

# EXHAUSTION: IMPORTS, EXPORTS, AND THE DOCTRINE OF FIRST SALE IN INDIAN COPYRIGHT LAW

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*In this article, I argue that Indian courts have fundamentally misunderstood the doctrine of first sale, and consequently have wrongly held that parallel importation is disallowed by Indian law. I further look at the ingenuity displayed by a court in prohibiting export of low-priced editions from India, and come to the conclusion that this is also incorrect in law. Finally, I note that there is an easy way out of this quagmire that we find ourselves in due to judicial inventions, which is of accepting the proposed amendment to the Copyright Act, 1957.*

## I. INTRODUCTION

Starting from December 2010, there was a policy battle that was fought in newspaper's op-eds and blog posts over an obscure part of copyright law known as parallel importation.<sup>1</sup> A few large book publishers (mostly the Indian offices of transnational corporations, and those who have affiliations to them) objected to the government-proposed amendment to § 2(m) of the Indian Copyright Act, 1957 ('Copyright Act') which was meant to clarify the situation regarding 'parallel importation' in India. They insisted that it would unleash 'anarchy' in the book market,<sup>2</sup> and got prominent authors to sign a petition directed at the government during the Jaipur Literary Festival. It was unclear whether the authors understood the full implications of what they were signing. One of the signatories, the renowned historian Ramachandra Guha, had in the past written an article praising foreign journals he had found in a second-hand bookshop in Bangalore — which had, it may be added, found themselves in India through parallel importation. Eventually, the large publishers' lobby managed to convince the Minister for Human Resource Development (whose poetry is published by one of the lobbying publishers) to go against the recommendations of the Parliamentary Standing Committee. The Parliamentary

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<sup>1</sup> See e.g., Rahul Matthan, *Nobody's About to Kill Books*, THE INDIAN EXPRESS, February 9, 2011, available at <http://www.indianexpress.com/news/nobodys-about-to-kill-books/746845/0> (Last visited on June 2, 2013); Thomas Abraham, *The Death of Books*, HINDUSTAN TIMES, January 20, 2011, available at <http://www.hindustantimes.com/News-Feed/Columns/The-death-of-books/Article1-652735.aspx> (Last visited on June 2, 2013).

<sup>2</sup> See e.g., *Id.*, Abraham.

Standing Committee had studied the publishers' objections, rejected them, and recommended the retention of the proposed amendments to § 2(m). The Minister for Human Resource Development faced the rebuke of opposition parties for leaving out the amendment to § 2(m) when he introduced the Copyright Amendment Bill, 2010 in Parliament.

Parallel importation is when an “*original* copyright product (i.e. produced by or with the permission of the copyright owner in the manufacturing country) placed on the market of one country, is subsequently imported into a second country without the permission of the copyright owner in the second country”.<sup>3</sup> Given the prevalence of dubious claims that parallel imports create anarchy, it is useful at the outset to clarify that parallel imports are not the same as black market imports; the former involve copyrighted works that are clearly legal in the country from where they are being imported.<sup>4</sup>

It is well-established that states have a fair degree of flexibility in determining their legal and regulatory responses to the parallel importation phenomenon. The relevant provision which deals with exhaustion is Article 6 of the Agreement on Trade-Related Aspects on Intellectual Property Rights (‘TRIPS Agreement’), which reads as follows —

“For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights”.<sup>5</sup>

The text of Article 6 leaves Member States to adopt rules of their choice with regard to parallel imports and exhaustion.<sup>6</sup> It bears noting that the subject of exhaustion was a contentious one during the TRIPS negotiations, where some countries asserted national exhaustion<sup>7</sup> while others argued for international exhaustion.<sup>8</sup> Parties, however, failed to reach a consensus on this

<sup>3</sup> CONSUMERS INTERNATIONAL, COPYRIGHT AND ACCESS TO KNOWLEDGE: POLICY RECOMMENDATIONS ON FLEXIBILITIES IN COPYRIGHT LAWS 23 (2006).

