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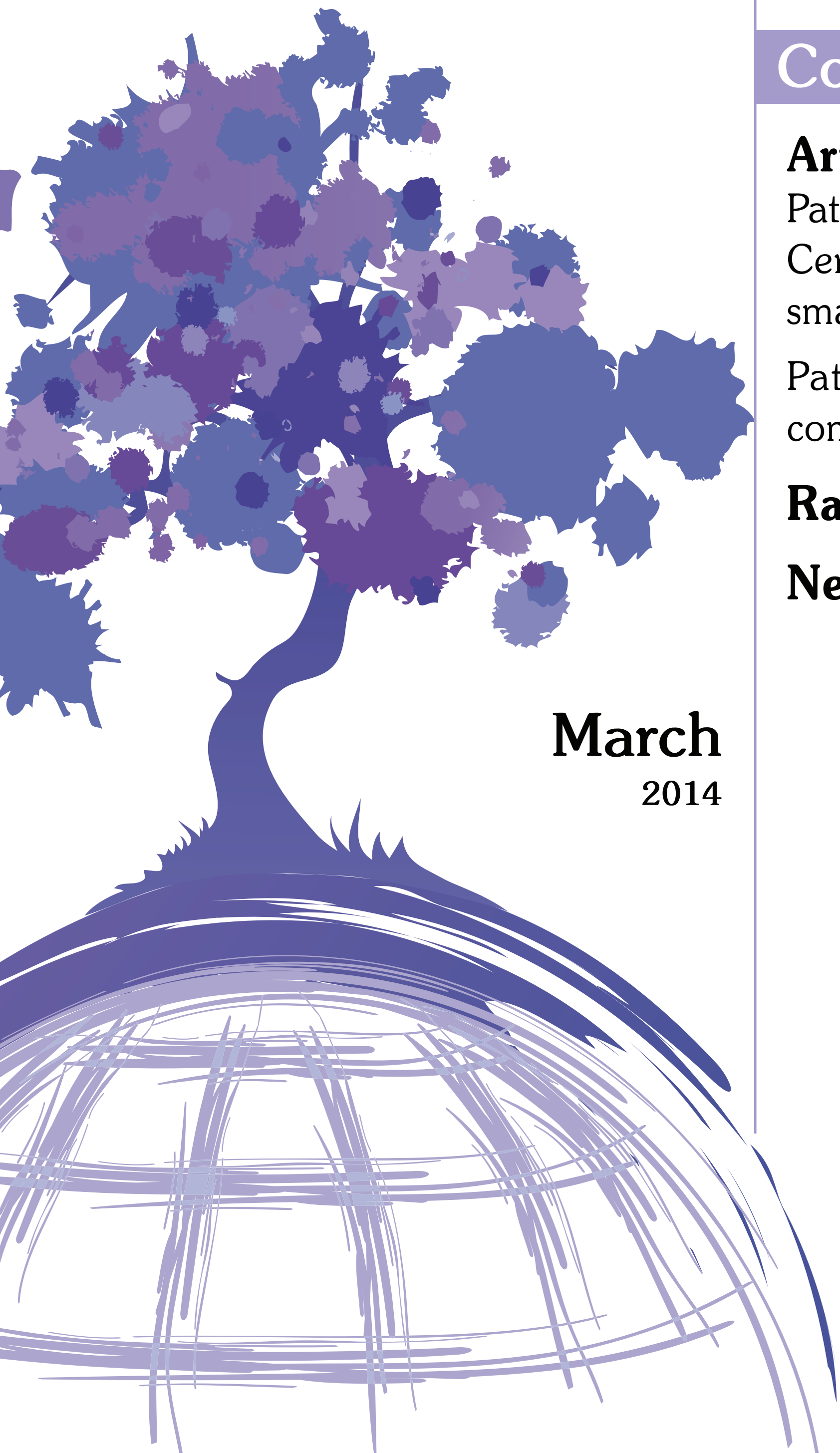

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Patents (Amendment) Rules, 2014 – Certain issues with the definition of small entities

By **Prashant Reddy & Adarsh Ramanujan**

Introduction

On February 28, 2014 the Indian Patent Office (IPO) notified the Patents (Amendment) Rules, 2014 ("Rules"). These Rules are based on the earlier draft Patents (Amendment) Rules, 2013 which were published on May 6, 2013. The amended rules have come into effect from February 28, 2014.

