or on such capacity as specified in the governmental approval letter. This restriction would apply only to those items that do not require an industrial licence. In case of production in excess of this amount, prior approval of the GOI would have to be obtained regarding the terms of royalty payments in respect of such excess production.

(iii) The royalty would not be payable beyond the period of the agreement if the orders had not been executed during the period of the agreement. However, if the orders themselves take a significant period of time to execute, then the royalty for an order booked during the period of agreement, but executed after the period of agreement, would be payable only after a chartered accountant certified that (1) the orders in fact had been firmly booked, (2) execution began during the period of agreement, and (3) the technical assistance was available on a continuing basis even after the period of agreement.

(iv) No minimum guaranteed royalty would be allowed.

(v) The lump sum fees would be paid in multiple instalments rather than the entire amount to be paid upfront.

(vi) Remittances to the foreign entity would be made as per the exchange rates prevailing on the date of remittance.

(vii) The agreement would be subject to Indian law.

In addition to the foregoing conditions, the GOI has generally been more receptive to royalty arrangements in patent licenses that offer continued access to the accompanying technical know-how to practice the patent, rather than the right only to practice the patent. Extensions of agreements have generally not been favoured and, under certain circumstances, the GOI has also required sub-licensing of the foreign technology to minimize duplicative licensing of similar technology to other parties in India.

3.5 Impact of India’s Competition Law

India’s new competition statute, the Competition Act, 2002 (as amended
by the Competition (Amendment) Act, 2007)) (“Competition Act”), prohibits (horizontal and vertical) agreements and trade practices that are anticompetitive in nature or involve abuse of dominant position, and regulates combinations, among other practices.\(^3\) The provisions of the Competition Act relating to anti-competitive agreements and prohibition of abuse came into effect on May 20, 2009. All foreign companies doing business in India must therefore be aware of these provisions and their applicability vis-à-vis the business transactions contemplated in India so that such transactions do not run afoul of the law.

The new statute applies equally to domestic and foreign enterprises, as well as to private and government owned companies. Section 3 of the statute prohibits any person or entity from entering into any agreements concerning production, supply, distribution, acquisition or control of goods or provision of services that cause or are likely to cause an appreciable adverse effect on competition within India but it expressly acknowledges that the imposition of any “reasonable conditions” as may be necessary for protecting certain IPRs would not constitute anticompetitive agreements under the statute. The statute does not, however, define or explain the term “reasonable conditions.” By implication, therefore, any “unreasonable conditions” in agreements relative to IPRs will not be afforded immunity under the statute. Licensing practices that risk invalidation under Indian competition law include patent pooling, tie-in arrangements, post-expiry patent royalty payments, exclusive grant backs, market allocation, resale price maintenance, refusal to deal and package dealing, to name a few. It is also noteworthy that patent assignments and licenses fall within the ambit of India’s Patent Act, 1970 (“Patent Act”), pursuant to which they must be in writing to be valid and enforceable.\(^4\) Many of the foregoing practices relative to contracts for the sale or lease of patented articles or articles made by a patented process, or in licenses to manufacture or use patented articles, or in licenses to work any processes protected by patents, would also be deemed void under the Patent Act.\(^5\)

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\(^4\) India Patents Act (as amended by the Patents (Amendment) Act, 2005), §68. Prior to 2005, the parties were required to register such agreements with the Controller of Patents within six months of their execution (or within such period extended by the Controller). It is at the time of such registration that the Controller had the right to require deletion or modification of restrictive conditions deemed to violate the India Patents Act. Such a registration requirement was been eliminated pursuant to the Patents (Amendment) Act, 2005.

\(^5\) Under §140 of the India Patents Act (as amended by the Patents (Amendment) Act, 2005), tie-in arrangements, coercive package licensing, exclusive grant backs and restrictions on licensee’s ability to challenge validity of licensed patent are deemed void.
Furthermore, Section 4 of the Competition Act prohibits a person or entity from abusing its “dominant position.” However, unlike Section 3, it does not provide any exemption to IPR holders. Therefore, if any IPR holder enjoying a dominant position in the “relevant market” by virtue of its IPRs, engages in conduct deemed to be abuse of dominant position under Section 4, such IPR holder’s conduct will not be afforded immunity under the statute.

The Competition Commission of India (“CCI”) is the adjudicating body under the statute that is vested with broad powers with extra-territorial reach to investigate, monitor and regulate anti-competitive agreements and trade practices. More specifically, the CCI has the power to (1) impose a penalty of not more than 10% of the average turnover for the last 3 preceding financial years, (2) direct the parties to discontinue and not to re-enter the anti-competitive agreement; (3) direct the parties concerned to modify the agreements; (4) direct the parties concerned to abide by such other orders as the CCI may pass and comply with the directions, including payment of costs, if any; and (5) pass such other orders or issue such directions as it may deem proper. In the case of abuse of dominant position by an enterprise by virtue of IPRs under Section 4 of the Competition Act, in addition to the above penalties, the CCI has the power to order division of the enterprise.

For reasons discussed above, US investors should exercise caution in structuring IP licensing and technology transfer agreements with Indian counterparties so as to minimize the potential antitrust pitfalls in India.

3.6 Financial Considerations

Enforceable pricing models, tax consequences, custom duties, financial reporting and accounting standards, inflation, currency fluctuation risk and other financial factors are critical issues to consider in structuring an economically viable transaction involving IP licensing or technology transfer to India. Local and international tax counsel should be consulted upfront to understand potential tax implications of the contemplated transaction so as to structure the transaction.

Furthermore, under §141 the licensee may terminate a patent licensing agreement by giving a three-month notice at any time after the patent expires. Thereafter, the licensee may still have the right to continue using the technology underlying the expired patent. Therefore, imposition upon the licensee of an obligation not to use the licensed technology after the expiration of the patent right or to pay royalties for the use of the licensed technology after the expiration of the patent right will likely not be permitted under Indian law.

6 India’s Competition Act, §27.
7 Id. §28.
in a manner that will maximize return on investment and minimize tax liabilities. For instance, the characterization of payments in a cross border transaction (for e.g., sale or license of IP, payments as royalties, lump sum technology transfer fees, fees for technical services, reimbursable expenses, business income etc.) will affect the treatment of such payments from local and international tax and accounting perspectives that can have potentially significant financial consequences for each party to the transaction. The US investor should, therefore, (i) ensure that anticipated income is not eroded or eliminated by unintended adverse tax consequences, including through permanent establishment exposure or imposition of local taxes such as withholding taxes, custom duties or value added taxes, for example, and (ii) to the extent possible take advantage of the Double Taxation Avoidance Agreement between India and the US to avoid double taxation of income arising from such transactions. The operative contract should identify any applicable taxes and their allocation among the parties (which may include “gross up” provisions for the US investor to receive the full amount of the agreed payments), permit flexibility to address changes in applicable tax regimes and associated compliance costs and provide for appropriate indemnities from the counterparty for any tax liability arising from the counterparty’s failure to pay applicable taxes for which it is responsible.

