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1 Book Exports, Piracy and Parallel Imports in India



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With the retail revolution, the proliferation of international publication houses and the diversification in publication categories, the publishing industry has become an indispensable component of India's vibrant economy. Given the booming Indian economy, a dynamic and fast growing market, demographic dividends including increased literacy and a growing English speaking audience, relaxation in FDI policy, India is placed at a significant point to attract overseas investment within the publishing and print industry. The industry is estimated to grow at an average annual growth rate of 15 per cent with the Indian publishing industry exporting its books and publishing services to over 120 countries and the export market is estimated to be worth \$ 550 million.

The ushering in of the knowledge-based economy in the new millennium contributed to the surge in the demand for books, with India witnessing a boom in the books and publishing industry in the last decade. The literature of a country is no doubt an index of the opinion and condition of its people, and therefore it is inevitable for good governance that the rulers of a country should possess such an index. It was therefore a significant and historic moment for academics, scholars and artists when the Copyright Amendment Bill was cleared by both the Houses of Parliament in 2012. While where other amendments including exceptions for the disabled, royalty sharing and independent rights to the lyricist and the composers were welcomed by one and all, it was the omission of the proposed proviso to the Section 2(m) of

the Copyright Act that would have legalized parallel import in India that led to several debates and speculation. In light of the current topic the article explores the doctrine of exhaustion and parallel importation concerning the indigenous publishing industry.

Book Export and Piracy

Book piracy has been growing in the Indian book market and is paralysing the publishing industry in India and abroad. Statistically it has been reported that around one-fourth of India's total book market (estimated to be between Rs. 5000 to 7000 crore, except educational and text books) is dominated by pirated books and the best seller books bear the brunt of approximately 50 to 60 per cent piracy.

Book piracy in India has been highly prevalent despite the fact that India being a developing country, the prices which are offered for legitimate titles in India are relatively low as compared to the prices offered in other countries.

The piracy of printed matter in India is affected in three principal ways:

- i) Wholesale re-printing of text and trade books
- ii) Unauthorised transactions
- iii) Commercial photocopying of books and journals

All these factors contribute to the rising level of book piracy in India. The photocopying of books particularly educational books is also highly prevalent in India as they are accessible at an affordable price to the students in India on account of which the publishers/ copyright owners suffer huge losses.

Internet Book Piracy is another emerging menace which is leaving no stone unturned, resulting in incalculable losses. Under Internet Book Piracy, the files of publishers are scanned or copied and then these files are uploaded on numerous websites. Recently it has been reported that Gini Graham Scott who has authored around 50 books discovered that 18 of her

books featured on a website offering free electronic books.¹ The aforesaid factors coupled with lack of public awareness and the lenient attitude of the enforcement authorities in India is piling up to the losses incurred on account of book piracy annually.

Parallel Importation

The term “parallel importation” refers to goods produced and sold legally, and subsequently exported. In other words, a parallel import is a non-counterfeit product imported from another country without the permission of the intellectual property owner. The practice of parallel importing is often advocated in the case of software, music, printed texts and electronic products so that the free flow of information is promoted. While proponents of the practice are of the opinion that consumers are benefited as the goods may be available to them at a cheaper price, others believe that it discourages intellectual property owners from investing in new and innovative products.

It has been of concern in the importing country particularly because entrepreneurs and commercial entities are averse to the idea of the goods obtained via different distribution channels being sold at a price that is cheaper than that quoted by them. This stems from the doctrine of **exhaustion of rights**, one of the limits of intellectual property rights, which prevents the owner from controlling the sale or redistribution of the work after its first sale. This derives premise from the fact that the monopolistic rights of the IP right holder is adequately awarded the first time the product is put on sale and that the owner must not be allowed to repeatedly benefit from the resale or distribution of that particular product. Thus unless otherwise specified by law, subsequent acts of resale, rental, lending or other forms of commercial use by third parties can no longer be controlled or opposed by the right holder.

¹ (<http://www.broadwayworld.com/bwwbooks/article/Gini-Graham-Scott-Promotes-Awareness-of-the-Battle-Against-Internet-Book-Piracy-in-New-Book-20130826>)

Exhaustion of rights

The ***national exhaustion*** restricts the control of the IP owner on the commercial exploitation of goods put on the domestic market, the IP owner (or his authorized licensee) could oppose the importation of original goods marketed abroad.

In case of ***regional exhaustion***, the first sale of the IP protected product by the IP owner or with his consent exhausts any IP rights over these given products not only domestically, but within the whole region, and parallel imports within the region can no longer be opposed based on the IP right. The laws of the European Union Committee provides for the regional exhaustion of rights.