When the draft rules had proposed a substantial fee hike across the board, the IPO received negative feedback, warning about the adverse impact such fee hike would have on small and medium entities. It appears that acting in response to this criticism, the IPO has now created a new class of entities, called "small entities", for the purposes of fee-discrimination. Earlier, the IPO recognized only two categories of applicants: "natural persons" and "other than natural persons". After the notification of these Rules, there will be three categories of applicants: "natural persons" and "other than natural persons" which will now be divided into "small entity" and "others except small entity". A "small entity" would now enjoy a lower fee than "others except small entity" and the reduced fee is indicated item-by-item in the schedule.

Definition of "small entities"

(i) For Indian citizens and companies:

The Patent (Amendment) Rules, 2014 define small entity in the terms of Micro, Small and Medium Enterprises Development Act, 2006 (MSMEDA). The main criterion to define "small entity" is the size of the investment made by the enterprise (whether micro, small or medium) in plant and machinery (in case of manufacturing) or equipment (in case of services), minus the cost of pollution control, research and development, industrial safety devices and such other things as may be specified by notification under the MSMEDA. The value of investment as specified in Section 7(a)(1) & Section 7(b)(1) of the MSMEDA is detailed below:

For enterprises engaged in manufacture and production of goods:

- A micro-enterprise, where the investment in plant and machinery or investment in equipment does not exceed INR 25 lakh;
- A small-enterprise, where the investment in plant and machinery or investment in equipment is more than INR 25 lakh but does not exceed INR 5 crore;
- A medium enterprise, where the investment in plant and machinery is more than INR 5 crore but does not exceed INR 10 crore.

All three categories of enterprises qualify as "small entities" for the purposes of the Patent (Amendment) Rules, 2014.

For enterprises engaged in providing or rendering services:

- A micro-enterprise, where the investment in equipment does not exceed INR 10 lakh;
- A small-enterprise, where the investment in equipment is more INR 10 lakh but does not exceed INR 2 crore;
- A medium enterprise, where the investment in equipment is more than INR 2 crore but does not exceed INR 5 crore.

All three categories of enterprises qualify as "small entities" for the purposes of the Patent (Amendment) Rules, 2014.

The secondary criterion to qualify as a micro, small and medium enterprise under the MSMDE Act is the nature of goods being manufactured. As per "Explanation 1" to the new Clause 2(fa) of the Rules, the "small entity" will have to be involved in the manufacture or production of goods in any manner, pertaining to any industry specified in the First Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services in such an industry. While the First Schedule is quite extensive and covers 37 specific industries plus miscellaneous industries, there is, however, the possibility that some industries may have been missed in this list. The IPO may need to appreciate that the Industries (Development and Regulation) Act, 1951 was passed with the limited object of "development and regulation of *certain* industries" and the list in the first schedule to this law cannot be taken as exhaustive, especially keeping in mind the purpose behind prescribing a reduced fee for "small entities" under patent law. Failing to recognize this may have wider ramifications on the international front.

The Rules are surprisingly silent on the nature of evidence needed to be submitted by "small entities" demonstrating that they meet the qualifying criteria. Instead, this requirement is mentioned in the new corresponding Form 28 which small entities are required to file in order to benefit from the lower filing fee. In particular, Form 28 requires the Indian entities availing "small entity" status to submit evidence of registration under the Micro, Small and Medium Enterprises Development Act, 2006. This evidence of registration is basically a memorandum which has to be submitted to the District Industries Centre within whose jurisdiction the enterprise is located. It is relevant to note that most states provide for online registration facilities.