<sup>4</sup> See Pranesh Prakash, *Why Parallel Imports of Books Should be Allowed*, January 25, 2011, available at <http://cis-india.org/a2k/blog/parallel-importation-of-books> (Last visited on October 31, 2012).

<sup>5</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Annex 1C to the Agreement Establishing the World Trade Organization 1994, 1869 U.N.T.S. 299, Art. 6.

<sup>6</sup> See generally Frederick Abbott, *The TRIPS-Legality of Measures Taken to Address Public Health Crises: A Synopsis*, WIDNER L. SYMPO. J. 71, 78 (2001).

<sup>7</sup> DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS 199 (1998) (Notably, Switzerland and the United States wanted to adopt national exhaustion as the position in the treaty). This is ironic, given that the U.S. Supreme Court recently ruled that the U.S.A. follows international exhaustion in copyright.

<sup>8</sup> *Id.* Indeed, Abdulqawi Yusuf calls it, “one of the most controversial issues arising from the interface between IP protection and the freedom of movement of goods and services among nations”.

issue and therefore excluded exhaustion from the purview of the WTO's dispute settlement mechanism.<sup>9</sup>

In this regard, it is pertinent to note that a bare reading of Article 28:1(a) of the TRIPS would lead to a conclusion that this provision is in conflict with Article 6, inasmuch as it prevents third parties from *importing* a protected product without the consent of its owner —

“prevent third parties not having [the owner’s] consent from the acts of: making, using, offering for sale, selling, or importing [the protected product].”<sup>10</sup>

This part of the Article 28 is, however, qualified by a footnote which states that Article 28 is subject to Article 6.<sup>11</sup> Such cross-referencing shows that the drafters intended to keep questions of exhaustion outside the purview of the TRIPS Agreement.

In India, the question of how we regulate (and will regulate) parallel importation of copyrighted works is far from settled. The central question investigated in this article is that of the distinction between property rights and copyright, and how that gets shaped when the issues of territoriality and trade enter into the picture. If a book is legally published in a foreign country, would its import into India constitute infringement of copyright if it is done without the permission of the copyright owner? And if a book is published in India with a notice saying “For sale only in the state of Karnataka”, would such a notice be legally enforceable and result in the prevention of the sale or resale of that book in Kerala? Other questions include whether prevention of parallel importation places an undue restriction on the freedom of trade and commerce and whether it can be seen as an instance of tension between competition, trade, and copyright laws.

## II. FIRST PRINCIPLES

### A. DOCTRINE OF FIRST SALE IN COPYRIGHT LAW

The doctrine of first sale is, in essence, a limit on copyright owners’ right of distribution and springs from the distinction drawn between ‘property rights’ and intellectual monopoly rights like copyright and patents.<sup>12</sup> The

<sup>9</sup> *Id.*

<sup>10</sup> TRIPS Agreement, *supra* note 5, Art. 28:1(a).

<sup>11</sup> TRIPS Agreement, *supra* note 5, footnote to Art. 28:1(a): “This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6”.

<sup>12</sup> See generally F. Granville Munson, *Control of Patented and Copyrighted Articles after Sale*, 26 YALE L. J. 270 (1917).

property right of a person in an article she ‘owns’ gives her the freedom to deal with that article as she deems fit. It is based on the logic that “once a copyright owner has parted with title to a particular copy embodying his work, successive possessors of the copy should not be put into trouble of having to negotiate with the owner each time they contemplate a further sale or other transfer”.<sup>13</sup> For example, when an author sells a ‘copy’ of her book, the property that is transferred is not her copyright in the book, but merely the property rights in that particular physical copy of the book.<sup>14</sup> So the buyer is not allowed to reproduce the book but is entitled to re-sell it, as sale is an important aspect of his ownership right. The first sale doctrine assures the copyright owner an opportunity to realize the full value of each copy. Importantly, it ensures that the copyright owner does not realize the value of each copy more than once.