A transaction involving a US investor’s receipt of services from the Indian counterparty over multiple years (e.g., R&D services) can present inflation and cost-of-living adjustments issues. The question usually becomes one of allocation of inflation risk between the parties. The Indian counterparty will often seek local inflation benchmarks because historically wage inflation in India has been substantially higher than in the U.S. The US investor, however, should insist on limiting cost of living adjustments to domestic indices, such as the U.S. consumer price index. In structuring payments, a US investor also should consider whether and how local currency fluctuations might influence the transaction’s economics. For example, if the royalty payments to US investor are priced in Indian rupees, the value of the royalty payments will decrease as the Indian rupee depreciates. To best protect against foreign currency risk, where possible the US investor should require payment from counterparty in US dollars or, if not possible, include a foreign exchange risk hedge, such as an exchange rate floor or collar provision to hedge the foreign exchange risk.

4. MITIGATING IP RISK IN INDIA

The mechanisms to protect and enforce IP rights are not harmonized around the world. Rather, they differ in material respects on a country-by-country basis because IP rights are “territorial” or “national” in nature and generally do not
extend beyond the territory of the jurisdiction granting them. As a result, the sharing and creation of IP across multiple jurisdictions can create very real potential vulnerabilities for a US investor and can, in the absence of appropriate risk mitigation strategies, potentially jeopardize a US investor’s rights to its own IP or critical third party technology. Therefore, in any cross-border IP transaction involving India, a US investor must (i) perform a thorough due diligence and assessment of the counterparty and the possible impact of the relevant local IP laws and customs in India on the contemplated transaction and (ii) structure the transaction in a way that will adequately protect against the potential risk of losing control of valuable IP. This section provides an overview of India’s IP protection and enforcement framework and discusses some of the unique challenges faced by US investors contemplating IP-related business activities in India.

4.1 IP Legislative Framework Overview

While India perhaps provides better IP protection than other emerging market jurisdictions, such as China, Russia and Mexico, India’s IP laws and enforcement mechanisms are nevertheless weak compared to western IP laws and practices, such as in the US and Europe. India, however, is a member of the World Trade Organization (WTO) and generally complies with the minimum standards stipulated by the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs). India also is a signatory to a number of other major international IP harmonization conventions, including the Paris Convention, the Berne Convention, and the Patent Cooperation Treaty.

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8 The “territorial” nature of IP refers to the fact that countries enact their own idiosyncratic IP laws, typically by statute, and these IP laws have no application or force outside the country in which they are enacted. For example, a U.S. patent grants enforceable exclusionary rights in the U.S. but not outside the U.S. and its territories. Similarly, an Indian patent grants enforceable rights only in India. See generally GRAEME B. DINWOODIE, WILLIAM O. HENNESSEY & SHIRA PERLMUTTER, INTERNATIONAL AND COMPARATIVE PATENT LAW §1.03, 30 (2002) (“patent laws operate territorially, and patent rights are thus national in scope”).


10 The minimum standards only set the floor of protection, leaving countries the discretion to provide greater levels of protection and even, in some cases, to provide exceptions going below the floor. See generally J.H. Reichman, Universal Minimum Standards of Intellectual Property Protection under the TRIPs Component of the WTO Agreement, 29 INT’L LAW. 345, 347-348 (1995).
India also provides express statutory protection for patents, copyright, trademarks, designs and mask works, among other IP rights, and each of these statutes has its origins in English law. India’s modern IP system is largely an outcome of economic and political pressure, both internal and external. Emerging from colonial domination in 1947, in the last sixty years India gradually reformed its IP legislation to foster indigenous creations and inventions. Since the 1990s, however, India has also attempted to conform its IP regime to global expectations and developments. Such international coordination to create a “level playing field” for IP owners has of course not been easy or free of controversy, particularly in the area of patents. A major obstacle has been the stark policy divergence between developed and developing countries, which have held diametrically opposed positions on the scope and minimum standards for the protection and enforcement of international IP rights.

India has made substantial improvements to its IP regime in the last decade to foster innovation as well as to attract foreign investment. Most recently, to comply with its WTO-TRIPs obligations, India amended its patent statute to provide for statutory patents for drugs, chemicals and agricultural products. Prior to this amendment, Indian companies could sell copies of drugs patented outside India as long as they changed the process for making the patented drugs. Historically, India provided patent protection only for manufacturing processes. India also recently strengthened its border measures against the entry of pirated and counterfeit goods into India by broadening the scope of enforcement of IP rights under India’s customs regulations to include patents, designs and geographical indications over and above copyright and trade mark violations. These regulations offer an effective mechanism for checking entry of pirated goods into India and have made the enforcement of IP rights against imported infringing products much easier for IPR holders. India still needs, however, to further amend its copyright statute to address the challenges posed to the protection of copyrights and related rights by digital technology, particularly with regard to the dissemination of protected material over digital networks, such as the Internet, and to bring India’s copyright statute into conformity with the WIPO

11 The Patents Act, 1970 (as amended) and the Patents Rules, 1972.
12 The Copyright Act, 1957 and the Copyright Rules, 1958.
16 For a detailed discussion of IP protection in India, see Sonia Baldia, India, in INTELLECTUAL PROPERTY LAW IN ASIA 431-469 (Christopher Heath ed., 2003).
17 India Patents (Amendment) Act, 2005.

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Copyright Treaty and the WIPO Performances and Phonograms Treaty.

In addition to substantive IP law reform, the GOI has taken several measures\(^{19}\) to streamline, modernize and strengthen India’s IP administration system aimed at promoting efficiencies and reducing the application backlog at the Indian Patent and Trademark Office.\(^{20}\) These measures have been driven largely by the recognized need to install sufficient capacity and processes to handle the dramatic increase in patent application filings as a result of India’s patent law reforms and India’s accession to the Patent Cooperation Treaty. Among other benefits, these measures have resulted in quicker office actions and reduced time for final application disposition. For example, reportedly the historical average time to review and grant a patent in India has decreased from 6 years to less than 3 years. In addition, the Intellectual Property Appellate Board (IPAB - a specialized IP tribunal headquartered in Chennai) has been established to hear appeals against the decisions of the Patents Controller and the Trademarks Registrar,\(^{21}\) and a comprehensive Manual of Patent Practice and Procedures has been drafted that will provide detailed information to the public and users of India’s patent system on the practices and procedures followed by the Indian Patent Office for processing of patent applications.\(^{22}\)

Despite these measures, however, some gaps still remain in India’s IP regime and the actual implementation and enforcement of IP rights remains weak and ineffective in comparison to US standards.

4.2 IP Enforcement Overview

\(^{19}\) Such measures have included capacity building, including physical infrastructure development, human resource development, including setting up of the National Institute of Intellectual Property Management for a higher level of IP training, computerization & procurement of databases, e-filing facility and awareness creation.


\(^{21}\) The IPAB became operational on 2nd April, 2007, as of which date all pending cases of appeal against any order or decision of the Controller/Registrar were transferred to the IPAB from the High Courts in India.