(ii) For foreigners:

The criteria for foreign applicants in terms of monetary investment in "plant and machinery" or "equipment" will be the same as applicable to Indian entities, i.e., as defined above. However, the documentary evidence that needs to be furnished along with Form 28 by the foreign applicant in respect of such claim has not been expressly defined by the Patent Office. The Form 28 notified by the Patent Office merely states "any other document (in case of foreign entities)" which is vague. Foreign applicants are, therefore, advised to check on this grey area including on the requirements of the law of their country and the government authorities responsible for issuing such documentary evidence to them.

Can Universities & Research Institutions classify themselves as "small entities"?

Universities & research institutions are increasingly becoming large patent filers in today's world. Going by a simple reading of the definition of the term 'enterprise' in Explanation 1 to the newly inserted clause 2(fa), it would appear that universities and research institutes may be covered under the rules since they provide research services to the industries in the First Schedule to the Industries (Development and Regulation) Act, 1951. Nonetheless, universities & research institutions providing research services in industries not listed in the said schedule risk losing out on the reduced fee. A grey area would be universities doing basic research, not as sponsored research for industries. Further, it is not clear whether any of the District Industries Centre have been registering Universities as MSMEs and hence, they may face difficulties in providing the requisite evidence to the IPO. The IPO would do well to clarify the position of universities and research institutes vis-à-vis small entities both in India and abroad.

One issue going forward is the valuation of the plant and machinery since a laboratory conducting the scientific research is not a legal entity which is separate from the University and if the entire value of the university's plant and machinery is taken into account, it will most likely, always cross INR 5 crores (which is the upper limit for the definition of small entity).

When small entities change their status during prosecution

Another problematic area going forward is about entities that may change status during the course of the prosecution, such as where the application is assigned to a large entity. The newly inserted Rule 7(3A) suggests that the difference in fee will have to be submitted along with the request for transfer. Logically, for subsequent activities requiring fee, the payment would be made based on the status of the new applicant. However, the Rules do not seem to cover situations where a "small entity" loses its status as a "small entity" after the filing of the application. Since the schedule to the Rules prescribe fee on an item-by-item basis, the fee requirement will have to be decided at each stage when such fee is being paid. However, the Rules do not seem to provide for detailed evidentiary requirements in such cases and it is not clear how the IPO will deal with such realistic scenarios.

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Patents Act – IPAB re-emphasizes compliance with Sections 14 and 15

By **Vindhya S. Mani**

The Intellectual Property Appellate Board (IPAB) by its recent orders[1] dated 20th January, 2014 and 23rd January, 2014, set aside the orders of Assistant Controller rejecting the patent applications for a "sterile pharmaceutical composition"[2] and a "crystalline polymorph of a bisulfate salt of a thrombin receptor antagonist"[3] on grounds of lack of compliance with Section 14 and Section 15 of the Patents Act, 1970 (the Act) respectively.

IPAB on Section 14 compliance - Factual background

The application of Abraxis BioScience LLC (appellant) pertained to a proprietary tumor targeting system known as nab technology platform for treating cancer and other critical illness. Natco Pharma, which had launched a biosimilar drug called Albupax, filed a pre-grant opposition. The Assistant Controller, based on Natco's opposition rejected the application under Section 25(1) of the Act without providing

1 Order No. 9 of 2014 and Order No. 8 of 2014
2 Application No. 2899/DELNP/2005; Controller's Order dated 28th April, 2009
3 Application No. 2491/CHENP/2006; Controller's Order dated 18th June, 2009

the Appellant an opportunity of hearing under Section 14 of the Act. The appellant filed an appeal to the IPAB mainly on ground of violation of principles of natural justice.