Therefore, the doctrine of first sale stipulates that a person is entitled to sell his copy of a copyrighted work to anyone without being required to observe any conditions attached by the copyright owner to such sale. In this respect, ownership in the copyrighted book is and should be equated to ownership in any other goods. Justice Ravindra Bhat of the Delhi High Court summarizes:

“The doctrine of exhaustion of copyright enables free trade in material objects on which copies of protected works have been fixed and put into circulation with the right holder’s consent. The “exhaustion” principle in a sense arbitrates the conflict between the right to own a copy of a work and the author’s right to control the distribution of copies. Exhaustion is decisive with respect to the priority of ownership and the freedom to trade in material carriers on the condition that a copy has been legally brought into trading. Transfer of ownership of a carrier with a copy of a work fixed on it makes it impossible for the owner to derive further benefits from the exploitation of a copy that was traded with his consent.”<sup>15</sup>

This principle can apply at the national level, or at the international level. Thus, if a book is sold in Country A, the act of sale could be regarded as a sale in Country B (allowing for resale in Country B) or the laws of Country B could see it as a sale applicable only in Country A (allowing for resale only within Country A, and not in Country B). The former would be the case of Country B following ‘international exhaustion’ (or, in other words, allowing parallel importation), and the latter would be the case of Country B following ‘national exhaustion’. It must be noted that the laws of Country A have no effect on this issue, as it only depends on whether Country B follows

<sup>13</sup> See PAUL GOLDSTEIN, COPYRIGHT 5:107 (2002).

<sup>14</sup> *Id.*

<sup>15</sup> Warner Brothers Entertainment Inc. v. Santosh V.G., CS (OS) No. 1682/2006, ¶ 57.

international exhaustion or national exhaustion. It may be seen that following national exhaustion allows for stronger territorial control, while international exhaustion allows for weaker territorial control and greater freedom of trade. One might also note that an issue of double-payment arises as the copyright owner has obtained her reward (from first sale anywhere in the world) and asking for a right to require her permission if she won't be rewarded each time she sells a copy in a new territory (national exhaustion), is equivalent to receiving payment more than once, given that full value was already obtained on first sale elsewhere.<sup>16</sup>

In this context, whether § 2(m), § 14, § 51, and § 53 actually embody international or national exhaustion is a contentious issue. The next section, by perusing various sections of the Indian Copyright Act, will attempt to show that the intention of the Parliament was to allow parallel imports in India and due to a series of wrongly decided cases, the legislature proposed an amendment in 2010 to § 2 (m) to clarify the issue of parallel imports.<sup>17</sup>

### III. CAN FOREIGN WORKS BE COPYRIGHTED WORKS IN INDIA?

§ 13(2) of the Copyright Act states that with respect to published works, copyright only subsists if “the work is first published in India” or if the work is by an Indian citizen. It does except the application of this section to all those works to which § 40 and § 41 of the Act apply.<sup>18</sup> The government is required to do so, being a member of the Berne Convention, the Universal Copyright Convention, the TRIPS Agreement, and the Convention for the Protection of Producers of Phonograms against Unauthorised Duplication of their Phonograms, and has fulfilled this requirement *via* the International Copyright Order, the latest such order having been issued in 1999.<sup>19</sup>

Thus, for purposes of our law, we protect not only Indian works, but foreign works as well. The Indian law, expressly places foreign authors and works published in a country that is a member of the Berne Copyright Union,

<sup>16</sup> See LADDIE, PRESCOTT AND VICTORIA, *THE MODERN LAW OF COPYRIGHT AND DESIGN* 1536 (2000).

<sup>17</sup> See P NARAYANAN, *LAW OF COPYRIGHT AND INDUSTRIAL DESIGNS* 197 (2007) (“Importation into India of copies of books lawfully published in a foreign country- if any person without the license of the copyright owner, imports into India for the purpose of selling or distributing for the purposes of trade a literary work, the copyright is infringed even if the work is lawfully published by the owner or the exclusive licensee in the country from which it has been imported. This is clear from the definition in S. 2(m) and S. 51 and 53(1)”) This implies that P. Narayanan suggests that § 2(m) embodies the very opposite, that is, a doctrine of national exhaustion!

<sup>18</sup> Indian Copyright Act, 1957, § 40 (allows for the provisions of the Act to be extended to foreign works and foreign authors by special order of the government).