Where a country applies the concept of ***international exhaustion***, the IP rights are exhausted once the product has been sold by the IP owner or with his consent in any part of the world. The intellectual property regimes of Australia (Section 44A, E, F of the Australian Copyright Act), New Zealand (The New Zealand Copyright Act 1994, Section 12(5A), and Japan (The Copyright Law of Japan Article 26bis (1)) etc. provides for international exhaustion of copyright.

It is the international exhaustion of the rights, i.e. the extent to which the sale of an IP protected product abroad can exhaust the IP rights over the said product in the context of domestic law is of much relevance in case of parallel importation. The segment below covers the Indian Copyright Act and the current scenario in India.

The Indian Copyright Act, 1957

Based on the UK Copyright Act 1911, the **Indian Copyright Act** (first copyright legislation in India) was passed in **1914**. The **Copyright Act of 1957** was the revised comprehensive Act according to which 'copyright' means the exclusive right to commercially exploit the original

literary, dramatic, artistic, musical work, sound recordings or cinematographic films as per the wishes of the owner of copyright subject to the restrictions imposed in the Act. This Act has so far been amended six times (1983, 1984, 1992, 1994, 1999 and 2012) to meet the constitutional status, national requirements and the international obligations.

The current version of copyright law is based on the principle of economics that price differentiation based on markets is an economically viable strategy. Moreover, it would enable the consumers to purchase books at an affordable rate and particularly meet their academic requirements.

Section 14 of the Copyright Act 1957

Section 14 of the Copyright Act, 1957 recognizes the First Sale Doctrine with respect to literary works. In relevant part Section 14 states by virtue of having a copyright the owner of such copyright would have the sole right *“to issue copies of the work to the public not being copies already in circulation”*. This is followed by an Explanation which states that *“For the purposes of this section, a copy which has been sold once shall be deemed to be a copy already in circulation”*. The copyright owner is therefore allowed to control the terms of only the first sale and no sale beyond the first sale. Therefore copies already in circulation can be further 'issued' by the subsequent owners of those copies.

The last amendment to the Act (that came into effect from June 26, 2012), among other important changes, provided for independent rights to the lyricist and the composers, extension of term of copyright for photographic work and incorporation of provision that would make it more difficult to produce cover versions. As far as publishers are concerned, although the government was all set to introduce the provision that would have allowed parallel importation of copyright work (by virtue of amendment in Section 2(m)), it was dropped from the amended Act passed by the Parliament.

The mere reading of the relevant section of the Copyright Act makes it clear that the principle of national exhaustion is being covered in the same, what is currently being debated is the international exhaustion of right. The question that pertains to this provision is that: Whether the issues already in circulation should be construed as issues already in circulation within the Indian Territory or within the International market?

Parallel Importation: Case Laws

One of the earliest decisions of the Delhi High Court with respect to Parallel Imports was that of Penguin Books Ltd. vs. India Book Distributors & Ors., AIR 1985 Delhi 2) where it was held that *importation of books which are "infringing copies of the work" is an infringement. So is the sale thereof.* The Court had noted that *"An infringing copy as defined in section 2(m) of the Act means a copy "imported in contravention of the provisions of the Act. If any person, without the license of the copyright owner or his exclusive licensee, imports into India for the purpose of selling or distributing for purposes of trade the literary work, the copyright is infringed. Any importation of infringing copies is therefore an infringement unless it is for the importer's own use."*

The following are the list of other case laws/precedents pertaining to exports of books and parallel imports in the backdrop of the Copyright Act, 1957:

"John Wiley & Sons & Ors. v. Prabhat Chander Kumar Jain & Ors. (CS (OS) No.1960/2008)"

Facts:

The instant case was filed by the Plaintiff No.1 John Willey & Sons Inc., and Wiley India Pvt. Ltd against the defendants after it was brought to their notice that Delhi based bookseller, trading under a website 'www.alibris.com' for offering online sale and delivery worldwide of the Low Price Editions of the plaintiffs' publications.

Contention of the Plaintiffs:

The plaintiffs claimed that the defendants were attracting customers by misrepresenting that the books put up by them for sale are identical to those of the plaintiffs' and thereby it caused infringement under S. 14 and 51 of the Copyright Act, 1957.

Contention of the Defendants:

The defendants, *inter alia*, had proposed the contentions that the nature of activities carried out by them i.e. export of the books was not tantamount to infringement of copyright. As per the defendants, there was no infringement of copyright in the act of export of the books, and that there was no act or overt act on their part which is actionable within the meaning of the Copyright Act, 1957 as the books once purchased are legally purchased in India and they leave the territory of India once they are exported. Thus, the defendants contend that no act of infringement was done within the territory of India and thereby the provisions of the Copyright Act was not attracted.

The defendants further contented that there was no case made out as regards parallel imports where goods are brought into the territory of India and if the same are found to be infringing, they can be said to be infringement of the rights of the right holder.