In India, the enforcement system for IP rights includes civil remedies as well as criminal penalties. Most disputes in India relating to IP infringement settle out of court without trial. Civil and criminal cases historically require years to be finally concluded in India’s court system. Another discouraging factor for IP owners in pursuing civil claims in India is the difficulty in proving the actual extent of damage caused by the infringement and in recovering reasonable compensation. Typically, the monetary damages awarded by Indian courts are meagre compared to US awards. Indian IP law only provides for compensatory damages based on the principle of restitution of the loss actually suffered. No statutorily trebled damages or punitive damages are available for example, which particularly creates a less than optimal deterrent against piracy. There are also no specialized courts in India to resolve IP-related matters, unlike the Court of Appeals for the Federal Circuit in the US, and the general level of awareness and understanding of IP-related concepts remains relatively low in the Indian judiciary. While Indian IP law does not impose copyright or trademark registration requirements as a prerequisite to enforcement, registrations still serve a very important evidentiary function because they are deemed prima facie evidence of validity and trigger statutory damages in infringement suits.

Recent amendments to the Indian civil procedure code as well as more recently issued judicial precedents, however, signal an improvement in the enforcement area. In 2002, India amended its code of civil procedure to impose mandatory time limits and associated penalties on the litigants at each stage of the litigation to reduce delays in the civil litigation process. Time will tell if these new and ambitious requirements end up more honoured in the breach, but in keeping with India’s overall modernizing of its judiciary, it seems more likely than not that these changes will result in a more expeditious disposition of civil cases in Indian courts. Also, in 2005 the Delhi High Court opened the door for awarding punitive damages for the first time in a copyright infringement case, observing that the level of punitive damages should be commensurate with the degree of the infringing misconduct.

Despite improvements, civil litigation in India remains a relatively marginal enforcement tool. Foreign IP owners engaged in technology transfer to India should plan to rely instead on effective information governance strategies and carefully negotiated contracts that are based as much as possible on rules-based performance rather than standards-based conduct. Rules-based criteria can

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24 Microsoft Corporation v Deepak Raval & Anr, 2005 (33) PTC 122 (Del.); Time Incorporated v Lokesh Srivastava, 2005 (30) PTC 3 (Del.).
be objectively measured, verified and monitored and present far less room for contestable disputes and hence should be always sought where possible over standards-based benchmarks, which involve essentially subjective obligations, such as a duty to act “reasonably” or to use “best” efforts, for example. Efforts should also be made in contract negotiations to create a clear basis for seeking to have disputes resolved in preferable non-Indian venues where stronger remedies that better protect the IP may exist, whether in US or European courts or arbitrations. Choice of venue provisions are helpful and should be included in contracts, but a US investor in India cannot count entirely on the enforcement of such venue obligations if challenged in an Indian venue. Therefore, the contract must contain provisions that are as “airtight” as possible in describing the Indian counterparty’s substantive obligations so that India-based adjudicative bodies, whether courts or Indian appointed arbitrators, have objective and verifiable standards, and related objective evidence and data, to evaluate and decide upon, thus minimizing as much as possible the need for subjective analysis and interpretation.

The most effective remedy in India to block and deter IP infringement is injunctive relief with respect to the enforcement of statutory IP rights. Injunctive relief in response to breach of contract claims is available but less easily obtained. Other remedies, such as ex parte search warrants and seizure orders, known as an “Anton Pillar Order,”\(^25\) can also be obtained in civil actions. In India, criminal prosecution is available only in trademark and copyright cases, but not in cases involving patents or designs. More specifically, criminal remedies are available against any person who knowingly infringes or abets the infringement of a copyright or who uses or applies false trademarks and trade descriptions with the intent to defraud. Very few criminal prosecutions relating to IP misconduct have emerged from Indian courts to date, but there are promising signs that Indian criminal law might become a more realistic deterrent.

The Indian government has also undertaken noteworthy measures to strengthen the administrative framework for IPR enforcement in India. For example, an Inter-Ministerial Committee on Enforcement of IPR laws under the Department of Industrial Policy & Promotion at the Ministry of Commerce & Industry in India has been established to evaluate IPR enforcement issues. Similarly, a Copyright Enforcement Advisory Council with representatives from

\(^{25}\) This order derives its name from the British case Anton Piller KG v. Manufacturing Processes Ltd., 1976 (1) All. E.R. 779, and is a pre-emptive ex parte injunction that aims at protecting the plaintiff against the activities of an unscrupulous defendant, who may destroy or remove incriminating evidence.
industry, enforcement agencies, and GOI ministries and departments has been established by the Ministry of Human Resources Development in India for advising the government on measures to improve the enforcement of the India’s copyright statute. Many state governments are conducting special anti-piracy drives to confiscate pirated goods.

Because of the weaker enforcement of India’s IP laws, counterfeiting and piracy continue to be rampant in India and accordingly a serious problem for US investors doing business there. It therefore still presents serious challenges to the Indian government in promoting India as a destination for technology transfer, innovation and high-end technology development. According to the International Intellectual Property Alliance, in 2007 US companies lost over US$915 million in sales due to piracy in India of copyrighted works, particularly software, sound recordings, films, and popular fiction and other books. In the last several years, the US Trade Representative has placed India on the “Priority Watch List” as part of what is known as the Special 301 review, which identifies foreign countries that deny adequate and effective protection of IP rights and is one of the trade measures adopted by the US to exert pressure on India to strengthen its IP laws and enforcement.

4.3 Additional Complexities for US Investors

In cross border transactions, it is critical to assess and determine upfront how and to what extent local laws will impact the activities of the parties. This is because, regardless of the choice of law provisions in the operative contract, certain local laws can apply which can significantly alter the expectations of a US investor, often to its detriment. To illustrate this point, consider an IP development and licensing arrangement between a US licensor and an Indian licensee that calls for New York law to govern the operative contract and provides for the exclusive jurisdiction of the state and federal courts in the state of New York. Further assume that a dispute arises between the parties regarding the ownership of derivative works of the US licensor’s IP that are created by the Indian licensee and the Indian licensee commences legal proceedings in an Indian court notwithstanding the exclusive jurisdiction provisions of the contract. Under these circumstances, the US licensor finds itself involuntarily in an Indian forum in which the Indian court might likely apply Indian IP law to adjudicate the dispute regarding ownership of IP created in India. This hypothetical underscores the importance of understanding upfront the local laws that may apply to the contemplated transaction. This section highlights certain IP-related areas and concepts unique to India that may present additional complexities for a US investor.
4.3.1 Safeguarding Trade Secrets and Confidential Information

From a US investor’s perspective, when licensing IP or transferring proprietary technology to India, one of the most troubling gaps in India’s IP legal framework is that India does not provide any statutory protection for trade secrets or confidential information. The US provides statutory protection to trade secrets, both at the state and federal level, with meaningful civil and criminal remedies to counter misappropriation of trade secrets, including actual and punitive damages, injunctions, and attorneys’ fees. That is not the case in India, and is therefore a critical distinction because generally speaking most of the IP or technology licensed or otherwise transferred to India is confidential in nature and not suitable for local registrations in the form of patents or copyrights. Therefore, a primary concern should be the Indian counterparty’s ability to safeguard trade secrets and confidential information of commercial value against misappropriation, misuse, unauthorized disclosure, sabotage or theft. It therefore becomes imperative for the US investor to closely evaluate how it will best protect this information so as to maintain the company’s competitive advantage.