<sup>19</sup> The International Copyright Order, 1999, available at <http://copyright.gov.in/Documents/International%20Copyright%20Order.htm> (Last visited on March 9, 2013).

has acceded to the Universal Copyright Convention, or the TRIPS Agreement, or to the Convention for the Protection of Producers of Phonograms against Unauthorised Duplication of their Phonograms, in the same shoes as Indian authors and works published in India, respectively.

That these receive protection as ‘Indian authors’ and ‘works published in India’ make it clear that the extent of rights granted and the standards by which the works will be judged will be that of Indian law. Thus, even if a work is copyrightable in the original country of publication, but is not copyrightable in India, then Indian law cannot recognize copyright in that work despite the original country being a member of the Berne Convention Union. For instance, if a country follows the ‘sweat of the brow’ doctrine of originality and a work published there satisfies that test, but not the test laid down in *Eastern Book Company v. D.B. Modak*,<sup>20</sup> then the Indian law does not permit us to recognize copyright in that work. This principle becomes very important while judging whether a work published outside India and imported into India is an infringing copy.

#### A. IMPORT OF COPYRIGHTED WORKS IN INDIA

The question that I shall now refer to is whether the import of foreign works into India is permissible under Indian law. There is no provision in the Copyright Act by which the owner or licensee of copyright is granted the exclusive right to import a copyrighted work into India. However, §51(b) (iv) states that import of *infringing* copies of a work constitutes infringement.<sup>21</sup> It is clear that copies published without the permission of the copyright owner are infringing copies, and thus cannot be imported. But can legally published copies that are legally purchased outside of India, also amount to ‘infringing copies’ whose import would also be prohibited by § 51?

This question is indeed complex, and even authorities on copyright law admit the difficulty in finding any easy solutions to this issue.<sup>22</sup> It is

<sup>20</sup> *Eastern Book Company v. D.B. Modak*, (2008) 1 SCC 1.

<sup>21</sup> Indian Copyright Act, 1957, § 51(b)(iv) states: “Copyright in a work shall be deemed to be infringed (b) when any person (iv) imports into India, any infringing copies of the work”. A proviso to the section reads: “Provided that nothing in sub-clause (iv) shall apply to the import of one copy of any work for the private and domestic use of the importer”.

<sup>22</sup> LADDIE, PRESCOTT & VITORIA’S, *MODERN LAW OF COPYRIGHT & DESIGNS* 1533-1580 (2000). (Quoted with approval in *Warner Brothers v. Santosh V.G.*, CS (OS) No. 1682/2006, at ¶ 41 – “It has long been the policy of copyright law in the UK and other countries which follow our system that as a rule, mere selling or other secondary dealings with articles manufactured in the home market shall not be treated as copyright infringement unless their marking was piratical in the first place. Further, it is policy that traders should be free to buy and sell goods without getting involved in copyright proceedings, so long as they do so in good faith. “Don’t deal in pirate copies where you can tell they are probably such” is a law anyone can understand. Dealing in pirate copies where you know or have reason to believe that they are such is called secondary infringement in contrast to primary

easy to see that the question cannot be answered by considering whether the copies were 'legally published' in the country of their origin. However, given the way § 40 is phrased, we should determine whether circulation of a copy of the work would be seen as circulation of an 'infringing copy' of the work. In this context, Indian standards for what constitutes an 'infringing copy' must be examined first, to see whether importation of a copy of the work would constitute infringement under § 51 of the Copyright Act.

According to § 2(m) of the Copyright Act, a reproduction of a literary, dramatic, musical or artistic work, a copy of a film or sound recording is an 'infringing copy', "if such reproduction, copy or sound recording is made or imported in contravention of the provisions of this Act". So § 2(m) does not provide a final answer either because it applies only to that importation that is "*in contravention of the provisions of*" the Copyright Act. Next, we look at §14, which lays down the meaning of copyright, and is read with § 51 when determining what constitutes 'infringement'. Nowhere in § 14 is a right to import granted to the copyright owner.