The defendants had further relied upon the '*rule of exhaustion of rights*' enshrined in the copyright regime whereby the rights of the copyright holder are lost once the first sale of the article is effected i.e. the owner's control over the article and the rights therein are exhausted on the first sale and he/she cannot control every subsequent sale by enforcing rights over the same.

The Judgment:

Manmohan J. enunciated that the right of the owner of the copyright to issue the copies of the work to the public will not be circumscribed by any territorial limitation. Thus, the owner of the copyright will have the right to issue the copies of the work not being the copies already in circulation worldwide. When S. 19 is read with S.30 of the Copyright Act, 1957 it can be inferred that the owner's right under the copyright Act is not circumscribed by the territorial limitation and rather the owner can assign or license its rights worldwide. Hence, once the person (the defendant in the present case) offers for sale the books or publications (which are fettered by territorial restrictions purchased from exclusive licensee) and puts them into circulation by selling or offering them for sale or by taking orders for sale to the territories beyond the ones for which permission has been granted by the owners of the copyright, the said acts are prima facie tantamount to putting into circulation or issuance of copies not being in circulation in other territories where the right to do so is exclusively that of the owner to exercise and violates the rights of the owner of the copyright under Section 14 read with Section 51 of the Act.

In other words, the said acts of selling the books from India or offering for sale from India through website and thereafter accepting the money and couriering the books to an unauthorized territory will violate the right of the owners of the copyright which are plaintiffs and thus will, prima facie, infringe their copyright. Therefore, in the present case, the right of the owner of the copyright to issue copies of the work to the public in the present case would be the rights of the plaintiffs to issue copies to the public worldwide including but not limiting to India or to any other territories.

Moreover, once the defendants purchase the Low Price Editions books of the plaintiffs from their exclusive licensee, they are conscious of the fact that the said editions are subject to territorial restrictions which are meant to be sold within the limited territories only. The notice on the book itself gives knowledge to the purchaser about the said territorial restriction.

The First sale doctrine impact or the Principle of Exhaustion:

The Principle of exhaustion is based on the concept that the right holder can only control the first sale of the article and exercise the rights on the same and cannot complain of the infringement on each and every subsequent sale of the same.

The Hon'ble Court held that in the present case the doctrine of first sale does not curtail the rights of the owner. One of the reasons behind this conclusion was that, the right of the owner may be broader than that of the licensee.

In the present case, the Hon'ble Court rejecting the contention of the defendants, held that, the first sale had been effected by the exclusive licensee plaintiff and their rights were limited and were subject to the conditions and limitations imposed by the agreement. That being so, the applicability of the first sale doctrine qua the sales effected by the exclusive licensee to the defendants would at best have exhausted the rights of the exclusive licensee to complain and not the rights of the owner. The right of the owner to complain for remaining infringement in unauthorized territories for violation of the permission granted and violation of the rights will remain intact.

Manmohan J. quoted that; *“the owner has full right to enjoy the property and if the property is purchased from the owner only then will the owner lose his rights. The same is applicable in the present circumstances. The purchaser after purchasing from the exclusive licensee cannot by claiming the principle of exhaustion or extinguishment of rights defeats the rights of the owner”*.

Thus, the applicability of first sale doctrine will partially exhaust the rights of the licensee and not of the owner of the copyright.

“John Wiley & Sons Inc. & Ors. V. International Bookstore & ANR (CS (OS) 2488/2008 & IA No.2856/2009)”

Facts:

The plaintiffs were engaged in the business of publishing and distributing works in the field of education and academics. In India the first plaintiff had established its operation in 2001 and publishes and distributes works stated to be used by millions of people on various Disciplines. The first and second plaintiff published concessional priced Wiley Student Editions (WSE) or Low Priced Editions (LPEs), meant for Higher Education, of their latest content only for sale in India and neighboring countries, which were significantly priced below the European and American markets, in other words these were low priced additions introduced by the plaintiff for the Indian market as well as other neighboring countries. The Plaintiff no. 1 was the copyright owner of the WSEs.

Contention of the Plaintiffs:

The plaintiffs had claimed that in the year 2008 they came across the first defendant running a website under the domain name www.ibstextbooks.com on which the LPE books of plaintiffs were offered for sale over the internet with worldwide delivery facility. A search revealed that the said domain name was registered in the name of the second defendant.

Further inquiries revealed that the second defendant earlier a seller of plaintiffs' LPEs on www.ebay.com and had been exporting the same to western countries from India and was later removed from e-bay on plaintiffs' complaints. Later, the second defendant set up the first defendant and its website www.ibstextbooks.com. It was claimed that the said website had offers by the defendants to sell, supply and export various publications of the plaintiffs by describing them as “international paperback edition, printed overseas with different ISBN”, allegedly with a view to attract customers in United States.