The answer is that the US investor primarily must rely on contract law to protect its trade secrets. Confidentiality, non-disclosure and non-compete agreements (collectively, “NDAs”) offer a line of defence in the US investor’s efforts to protect trade secrets and confidential information in India. While such agreements are generally enforceable under Indian law, they must nonetheless carefully drafted so that they comport with the enforceability criteria that usually apply. As an initial matter, however, the requirement and application of privity of contract becomes critical to the US investor’s right and ability to enforce information-protecting contract provisions not only against its counterparty in the main contract documents, but also against third parties playing peripheral or derivative roles in the transactions. In other words, while privity of contract is a fundamental tenet of all developed contract law in most jurisdictions, including the US, in India the lack of diligence to make sure it is established as well with all third parties who likely will interface with the IP in addition to the primary Indian counterparty can become a major enforcement gap for the US investor. As discussed below, this is because Indian law effectively does not recognize the doctrine of third party beneficiary law as discussed in Section 4.5.5 below. Accordingly, whenever practicable a U.S. investor should enter into NDAs directly with the Indian counterparty’s employees and consultants assigned to the project. Otherwise, the U.S. investor will not have any recognized contract-based

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enforcement mechanism directly against any such employees or consultants who inappropriately disclose or misappropriate the US investor’s IP. For these reasons, subcontracting by the Indian counterparty can dramatically increase the IP risk profile. Therefore, proper checks and balances should be placed on the Indian counterparty’s ability to subcontract and to the extent possible the U.S. investor should require that subcontractors enter into contractual commitments that are directly enforceable by the U.S. investor. In addition to contractual safeguards, implementing effective information governance strategies and internal security measures to control the access, availability and dissemination of trade secrets and confidential information in India (such as background checks, exit interviews, compliance audits etc.) can substantially reduce the risk of IP misappropriation in India.

Indian common law also recognizes a common law tort called “breach of confidence” in addition to, and irrespective of, the existence of a contract. But the tort’s utility is limited in a third party IP licensing or technology transfer context because the duty of confidence at issue can be enforced only against a party that is either a fiduciary or in an employer-employee relationship with the complaining party. In response to pressure from key stakeholders, the Indian government has drafted to present date the National Innovation Act, 2008, to encourage indigenous innovation and promote its commercialization as well as to provide a statutory framework to protect trade secrets and confidential information in India. At some point presumably the GOI and the Parliament will pass this legislation and enact it into law. US investors should monitor this legislation closely.

4.3.2 Impact of Local Laws on IP Strategy

Before licensing or transferring IP to India or collaborating with an Indian counterparty in joint research or development projects, a US investor should determine its patent strategy with respect to its patents or patentable inventions that might be transferred to or created in India. A fundamental question should be whether to seek local patent protection for any invention that is patentable or already patented outside India that would be made available in India or for any innovation originating in India as well as any subsequent global filings for any India-originated innovation. Through a well thought out patent strategy upfront, a US investor can minimize not only infringement risk but also the risk of potential loss of any global patent rights, particularly given the differing standards of patentability worldwide. To a large extent, the patent strategy will be driven by

27 For example, India has adopted a first-to-file patent system. In contrast, the US follows a first-to-invent patent system, which provides for granting a patent to the inventor who
the nature of the business activities, the degree of critical IP involved, and the local IP laws and effectiveness of available enforcement mechanisms. For example, in a business transaction involving the manufacture of drugs in India, a US investor may want to obtain local patent protection for the drug formulations to prevent local generic companies from copying the drug. Largely due to India’s recent patent law reforms and accession to the Patent Cooperation Treaty, the number of patent applications filed and granted in India has dramatically increased in recent years, as reflected in the chart below.

A key benefit of patent protection is that it provides a bundle of strong statutory rights to the patent owner that may be enforced against any third party in India to stop it from any unauthorized use or infringement of the patented technology regardless of the non-existence of any contractual or fiduciary relationship. Furthermore, unlike in the case of trade secrets or copyrights, independent development of a patented technology is not a defense to a claim of infringement under Indian patent laws. While not usually a significant risk, a US investor in India should generally be aware that India’s patent laws empower the government to grant a “compulsory license” to a private party or a government agency under certain circumstances, such as if the “reasonable requirements of the
can demonstrate that he or she was the first to conceive the invention and diligently reduce it to practice even if he or she was not the first to file the patent application for such invention. This provides for detailed interference practice in the US to determine the priority of inventions, which practice does not exist in India.
“public” have not been satisfied.\textsuperscript{28} India’s patent laws also provide for “research and experimental use” exceptions, whereby a third party’s experimental use of a patent, even if such use is for commercial purposes, without the patent owner’s consent will not constitute infringement.\textsuperscript{29}

Indian patent law requires that applications for patents for inventions originating in India or involving an Indian resident inventor must first be filed in India, absent a grant of a “foreign filing license” by the Indian Patent Office\textsuperscript{30} Failure to obtain a foreign filing license from the Indian Patent Office can result in significant penalties (which may include loss of patent rights, monetary fines and imprisonment for up to 2 years) against any person who files such an application or causes such an application to be filed. As mentioned above, India also recently amended its patent laws to provide for patents for drugs and chemical products as well as software-related inventions, but it remains to be seen how these new laws will be interpreted and applied. Computer programs and business methods continue to be \textit{per se} not patentable in India,\textsuperscript{31} however, and so must be protected as trade secrets and through copyright registrations, where necessary.

4.3.3 Ownership of Deliverables or New IP Created in India

In the US, the “work made for hire” doctrine is an important protection governing copyright ownership in deliverables and it extends to work product created by employees as well as independent contractors, provided certain

\textsuperscript{28} India Patents Act, §84. Under this section, a third party may make an application for a compulsory license on the grounds that the “reasonable requirements of the public” have not been satisfied, or that the patented product is not available at a “reasonably affordable price,” or that the patented invention is “not worked in the territory of India.”

\textsuperscript{29} \textit{Id.} §47.

\textsuperscript{30} \textit{Id.} §8. Pursuant to this requirement, which is largely driven by national security concerns, a person may either seek written permission from the Patent Controller in India to first file the said patent application outside India or wait for six weeks after filing the patent application in India and if no secrecy order is received during such 6 month period, then proceed with the filing of the patent application outside India.

\textsuperscript{31} \textit{Id.} §3(k). However, inventions relating to the application of computer program or software may be patentable when claimed in combination with hardware and software components of a computer, which combination provides a “technical advancement” over prior art. Potentially influential with respect to how India’s patent laws might address this issue in the future will be the US Supreme Court’s eventual decision in \textit{Bilski v. Doll}, No. 08-964, for which the Court granted certiorari on June 1, 2009. The \textit{Bilski} case is significant in that it is the first time that the US Supreme Court will address, if not completely then in some degree, the issue under US patent law of whether and to what extent certain business processes and methods should be patentable.
statutory conditions are met. Indian copyright law recognizes this doctrine, but it is not as well developed as in the US and therefore not a fully reliable safeguard in those circumstances in which IP will be developed by a third party in India. Under Indian law, this doctrine only extends to employee-created work product and does not apply with respect to contractor-created work product.\(^\text{32}\) Consequently, unless the contractor-created work product is expressly assigned by written contract to the US commissioning party, which is permitted under Indian IP law, the legal owner of the work product under Indian law will be the contractor that developed them and the US commissioning party will likely only have an implied license to the work product.