However, § 14 clearly lays down that as far as literary, dramatic or musical works go, it is the copyright owner's exclusive right "to issue copies of the work to the public not being copies already in circulation". The explanation to this section clarifies that "a copy which has been sold once shall be deemed to be a copy already in circulation." The manner in which this has been construed by various courts shall be seen in the following sections of this paper.

Parenthetically, it could be useful to distinguish between two situations at this stage. The first is where parallel importation takes place in the presence of an exclusive distributor, such that conflicts between the parallel importer and the exclusive distributor become possible. The second case relates to a scenario where parallel importation takes place in the absence of exclusive distributors, i.e., no person in India is licensed to distribute a foreign work and parallel imports are prohibited. The latter situation would foreclose all avenues of legal access to foreign works for the Indian audience, except through compulsory licensing. While courts and publishers have concentrated only on the scenario of parallel imports where exclusive distributors exist, the proposed amendment to § 2(m), to its credit, addresses both situations.

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infringement (e.g., manufacturing) where liability is strict. This idea works fine as long as one does not need to examine too closely what one means by pirate copies; it is usually pretty obvious. However, when it comes to parallel imports it is not so obvious, and one has to know precisely what is meant. It is plain that the test cannot be whether the copy was made piratically in its country of origin because the copyright laws of foreign states are irrelevant so far as rights in the UK are concerned, and in some cases these laws may not even exist. Since foreign copyrights are separate and distinct rights, and since it is commonplace for these to be assigned so as to be exploited by different hands, it cannot matter whether a copy imported from Britannia was lawfully made in its country of origin; this principle has been recognized from an early date").

## B. JUDICIAL HISTORY OF IMPORTATION

### 1. The Penguin Books case

The issue of parallel importation first reached the higher judiciary in 1984 when the Delhi High Court, in *Penguin Books Ltd. v. India Book Distributors*,<sup>23</sup> ('Penguin Books') was called upon to pronounce on whether import by a third party without the express authorization of the copyright owner constitutes infringement. The court, strangely, ruled that it constituted infringement because it amounted to violation of the owner's right to publish.<sup>24</sup>

It should be noted that prior to the 1994 amendment of the Copyright Act, the first two clauses of § 14 read as, "(i) to reproduce the work in any material form; (ii) to publish the work". Thus, this judgment extended the right to "publish the work" (or in the words of the Judge, "print, publish and sell") to include the right of importation, but did so without a firm jurisprudential basis. Frequent criticisms of the lack of certainty with regard to the meaning of the word 'publication' have arisen in the past.<sup>25</sup> The term 'publication' leaves a number of matters unclear such as, what acts should qualify as 'issuing'; the quantum necessary for a work to be considered as 'issued'; what is meant by 'the public'; whether publication has to be a conscious act on part of the author and the time at which 'publication' occurs.<sup>26</sup> Given these questions, a workable meaning of the term 'publication' is fundamentally important to understand how parallel importation will operate under the law.

While the Judge notes that 'publication' under the Copyright Act (in 1984) was defined as meaning "the issue of copies of the work, either in whole or in part, to the public in a manner sufficient to satisfy the reasonable requirements of the public having regard to the nature of the work",<sup>27</sup> it does not explain how importation is subsumed under that definition contrary to a plain reading of the law. Finally, the Judge notes that though the

<sup>23</sup> *Penguin Books Ltd. v. India Book Distributors*, AIR 1985 Del 29.

<sup>24</sup> *Id.*, ¶ 37. Specifically, the court noted:

"While publication generally refers to issue to public, importation for the specified purpose may be a necessary step in the process of issuing to the public, and therefore of publishing. It appears to me that the exclusive right of [the copyright owner] to print, publish and sell these titles in India would extend to the exclusive right to import copies into India for the purpose of selling or by way of trade offering or exposing for sale the books in question. This is the true meaning of the word 'publish' as used in section 14(1) (a)(4). It is also an infringement of copyright knowingly to import into India for sale or hire infringing copies of a work without the consent of the owner of the copyright, though they may have been made by or with the consent of the owner of the copyright in the place where they were made".