Arguments advanced

The appellant contended that denial of an opportunity of hearing under Section 14 of the Act in spite of a specific request for the same was a gross violation of the principles of natural justice. The appellant also highlighted that lack of a hearing and a consequential order under Section 14 of the Act, deprived the appellant an opportunity to appeal against said order since an order under Section 25(1) of the Act at the pre-grant stage was not an appealable one at the relevant time. Such orders became appealable only subsequently after the ruling by the Delhi High Court in a batch of writ petitions. Further, the appellant contended that the Assistant Controller took suo-motu consideration of an additional ground of 'insufficiency' under Section 25(1)(g) of the Act to reject the appellant's application despite the fact that Natco Pharma did not raise such ground in its opposition petition. Natco Pharma raised the contention that the appellant was afforded an opportunity to be heard as part of the proceeding under Section 25(1) of the Act and thus there was no violation of the principles of natural justice.

IPAB Order

The IPAB took into consideration the appellant's reply to the first examination report on 6th Jan, 2009, prior to the deadline mentioned in the examination report and the appellant's letter dated 8th April, 2009 seeking a hearing under Sections 14 and 15 of the Act and held that the Controller's finding that the reply to the first examination report was not filed in time was factually wrong. The IPAB clarified that the opportunity of hearing under Section 14 of the Act is a mandatory provision and that the Assistant Controller failed to fulfill this mandatory requirement. Further, referring to the judgment of the Delhi High Court in *Ferid Allani* v. *Union of India* [(2008 (37) PTC 448], the IPAB reiterated that Section 14 of the Act, read with Rule 129 of the Patent Rules, 2003 casts a duty on the Controller to give a hearing to an applicant before exercising any discretionary power that is likely to affect an applicant adversely. The IPAB also held that the law does not mandate suo-motu consideration of grounds of opposition in the absence of any specific plea taken by the petitioner of an opposition petition.

IPAB on Section 15 compliance - Factual background

Schering Corporation (appellant) filed an application pertaining to a crystalline polymorph of a bisulfate salt of a thrombin receptor antagonist. The Assistant Controller rejected the appellant's application on the ground that it had to provide data regarding therapeutic efficacy of the claimed crystalline form of the compound and that the claims lacked inventive step under Section 2(1)(ja) of the Act. On appeal it was argued that the Controller did not take into consideration the claims and contentions raised by the appellant and that the order of the Controller failed to mention any cogent reasons for rejecting the application.

IPAB Order

The IPAB held that the Controller failed to adequately consider the claims raised by the appellant and also failed to render a finding on each aspect. Under Section 15 of the Act the Controller ought not to mechanically refuse applications and the provision mandates discretion to give opportunity to the applicant to make amendments in the application so as to comply with the provisions of the Act. Also, the IPAB held that the finding of lack of inventive step by the Controller was a bald one with vague reasoning and remanded the matter for fresh consideration.

Conclusion

It is interesting to note that this is not the first time that the IPAB has set aside Controllers' orders for non-compliance of Section 14 or 15 of the Act. In spite of repeated attempts by the IPAB to ensure adherence to principles of natural justice, there have been numerous orders which are either non-speaking or mechanical rejection of application without affording the applicant an opportunity to amend the application.

In *NTT DoCoMo Inc* v. *The Controller of Patents and Design* (Order No. 252 of 2013, dated 28th Oct, 2013) the IPAB set aside the Controller's order and permitted the applicant an opportunity to submit an amended application under Section 15 of the Act with required documents to establish proof of right to apply. The IPAB clarified that in the case of procedural defects in an application, the Controller must not refuse the application without allowing the applicant to amend the application by furnishing the relevant documents. It is pertinent to note that unreasoned orders and findings contrary to principles of natural justice are an unnecessary burden on the applicants and thus it is time the Indian Patent Office took notice of this issue and train the Examiners and Controllers accordingly.