Therefore, the operative contract with the Indian counterparty for creating IP in India that is to be owned by the US investor must include valid assignment provisions that are enforceable under Indian law and transfer copyright to the US investor. These provisions should also flow down into agreements with the Indian counterparty’s employees and subcontractors. Absent a transfer of full legal title or an exclusive license under the relevant copyright, the US investor may not have standing to sue in the US or India for infringement.

Indian patent law does not provide for an automatic assignment of patents or patentable inventions. Therefore, an invention made by the Indian counterparty’s employees or contractors must be appropriately assigned in a manner that is valid and enforceable under Indian law so that the title to such IP legally vests in the US investor.

4.3.4 Unique Statutory Presumptions and Inalienable Rights

A US investor can be caught unaware by certain presumptions under Indian law that apply to licensing and assignment of copyrights, which if not adequately addressed through contractual mechanisms can jeopardize the US investor’s rights in IP created in India or licensed from the Indian counterparty. For example, Indian copyright law provides that unless a copyright license or assignment expressly states that license or assignment rights are \textit{worldwide} and \textit{perpetual}, the license or assignment rights are limited to \textit{India} and for a \textit{period of 5 years only} from the date of the license or assignment, as applicable.\(^\text{33}\) Similarly, unless a copyright assignment expressly states otherwise, the assignment lapses if the assignee has not \textit{exercised} its rights within one year from the date of

\(^\text{32}\) India Copyright Act, §17.

\(^\text{33}\) \textit{Id.} §§19 and 30A.
assignment.\textsuperscript{34} Under Indian patent law, a patent assignment must be in writing and registered in India otherwise it is invalid.\textsuperscript{35} These are all important considerations because Indian law may be used to determine IP ownership and infringement issues that arise with respect to IP transferred to, created in, or licensed from, India even if the operative contract calls for non-Indian law to apply.

In India, certain inalienable “moral rights” attach to authors of copyright work allowing them to restrain or claim damages for the distortion or modification of work if it could bring them disrepute.\textsuperscript{36} These rights are retained by the authors even if the copyright work is assigned, but such rights may be waived under limited circumstances if accompanied with adequate compensation. Without a waiver of such rights, the assigning author would likely be able to restrain future versions of copyrighted materials, particularly if the author believes such versions may contain defects or errors that might bring the author disrepute. A US investor should therefore seek a waiver of such moral rights by the author upon assignment of all copyrighted materials. It is worth noting, however, that moral rights do not apply with respect to computer software in India. Accordingly, absent agreement to the contrary, an author may not object to the modification of a software work by a US investor who has acquired the right to adapt the work.

4.3.5 Joint Ownership Pitfalls

R&D projects can often involve collaborative efforts that then raise issues concerning whether IP generated from those efforts is, or should be, jointly owned and whether joint ownership is a preferable or desirable arrangement. Joint ownership of IP in any jurisdiction is fraught with legal land mines and as a rule of thumb should be avoided to the extent possible. In India, this issue becomes even more risky and legally opaque. Unlike in the US, in India a joint owner of a patent cannot commercially exploit the patent without obtaining consent from the co-owner and must also provide an accounting to the co-owner in connection with any license, assignment, or sale of the patent.\textsuperscript{37} Because under Indian patent law there is no statutory reasonableness standard with respect to the withholding of consent by a joint owner, the US investor can be subject to the whims of a joint owner if the US investor wishes to exploit a jointly-owned patent in India. Furthermore, joint ownership of a patent or copyright can also affect a joint

\textsuperscript{34} Id. §19.
\textsuperscript{35} India Patents Act, §68.
\textsuperscript{36} India Copyright Act, §57. The US copyright law recognizes “moral rights” but only under very limited circumstances (e.g., for authors of works of visual art).
\textsuperscript{37} Id. §50.
owner’s ability to enforce its rights in the patent or copyright against a third party because Indian law requires all owners of a patent or a copyright to be parties in an infringement lawsuit. Additional issues to consider are a joint owner’s responsibilities relating to filing, prosecution, maintenance and enforcement of IP rights in jointly owned inventions in the applicable jurisdictions. For these reasons, careful consideration should be given to IP that may flow from the results of joint work in India.

4.3.6 Scope of Fair Use Exemptions

Under Indian copyright law, certain uses of computer programs without the copyright owner’s permission, including “non-commercial personal use,” are deemed “fair use” or “fair dealing” and do not constitute infringement. Furthermore, Indian copyright law does not require that any payment be made to the copyright owner for such use. These fair use exceptions reflect the historic emphasis of Indian law on public access to knowledge. This fair use doctrine has been subject to very limited judicial scrutiny in India and is unfortunately a murky legal concept that leaves a blurred line between lawful and unlawful use. India’s fair use exceptions significantly exceed those in the US, which only permit copying or use of limited portions of copyrighted works without the owner’s consent for limited purposes of commentary, criticism, teaching, and research, and similar specific activities.

As a result, the US investor should make sure that the operative contract strictly prohibits any use, copying, reverse engineering or distribution of its software code by the Indian counterparty beyond the purposes expressly authorized by the US investor. Having said that, it is unclear however if these contractual protections will override the statutory provision permitting “fair use” or “fair dealing” under India’s copyright law because there is no Indian case law on point to date.

4.3.7 Data Privacy and Cyber Security

In today’s global digital economy, companies increasingly transact business in cyberspace, including electronically storing, accessing and/or moving data and intangibles across borders seamlessly, quickly and inexpensively. Without doubt cyberspace is an effective medium for efficient communications but it also creates unique and new vulnerabilities for unauthorized access, security

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38 India Copyright Act, §61.
39 Id. §52.
lapses, viruses, intrusions by hackers, and identity theft, for instance. In many emerging markets, data stored on computers or transmitted through networks is far less secure than in the U.S. Indeed, cyber security and the security of data transferred to and stored on computers and other information systems in India are among the top concerns for US companies transferring sensitive data to Indian counterparties. Reportedly, incidents of cyber crime have rapidly increased in India since 2006 due to the dramatic increase in the use of the Internet and advancements in information technology. While India has a comprehensive statute in place to protect against cyber crimes and computer data misuse, and India recently amended its laws to protect sensitive personal data, the enforcement of the statute remains weak as further described below.

More specifically, India’s Information Technology Act of 2000 (“ITA”) governs India’s cyberspace. In summary, the ITA (i) accords legal recognition to electronic documents and digital signatures to facilitate e-commerce in India, (ii) provides for regulation of certification authorities and their duties vis-à-vis subscribers of digital signature certificates, and (iii) protects against “computer offences” involving unauthorized access to data on computers and networks, unauthorized downloading, copying or altering of data, or introduction of viruses or other damage to computer systems, examples of which would be hacking and damage to computer source code. The ITA provides for both civil and criminal remedies for certain computer related offences, as well as for the creation of a special appellate tribunal (Cyber Appellate Tribunal) to expedite the disposition of claimed violations of the ITA. In February 2009, India amended the ITA to protect “sensitive personal data” and to broaden the scope of protections against cyber crimes, but it remains to be seen when the amendment will be notified by the government of India so as to bring it into full force and effect in India. While the ITA (as amended) is robust legislation, its enforcement in India remains relatively weak due to several factors, including the challenge of a judiciary still largely poorly trained and experienced in the adjudication of complex technology-related disputes and law enforcement personnel as well as virtually non-existent cyber forensics capabilities. This problem is compounded by practical challenges faced by Indian law enforcement officials in collecting, recovering, preserving and analyzing cyber crime-related evidence from potential multiple jurisdictions in a form that is judicially acceptable evidence in India. Any US company contemplating a transaction that will involve transfer of its sensitive data to India

40 India Information Technology (Amendment) Act, 2008.
41 Id., §43A.
should (i) determine upfront how best to maintain as much control over such data as possible, including where practical storing such data on servers in the US to be remotely accessed by the Indian counterparty on an as-needed basis, (ii) perform due diligence to assess the level of data security the Indian counterparty will provide and, (iii) objectively specify in the operative contract the security measures that the Indian counterparty must implement to protect the US company’s data and periodically audit compliance.