<sup>25</sup> See SAM RICKETSON, *THE BERNE CONVENTION FOR THE PROTECTION OF ARTISTIC AND LITERARY WORKS* 1886, 1888 (1987).

<sup>26</sup> *Id.*

<sup>27</sup> Copyright Act, 1957, § 3 (as amended by the Copyright (Amendment) Act 1983).

India Distributors (sic) were not printing those books and were not guilty of primary infringement,<sup>28</sup> yet they were guilty of secondary infringement when they issued copies of those titles for public distribution.<sup>29</sup> These categories are created, but neither explained nor explored further in the judgment. Another legal nuance that was examined was the allowance granted to the Registrar of Copyright under § 53 to “order that copies made out of India of the work which if made in India would infringe copyright shall not be imported”. The Judge noted that the words ‘infringing copy’ as contained in § 53 could not be different in meaning from the same words contained in § 51(b). The implication of this shall be demonstrated shortly.

Importantly, the judgment does not look into § 16 which states that there shall be no copyright except as provided by the Copyright Act, and how it should have prevented the Judge from expanding the rights provided in the law to include a new judicially-created right to prevent imports.

#### *a. Privity of Contract*

Nowhere in the judgment does the judge explain how an exclusive distribution contract between two parties can affect a third party in violation of the established principle of privity of contract. This is an important issue because, in effect, the judgment makes a third party bound by a contract entered into by two private parties. The parties agree *inter se* (for example) to ensure that the India distributor does not sell the book outside India and that the copyright owner will not give the right to sell in India to any other person. In this context, one may ask how this contract between two parties could come in way of a third person buying from a foreign market and importing into India? If it was the case of an exclusive UK licensee selling in India for instance, then both the exclusive Indian licensee as well as the owner of the copyright would have a cause of action in India on the grounds of violation of the contract as well as the copyright (for exceeding his territorial licence). However, a third party who buys from a stream of commerce cannot be bound by these contracts, because he becomes the owner of the book as opposed to a licensee. Thus, the judgment makes a contract between two private parties, which merely creates a right *in personam*, applicable to the entire world. By doing this it allows a contract to create a right *in rem* without any express provision in the law providing for the same. Indeed, this issue was examined by the U.S. Supreme Court in 1908 in *Bobbs-Merrill Co. v. Straus*,<sup>30</sup> in which the doctrine of first sale was judicially evolved.

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<sup>28</sup> Penguin Books Ltd. v. India Book Distributors and Others, AIR 1985 Del 29, ¶ 26.

<sup>29</sup> *Id.*

<sup>30</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

*b. The Doctrine of First Sale*

Importantly, nowhere in the judgment does the Judge bother to go into the details of the interaction between the sale of a copy of a book (after which no further conditions can be laid) and the Copyright Act. As an illustration, if I sell a bicycle laying down a condition that the buyer cannot re-sell it, such a condition cannot be upheld in a court of law because I divest all saleable interest I have in the bicycle upon sale. This principle is embodied in § 10 and §11 of the Transfer of Property Act, 1882 ('TOPA'). § 10 states of the TOPA states:

“Where property is transferred subject to a condition or limitation absolutely restraining the transferee or any person claiming under him from parting with or disposing of his interest in the property, the condition or limitation is void, except in the case of a lease where the condition is for the benefit of the lessor or those claiming under him.”

In the same vein, §11 states:

“Where, on a transfer of property, an interest therein is created absolutely in favour of any person, but the terms of the transfer direct that such interest shall be applied or enjoyed by him in a particular manner, he shall be entitled to receive and dispose of such interest as if there were no such direction.”

Thus, in the illustration mentioned above, by selling of a copy of a book (as opposed to a licensing it), I divest myself of all saleable interests in that particular copy of the book (though not the copyright). I cannot prevent the buyer from re-selling that book. However, copyright law would require that you can only re-sell a copy of a book without the owner's permission, but cannot sell it without the owner's permission. This is known as the doctrine of first sale, which evolved as a *via media* between copyright law, which gave the owner of copyright, rights in a book, and property law, which gave the buyer of a book, rights in her particular copy of the book.