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Ratio Decidendi

International exhaustion does not apply to products not acquired lawfully

The plaintiff sought permanent injunction against unauthorised sale of its products which were not shown to be acquired legally and products bearing its trademarks which were found to be contraband. Granting injunction the Delhi High Court observed that had the defendants obtained the said infringing products legally from authorised channels, subsequent sale in India might have been protected under principle of international exhaustion. On sale of products found to be counterfeit the court held that use of trademarks on the same was passing off and caused damage to the plaintiff. Being of the view that the defendants were small players, unlikely to stock huge quantity of infringing goods the court awarded nominal damages. [*Philip Morris Products S.A & Anr* v. *Sameer & Ors*, Delhi High Court Order dated 10-3-2014 in CS (OS) No. 1723/2010]

Designs – Originality and prior presence

Holding that 'Original' means the design originating from the author, Delhi High Court in the matter pertaining to novelty, shape and configuration of helmets, for the design registered under the Designs Act, 2000, has vacated interim injunction earlier granted to the plaintiff. Observing that similar design was in fact available in the market before registration of present design (considering brochure and price list of the third party), it was held that the plaintiff's design was neither new nor original. Further, noting that the plaintiff had not taken any action against such third parties marketing similar products before, it was held that *prima facie* registered design of the plaintiff was published in tangible form and disclosed to the public within the meaning of Section 4(b) of the Designs Act. Section 4(c) was found to be applicable as it was seen that plaintiff's products were not dissimilar to the products of said third parties. Relying on the case *Dover Ltd.* v. *Nurnberger Celluloidwaren Fabric Gebruder Wolff* [27 R.P.C. 498] drawing distinction between 'new' and 'original', the court held that in order to know newness or originality of design it is necessary that a design identical with or even materially similar to the relevant design should not have been published or registered previously.

Earlier the court observed that protection, and tests for evaluation of novelty under the said Act are akin to Patent Act. It was held that a slight, trivial or infinitesimal variation, from a pre-existing design will not qualify same for registration and if newness is confined to only a part of it that part must be a significant one, unless registration is sought for the part alone. It was observed that Court, in this regard, has to consider and look at the design in question with an instructed eye and say whether there is substantial difference between what published previously and the registered design. [*Steelbird Hi-tech India Ltd.* v. *S.P.S. Gambhir* – Delhi High Court Order dated 24-2-2014 in CS(OS) No. 2407/2013]

Trademarks – Protection of well-known trademarks used in dissimilar services

The Delhi High Court has granted interim injunction in case of use of mark 'BRAHMOS' in relation to educational services. Relying on two precedents of the court, namely *Bloomberg Finance LP* v. *Prafull Saklecha* [2013 (56) PTC 243 (Del)] and *Rolex Sa* v. *Alex Jewellery Pvt. Ltd.* [2009(41) PTC 284 (Del)], it was held that if the registered trademark is a well-known trademark within the definition of Section 2(1)(zg) of "well-known trademark", same can be protected even in relation to dissimilar goods/services by the defendant. Here, it was noted that the plaintiff is also providing educational training and programmes. The mark was found to be well-known and hence coming within the definitions under Sections 2(1)(m) and 2(1)(zg) of the Trademarks Act, as it was associated with the substantial segment of public, used for supersonic missile in the aerospace industry; protected by the court in connected matters; used prior to the use by defendants; has acquired great goodwill and reputation in India and abroad and was widely advertised.

Argument that the mark was not used as trademark was also rejected by the court noticing advertisement of the mark by the defendants in a prominent manner under the other umbrella mark. Absence of valid justification as to how the mark, which was not a dictionary word (admittedly coined from names of two prominent rivers of India and Russia), hit upon the defendants was also noted by the court in this regard.

Contention of the defendants that the mark BRAHMOS is not a distinctive trademark and is used in relation to different services/goods, hence there was no question of confusion and deception, was rejected by the court while also rejecting the plea that plaintiff in the field of education is using the name BRAHMAND and not BRAHMOS as per the evidence. In this regard, noting that it was possible that plaintiff has also obtained domain name www.brahmand.com, it was observed that it is also not deniable that the domain name www.brahmos.com belonged to them. The court noted that it is not necessary for the plaintiff to adduce evidence of actual deception in order to prove the case of infringement. [*Brahmos Aerospace Pvt. Ltd.* v. *FIIT JEE Limited* – Delhi High Court Order dated 24-2-2014 in CS (OS) No. 2655/2013]