4.3.8 Compliance with US Export Controls

Another important consideration is whether the IP being transferred to India (such as encrypted technology or source code) is subject to US export controls, in which case a license to “export” or other approvals may be required from US governmental agencies prior to transferring such IP. Because the US party bears the responsibility for compliance with US export control laws on behalf of itself and the Indian counterparty at the risk of severe civil and criminal penalties, the operative contract should unambiguously require the Indian counterparty to comply with, and facilitate the US party’s compliance with, applicable US export control laws. The Indian counterparty’s failure to so comply should not only permit the US party to immediately terminate the contract but also result in uncapped financial consequences to the Indian counterparty. Failure to address such issues upfront can add significant additional complexity and costs to the transaction.

4.4 Practicalities of Managing IP Risk

As a practical way to manage the risk to IP in India, the US investor should (i) perform detailed due diligence of the Indian counterparty upfront to evaluate the entity’s performance track record and financial condition, (ii) be extremely particular about which IP must truly be licensed or otherwise transferred to India and avoid where possible transferring its “crown jewels” or technology that is core or critical to the US investor’s operations, (iii) maintain core components of the IP in the US whenever possible and practical, and (iv) in R&D arrangements require frequent disclosure of work-in-progress, periodic delivery of deliverables, and escrow arrangements where necessary to avoid being denied access to such IP in the event of a dispute or bankruptcy of the counterparty.

A US investor contemplating transferring IP to India must also carefully assess India’s IP legal framework vis-à-vis the IP that will be transferred and accordingly determine the appropriate safeguards to protect such IP in India.
These safeguards may be a combination of statutory, contractual and practical mechanisms to minimize IP-related risk. The parties should clearly address in the operative contract, among other things, (i) the specific allocation of relative ownership and access rights to IP and any improvements to such IP that might be made following its transfer to India, (ii) all desired non-disclosure and non-compete obligations of the Indian counterparty, (iii) any measures that the Indian counterparty will be required to implement to minimize risk to the transferred IP, and (iv) all rights and remedies available to the US investor to enforce its rights and protect against infringement or misuse of the transferred IP, including immediate termination rights, indemnities and uncapped liability for Indian counterparty misconduct.

In addition, effective information governance strategies and internal security measures should be implemented to control the access, availability and dissemination of IP in India. Key measures include (i) permitting controlled access on a “need to know” basis, (ii) briefing Indian counterparty employees and third parties on security measures and conducting exit interviews for ex-employees to remind them of continuing confidentiality and non-compete obligations, (iii) performing routine audits to verify Indian counterparty’s compliance, and (iv) to the extent possible, marking hard copy documents and electronic data with “confidential” or “proprietary” legends prior to placing them in circulation.

4.5 **Enforcing US Investor’s Rights and Remedies in India**

The enforcement of the US investor’s rights and remedies is always a vital concern, and those concerns can be exacerbated when dealing with Indian counterparties with few or no meaningful assets in the US against which any judgment or arbitral award could be executed. If the Indian counterparty has meaningful assets located in the US and a US plaintiff successfully obtains a judgment in a court of competent jurisdiction, the judgment can be enforced against those US assets. However, even if a dispute with an Indian counterparty is adjudicated in the US, if the Indian counterparty’s primary assets are located in India and not in the US, the US investor must still seek redress within the Indian legal system to obtain and enforce a judgment against the Indian counterparty’s India-based assets, which can present significant challenges as described below. Therefore, a US investor should understand upfront the counterparty’s corporate structure, including the location of assets within the counterparty’s corporate family, and structure the dispute resolution provisions in a manner that will maximize the possibility of the US investor’s recovery against the counterparty’s assets in the event of a dispute. If the counterparty has assets in multiple
jurisdictions outside the US, the US investor should seek recovery against the counterparty’s assets in a jurisdiction that would be most effective. For example, if the Indian counterparty has assets both in the U.K. and India, it may be prudent for the US investor to seek enforcement of a US judgment against the counterparty’s UK-based assets as the enforcement of US judgments by the UK courts is relatively routine. Where possible, the US investor should consider additional mechanisms beyond the operative contract to guarantee performance and payment from the counterparty through requiring parent or affiliate guarantees, letters of credit, payment escrow accounts, product liens and security interests and insurance, as applicable.

4.5.1 Enforcing US Judgments

Under Indian law, a US judgment is not directly enforceable in India. Rather, it can only be enforced by filing a fresh lawsuit in an Indian court based on the US judgment, which will be treated as evidence, among other evidence, against the Indian defendant.\(^43\) The lawsuit could require years before any relief is actually awarded by the Indian court. Furthermore, the US judgment will not be enforceable in India if it is determined by the Indian court that (i) the judgment was not issued by a court of competent jurisdiction, (ii) the judgment was not issued on the merits of the case, (iii) the judgment appears to be founded on an incorrect view of international law or a failure to recognize Indian law if such law is deemed to be applicable, (iv) principles of natural justice were ignored by the US court, (v) the judgment was obtained by fraud, or (vi) the judgment sustained a claim founded on a violation of any law in force in India. Only once a judgment is obtained from the Indian court in this proceeding may the US investor seek to attach the Indian counterparty’s assets in India. This also applies to any injunctive relief issued by a US court that will need to be enforced against a defendant in India. Because seeking to enforce a foreign judgment in India can be arduous, time consuming, expensive, and unpredictable, jurisdiction and enforcement provisions in the operative contract should be carefully considered and crafted so as to provide the US investor with adequate and flexible rights and remedies keeping in view the nature of the IP being transferred to India.

\(^43\) This process is much more simplified and streamlined with respect to certain countries designated as “reciprocating territories” by the Indian government. Foreign judgments passed by courts of these “reciprocating territories” can be directly enforced in India by filing execution proceedings and are deemed to be decrees of the Indian courts for enforcement purposes, thereby considerably speeding up the process. The “reciprocating territories” include the UK, Singapore, Hong Kong, Malaysia, Canada, New Zealand, to name a few, but not the U.S. See Section 44A of the Code of Civil Procedure, 1908.
4.5.2 **Enforcing Governing Law and Forum Selection Provisions**

Indian courts recognize private international law principles and will generally enforce choice of law clauses agreed upon by the parties, except under very limited circumstances, such as, for example, if the chosen governing law would violate public policy in India in some way. Thus, in the operative contract between an Indian entity and a foreign entity, the parties may choose foreign law as the governing law of the contract. A US investor must always unambiguously require a particular state’s law as the governing law of the contract. A US investor should be aware, however, that Indian courts may nonetheless apply Indian law to adjudicate disputes in certain fields, including disputes involving IP, real property, labor issues, and insolvency, for example, regardless of the governing law stipulated in the contract, thereby limiting the practical realization of the contract’s intended protections should the Indian counterparty seek protection in an Indian court. Therefore, a US investor should be cognizant of the effect Indian laws might have on the contract terms agreed upon by those parties.