Contention of the Defendants:

The Defendants were not present during the hearing of the case and hence no contentions were made on their part, and neither any request for adjournment was made by them.

Judgment:

An *ex parte* decree was passed against and the defendants and, hence the contentions of the plaintiffs were decreed by the Hon'ble Court.

At this point it is also worth mentioning the latest decision of the US Supreme Court where the concept of international exhaustion of rights was endorsed by the Court as it supported the parallel imports of copyrighted works.

Kirtsaeng v. John Wiley & Sons, Inc.

No. 11–697 (U.S. Supreme Court March 19, 2013)

The U.S. Supreme Court on March 19, 2013 delivered its landmark judgment wherein it has consented to the legality of purchasing copyrighted works abroad and bringing them back to the U.S. for resale without the permission of the copyright owner.

In the present case the petitioner i.e. Kirtsaeng had moved from Thailand to the U.S.A. for studying Mathematics and thereafter with the help of his family and friends he arranged for English – version textbooks sold in Thailand shops at a price lower than the price of the same textbooks sold in the U.S. market. Thereafter, the Petitioner sold the books at a profit in the U.S.A.

The Respondent John Wiley & Sons sold the impugned textbooks through its subsidiary named Wiley Asia and also sold versions of the said textbook in the U.S.A. Aggrieved by the aforesaid act of Kirtsaeng, the Respondent approached the U.S. District Court and accused the petitioner of infringing its exclusive right to distribute and import its copyrighted books. Kirtsaeng

contended that as the impugned textbooks were “*lawfully made*” and hence legitimately acquired the “*first sale*” doctrine which permitted the importation and resale of the textbooks without the Copyright Owner’s further permission. The U.S. District Court was of the view that Kirtsaeng could not assert its defense as the Doctrine of “*first sale*” did not apply to goods manufactured abroad. Even the Second Circuit confirmed the decision of the U.S. District Court. However, the U.S. Supreme Court reversed the order passed by the District Court and was of the opinion that the phrase “*lawfully made under the title*” does not refer to any kind of geographical limitation and was applicable to even those works made in the Jurisdictions where the U.S. laws were not applicable.

The Supreme Court while delivering its landmark judgment further observed that under the Common Law, the Doctrine of “*first sale*” within its purview did not include geographical limitation and even the legislative history of the Copyright Act did not suggest any such kind of intention. Thus, the Court’s holding aims at preventing copyright owners from barring the importation of low- priced copies in to the U.S., where they compete with the higher priced editions which copyright owners make available for sale in the country.

TRIPS and Parallel Importation

Art. 6 of the TRIPs Agreement provides that “*for the purposes of dispute settlement under this Agreement, ... nothing... shall be used to address the issue of exhaustion of intellectual property rights.*” This means that the signatory members of the TRIPs Agreement can make their own laws regarding the national/international exhaustion of the IP rights and that the dispute settlement mechanism of the TRIPs shall not hear any complaint in this regard.

Parallel Imports - Section 2(m) proviso dropped

Section 2(m) legalizes the parallel imports of books and other copyrighted material into India and was part of the initial Copyright Amendment Bill introduced in Parliament in 2010.

Section 2(m) of the bill is as follows:

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

However the provision was opted out due to political lobbying and other reasons and couldn't find its place in the final Copyright amendment Act 2012. Passage of aforesaid provision would have meant that book purchased anywhere in the world could have been imported and sold in India. However, the then Minister for Human Resource Development Mr. Kapil Sibal had commissioned National Council of Applied Economic Research (NCAER) to submit its recommendation on the Parallel Importation and held that the aforesaid amendment would indeed be incorporated if NCAER submits a favourable report. According to the Annual Report of NCAER (2011-2012) the literature survey for this has been completed.

The debate surrounding amendment of section 2(m)

While many publishers were reluctant on allowance of parallel importation provision into the Copyright Statutes of India, the abrupt deletion of amendment in Section 2 (m) was not taken positively by many academics. It was argued that the parallel import would promote free market competition, access to more goods and would restrict the arbitrary pricing policy of several publishing houses, especially in developing nations. Further if parallel importation is legitimized, it would force the foreign publishers to sell their latest edition books in India at cheaper costs. On the other hand many trade analysts oppose the practice of parallel import as it would not only affect the IP interest of the legitimate owner but would deprive him of any

dividend arising out of differential price in international market. Further there would be constant fear of the product being brought into the market by third parties, especially the ones that have not invested in the production and promotion of the product. In any case the bottom-line of the entire debate is the question whether the benefits of parallel importation to consumers will prevail over any harm that the same may cause to the publishers. The answer shall indeed lie in the much anticipated report of the National Council of Applied Economic Research.

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