Superior right of prior adopter of a trade mark

According due weightage to the rights of a prior adopter, the IPAB held that the subsequently registered proprietor of a trademark cannot have a superior claim over the mark. Rival marks 'Hogla' and 'Hopla' (subsequent) were in use in respect of detergent cakes. The marks were visually and phonetically similar and the consuming public consisted of both literate and illiterate persons, therefore possibility of confusion was certain. The owner of 'Hogla' submitted proof of use in 1976, and also had copyright registration of the mark. [*Sarkar Soap Factory* v. *Sree Ma Soap Factory*, IPAB Order No. 7/2014, dated 24-1-2014]

News Nuggets

Draft guidelines for examination of pharma patent applications

The Indian Patent Office has, on 28-2-2014, issued draft guidelines for examination of patent applications in the field of pharmaceuticals. Comments from the public have been invited by 21st March, 2014. These guidelines are intended to assist Examiners and Controllers of the Patent Office in achieving uniform standards of patent examination in the pharma sector. Perhaps recognizing lack of statutory basis, the draft guidelines clearly state that in case of any conflict with the Patents Act, 1970 and the rules the provisions of the Act and rules would prevail.

As the name suggests, focus of these draft guidelines is essentially on the assessment of novelty, inventive step and industrial applicability in relation to products and processes in the field of pharmaceuticals. The guidelines also include discussion on non-patentable subject-matter. Most sections of the guidelines are explained by means of illustrative examples. There is also some assistance in terms of assessing sufficiency of disclosure and unity of invention.

A case for allowing parallel import of copyrighted material

A report by the National Council for Applied Economic Research (NCAER) on 'Impact of Parallel Imports of Books, Films / Music and Software on the Indian Economy with Special Reference to Students' was released earlier this year. The objective of the study was to examine if parallel imports of copyrighted material would be damaging to the publishing industry.

It arose after debate over the inclusion of a new proviso to Section 2 (m) of the Copyright Act, which would have clarified that India provided for international exhaustion. The proviso read as 'a copy of a work published in any country outside India with the permission of the author of the work and imported from that country into India shall not be deemed to be an infringing copy'.

The NCAER study opines that based on evidence presented, consultations and representations received from the industry and the public, parallel importation is not likely to harm Indian industry and is beneficial to the public. It however calls for monitoring of such imports in the long run so that the concern of those engaged in distribution of copyrighted material and right holders are not put to loss because of not being able to follow proper pricing/business models, flooding of markets with cheap goods, counterfeits etc.

The overall appeal of a design

An award-winning design that appeals to children, toymakers and, in all likelihood, to IP lawyers was at the heart of the decision by the England and Wales Court of Appeals (Civil Division). In the High Court the single judge proceeded to compare two designs for suitcases which to a layman appears similar perhaps appeals alike. The original design 'rodeo' pertaining to a ride-on suitcase for children (hence with wheels coloured and otherwise) (later a Community Registered Design CRD) inspired the defendant in *Magmatic Ltd* v. *PMS International* to get the 'Kiddee' manufacured in China and sell the same as a cheaper version of the highly popular 'Trunki'. Both suitcases use clasps, flat bodies, rounded contours, eyelets placed on the sides and wheels for mobility.

The single judge held that Kiddee infringed Trunki given that the overall impression on seeing both the cases was the same. However, three judges of the appellate forum thought differently. They felt that the correct comparison was not between the CRD which was without any graphic designs/ colour and the alleged infringing design shorn of its distinguishing features. This was because colour and addition of graphic design contributed to the overall impression of the design. Thus, the different versions of Kiddee appeared to be a tiger, an insect or an animal with floppy ears unlike the Trunki which was like a horned animal. The decision also dealt with the aspect of colour stating that usually if colour was not part of the design, it was filed in monochrome, yet if colour contrasts were part of the design, they would contribute to the overall impression.