Indian courts also generally recognize forum selection clauses, including clauses that require the parties to litigate disputes in a foreign jurisdiction. To avoid becoming embroiled in litigation in Indian courts, a US investor should require that the parties adjudicate any dispute arising from the licensing or technology transfer transaction exclusively in a US jurisdiction or a “neutral” non-Indian jurisdiction. To be enforceable in India, exclusive foreign venue provisions should be carefully crafted in accordance with Indian law requirements and include express waivers. One exception to an exclusive venue provision that may be beneficial to a US investor would be to retain the right of the US investor to seek injunctive relief in a local court in India under appropriate circumstances, such as to stop an Indian party from the unauthorized use or disclosure of the US investor’s IP in India.

It is important to note that the enforcement of venue selection clauses is not without limitation in an Indian court. Even if a contract contains an exclusive non-India venue provision, if the Indian counterparty seeks protection in an Indian court an Indian court may elect, in its discretion, not to enforce the venue provision but instead to adjudicate the lawsuit in India if it determines that justice will be better served. For example, a US investor could find itself involuntarily in

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an Indian court if the Indian counterparty, notwithstanding the agreement to submit to foreign jurisdiction, initiates an action in an Indian court or seeks an “anti-suit” injunction against the proceedings initiated by the US investor in a foreign court. In such a situation, the Indian court could decide to assume jurisdiction or stay the action, depending on the circumstances of the case.

4.5.3 *Arbitration Preferred Over Litigation*

To best mitigate the risk of an Indian counterparty seeking refuge in an Indian court and being mired in prolonged litigation and subject to unfamiliar procedures, private arbitration is the preferred means of dispute resolution in commercial transactions involving India. The benefits of confidentiality of arbitral proceedings and the relative ease of enforcing in India both foreign and India-based arbitral awards further provide compelling reasons for adopting arbitration as the formal dispute resolution mechanism in India.

India is a signatory to the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Awards, commonly referred to as the “New York Convention,” which makes a foreign arbitral award rendered in a “convention” country far easier to enforce in India than comparable court judgments. However, a foreign arbitral award may be challenged or refused enforcement in India on certain limited grounds which include (i) the incapacity of any of the parties to the contract, (ii) the invalidity of the arbitration agreement under the law governing the dispute, (iii) a lack of due process afforded to either party, (iv) if the award is beyond the arbitration clause’s scope, (v) the subject-matter is not subject to resolution by arbitration under India’s laws, or (vi) if enforcement would be contrary to public policy in India. If an Indian court is satisfied that the foreign arbitral award is enforceable pursuant to India’s Arbitration Act, it is deemed to be a decree of that court, which decree is readily enforceable in India.

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46 On January 10, 2008, the Supreme Court of India issued an important decision in the case *Venture Global Engineering v. Satyam Computer Services, Ltd.*, 2008 (1) CTC 348, regarding the enforcement in India of foreign arbitration awards. The decision paves the way to challenge foreign arbitral awards in an Indian court based on broad public policy grounds and has important implications for any company that may find itself involved in an arbitration proceeding involving business interests in India. It also has implications for those companies that have assets located in India that might be the future subject of an enforcement proceeding. See Sonia Baldia, *Indian Supreme Court Paves the Way to Challenge Foreign Arbitration Awards in India on Broad Public Policy Grounds*, Mondaq February 14, 2008.
In a business transaction, therefore, the operative contract should unequivocally specify that all disputes relating to the transaction must be arbitrated and require the arbitration to be conducted preferably in the US, but at the least in recognized neutral, non-India venues, such as Paris, London, or Singapore, for example. The US investor should consider whether to preserve the right to seek injunctive relief in India depending on the circumstances specific to the transaction.

4.5.4 Uncertain Status of IP Assets in Bankruptcy

As is the case when doing business in any number of other jurisdictions, including the United States, an Indian counterparty’s bankruptcy can have a catastrophic effect on the US investor and can significantly impact the enforceability of the operative contract. This is because a party’s bankruptcy can significantly alter the relationship of the parties by operation of law to effectuate the purpose of bankruptcy laws which is to maximize the value of the debtor’s estate. The outcome of bankruptcy proceedings in India can be unpredictable and can have dramatic impact on both licensors and licensees of IP. Whether the Indian debtor in bankruptcy is a licensor or licensee, a key question concerns the status of the IP assets that may have been licensed, assigned or otherwise transferred to or from the debtor in bankruptcy. Can a US licensor unilaterally terminate the license agreement once the Indian licensee files for bankruptcy in India? If not, what rights will the Indian debtor-licensee continue to have with respect to the US licensor’s IP? Can the Indian debtor-licensee “dispose of” (by assignment or otherwise) the licensed IP to maximize the value of the debtor’s estate? Can the Indian debtor-licensor unilaterally terminate the license agreement or otherwise cut off the US licensee access to IP that might be critical for the US licensee’s operations? What legal recourse is available to a non-debtor licensor or licensee in India? These are important considerations from a US investor’s perspective that must be assessed and addressed beforehand to try to mitigate the unpredictable consequences of an Indian counterparty’s bankruptcy.

A US investor should be aware that India’s bankruptcy laws are antiquated, complex and inefficient compared to the US bankruptcy laws.47

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47 In the US, the comprehensive US Bankruptcy Code contains efficient and streamlined procedures to facilitate a financially strapped company’s liquidation under Chapter 7 or reorganization under Chapter 11, but that is not the case in India. In India, multiple laws govern the corporate liquidation and reorganization process, which process is fraught with delays and complexities, and has failed to keep pace with the modern economic realities. India’s existing regulatory framework for corporate bankruptcy consists of Chapter VII of
Furthermore, India’s bankruptcy laws do not provide any specific guidance as found in Section 365 of the US Bankruptcy Code with respect to the respective legal obligations and rights of licensors and licensees of IP in bankruptcy. For example, under Section 365(n) of the US Bankruptcy Code, a non-debtor licensee may retain certain rights to use the licensed IP notwithstanding the debtor licensor’s “rejection” (i.e., termination) of the license agreement. This is a significant protection for a non-debtor licensee as it substantially reduces the overall risk of the non-debtor licensee being denied access to the licensed IP that may be critical for its operations. Section 365(n) also sets deadlines for the bankruptcy trustee (or the debtor-in-possession, as the case may be) to “assume” (i.e., keep in effect) or “reject” the license, which provides some predictability of process to the non-debtor licensee. By way of another example, the US Bankruptcy Code’s “automatic stay” severely curtails a non-debtor licensor’s

India’s Companies Act, 1956, the Sick Industrial Companies (Special Provision) Act, 1985, and the Recovery of Debts Due to Banks and Financial Institutions Act, 1993. As a result, multiple agencies such as the High Courts, the Company Law Board, the Board for Industrial and Financial Reconstruction (BIFR), and the Debt Recovery Tribunals (DRTs), have overlapping jurisdiction thereby creating systemic delays. Recognizing the dire need for a modern bankruptcy law in India, several special committees (such as the N.L. Mitra Committee, the Eradi Committee and the JJ Irani Committee) were established by the Government of India to make recommendations for bankruptcy law reforms in India. As part of such reforms, the Companies (Second Amendment) Act, 2002, was enacted in 2002 to make significant changes in the restructuring and liquidation provisions and provide for the setting up of a new institutional structure in the form of the National Company Law Tribunal, but the 2002 Act is yet to come into force in India.

48 Under US bankruptcy laws, a non-exclusive IP license is generally considered an “executory contract” where both the debtor and the non-debtor party have unperformed obligations such that failure of either to complete performance would constitute a material breach excusing the performance of the other. The debtor licensor’s decision to assume or reject is generally based on the assessment of whether the continuing obligations under the license would be burdensome for the debtor’s estate. If the debtor licensor “assumes” the license, it must continue to perform according to the license terms. If the debtor licensor “rejects” the license, the non-debtor licensee has two options: (i) it may elect to treat the license as terminated, in which case the licensee will forfeit its rights to the licensed IP and will have a breach of contract claim for damages as an unsecured creditor, or (ii) it may elect to retain its rights to use the licensed IP in accordance with the license agreement as it existed before the licensor filed for bankruptcy, in which case (x) the debtor licensor is required to provide to non-debtor licensee the licensed IP to the extent provided in the license agreement but the debtor licensor is relieved from performing any other affirmative obligations under the license agreement, such as with respect to IP maintenance, updates, enhancements, training etc., and (y) the non-debtor licensee must continue to pay royalties.
ability to unilaterally terminate the license agreement based on *ipso facto* termination rights as soon as the debtor-licensee’s bankruptcy begins. However, a debtor-licensee is required to “assume” or “reject” a license agreement within certain statutory timelines. No similar protections or predictability are afforded to licensors or licensees under Indian bankruptcy laws which can potentially create real vulnerabilities for the US investor.

The unanticipated consequences of the Indian counterparty’s bankruptcy may be avoided if the US investor is able to timely terminate the operative contract pre-bankruptcy, which of course is usually practically feasible only if the US investor remains vigilant about the counterparty’s performance and financial health on a routine basis. Care should be taken in drafting the operative contract to include effective mechanisms to provide early warning signs to the US investor, such as performance benchmarks, periodic financial reporting and “no material adverse change” certification requirements, as well as escrow arrangements and security interests in critical licensed IP, as applicable and appropriate. In addition, the license and payment terms and any on-going obligations of the parties under the operative contract should be structured in a manner so as to minimize the impact of the Indian counterparty’s bankruptcy on the US investor’s interests.

4.5.5 *Enforceability of Third Party Beneficiary Rights*

Unlike the US, India does not expressly recognize any established “third party beneficiary” law that entitles a third party to enforce contract terms that exist in contracts to which it is not a party but which are either expressly or implicitly for such third party’s benefit. While there is no statute in India that expressly permits or prohibits an intended third party beneficiary from enforcing such a contract, the general rule under Indian law to date is that no right under a contract may be enforced by a person who is not a party to the contract unless certain established exceptions apply.

49 These are rights that authorize the non-debtor party to terminate the contract upon the other party’s bankruptcy.

50 If the debtor licensee “rejects” the license agreement, the non-debtor licensor would have an unsecured claim for damages against the debtor’s estate. Usually, such rejection would be preferred by non-debtor licensors. Alternatively, if the debtor licensee “assumes” the license agreement, it will have to cure or provide adequate assurance that it will cure any previous defaults as well as provide adequate assurances of future performance and compensation to the non-debtor licensor in accordance with the license agreement.

51 A third party beneficiary means an intended, and not just an incidental, beneficiary of a contract.

52 *M.C. Chacko v. the State Bank of Travancore*, AIR 1970 SC 504 (the Supreme Court of
adopted a rather strict interpretation of the doctrine of privity of contract based on English common law\textsuperscript{54} that entitles only contracting parties to enforce rights, and hence recover damages, under the contract. Indian courts have, however, acknowledged certain exceptions to the privity doctrine based on the principles of equity\textsuperscript{55} but these exceptions are very limited and narrow in scope.

This somewhat strict application of the privity doctrine in India can potentially create a significant enforcement gap from a US investor’s perspective. To illustrate this point, consider an R&D services contract between a US company (“US Co.”) and an Indian supplier pursuant to which the supplier will provide services to US Co. and US Co.’s affiliate (“US Affiliate”) and the supplier’s indemnities will extend to both US Co. and US Affiliate receiving the services under the contract. In this hypothetical, US Affiliate would be deemed an intended third party beneficiary under the contract. If US Affiliate were to end up in a legal proceeding in an Indian forum, voluntarily or involuntarily, to independently enforce a supplier indemnity for the affiliate’s benefit, it could well be deemed not to have legal standing or sufficient rights or interests to sue under the contract. Furthermore, for the same reasons relating to standing, rights in interest, actual damages, and so forth, it is equally as questionable whether US Co., although a party to the contract, could enforce the contractual supplier indemnity for the benefit of US Affiliate in an Indian forum.

It is therefore prudent to determine upfront the intended third party beneficiaries and where feasible, structure the contractual relationship in a manner that would adequately equip such beneficiaries with direct enforcement rights in India. Alternatively, the operative contract could be assigned to a third party beneficiary in which case the assignee beneficiary would be able to directly enforce the contract.

5. CONCLUSION

India held that “a person not a party to a contract cannot, subject to certain well recognized exceptions, enforce the terms of the contract,” further noting that “it must be taken as well settled that except in the case of a beneficiary under a trust created by a contract or in the case of a family arrangement, no right can be enforced by a person who is not a party to the contract.”). \textit{See also} Essar Steel Ltd v. Gramercy Emerging Markets Fund, Appeal No. 21 of 3902, order of the High Court of Gujarat dated October 17, 2002.


\textsuperscript{54} \textit{See} Tweedle v. Atkinson, 123 ER 762 (1861) and \textit{Dunlop Pneumatic Tyre Co Ltd v. Selfridge & Co Ltd}, (1915) AC 847.

\textsuperscript{55} \textit{See supra} note 51.
While tapping the enormous potential of India can yield substantial economic benefits, it also demands more complex and robust risk assessment and management because of the unique and heightened risks inherent in the transfer of a US investor’s IP or proprietary technology to India. US companies transferring IP or technology to Indian companies or entering into joint ventures cannot rely on their traditional view of IP rights to protect their interests. Furthermore, Indian law is designed, in many respects, to encourage the development and success of Indian companies, sometimes at the expense of foreign investors. However, through upfront due diligence, a sufficiently deep understanding of India’s legal and regulatory landscape, carefully negotiated and constructed contract provisions, and successfully implemented information governance strategies, these risks can be effectively mitigated and managed to realize the full benefits of technology transfer and IP licensing to India.