The best appreciation of this doctrine of first sale (also known as 'exhaustion of rights') came in a judgment by Justice Ravindra Bhat, who states the meaning of the doctrine very clearly:

“Exhaustion of rights is linked to the distribution right. The right to distribute objects (making them available to the public) means that such objects (or the medium on which a work is fixed) are released by or with the consent of the owner as a result of the transfer of ownership. In this way, the owner

is in control of the distribution of copies since he decides the time and the form in which copies are released to the public. Content-wise the distribution right are to be understood as an opportunity to provide the public with copies of a work and put them into circulation, as well as to control the way the copies are used. The exhaustion of rights principle thus limits the distribution right, by excluding control over the use of copies after they have been put into circulation for the first time.”<sup>31</sup>

### c. 1994 Amendment to the Copyright Act

Interestingly, *Penguin Books* was sought to be overturned by an amendment to § 14 in 1994. The amendment removed the right to ‘publish’, and instead introduced a right to “to issue copies of the work to the public not being copies already in circulation”. It stands to reason that this not only ensures the centrality of the doctrine of first sale in India, but also allows for *international* exhaustion, thus allowing for parallel import. This is clear as § 40 states that “all or any provisions of this Act shall apply to work first published in any class territory outside India to which the order [under §40] relates in like manner as if they were first published within India”. Thus even books published internationally are, under the legal fiction of § 40, akin to books published in India. Since we are granting foreign works protection under the Act as though they had been published in India by Indian authors, it is only natural that they should be subject to the same limitations as well, including the application of the phrase “not being copies already in circulation”.

Importantly, as one commentator puts it, “With amendments, the decision of the Penguin case is no more the law. Like most other nations, we have also accepted the principle of international exhaustion. This seems to be after taking into view the public interest angle”.<sup>32</sup> Unfortunately, legal commentators seemed to have paid greater attention to legislative changes than did the courts.

## 2. The Eurokids case

In 2005 the same issue of parallel importation in literary works arose before the Bombay High Court in *Eurokids International Pvt. Ltd. v. India Book Distributors Egmont* (‘Eurokids case’).<sup>33</sup> Unfortunately, the decision by the Bombay High Court was even more ill-reasoned than that of the Delhi High Court in *Penguin Books*. Nowhere in the judgment is the issue of

<sup>31</sup> Warner Brothers Entertainment Inc. v. Santosh V.G., CS (OS) No. 1682/2006 ¶ 58.

<sup>32</sup> Arathi Ashok, *Economic Rights of Authors under Copyright Law*, 15 J. INTELL. PROP. RIGHTS 46, 50 (2010).

<sup>33</sup> Eurokids International Pvt. Ltd. v. India Book Distributors Egmont, 2005 (6) Bom CR 198.

the first sale doctrine, on which the issue of parallel importation rests, even cursorily examined. Even the amendment to § 14 of the Copyright Act is not noted. Indeed, the only time that §14 is even mentioned is when the section is quoted to establish it as providing the meaning of ‘copyright’ in Indian law. The implications of §14 in terms of exhaustion of rights are simply not examined. § 2(m) of the Copyright Act, which it is necessary to examine (as shown above) for understanding the phrase ‘infringing copy’ in § 51, is not even mentioned once. As per the logic of the judgment, any copy that is sold in India by a third party in contravention of an exclusive licence contract is automatically assumed to be an infringement. Thus, once again, copyright law magically overrides the concept of privity of contract without an explanation.

Most importantly, because the case relies on the Penguin Books without having noticed and accounting for the subsequent change in the text of the law because of the 1994 amendment, it should be held to be *per incuriam*, and should not act as a precedent.

### 3. The Warner Brothers case

In 2009, the Delhi High Court pronounced yet another verdict on parallel importation in the case of *Warner Brothers v. Santosh V.G.*<sup>34</sup> However, this was a case on DVDs, and not books. While the court correctly understands the meaning of the first sale doctrine in terms of literary works (and thus becoming the first judgment to explicitly talk about this doctrine), it is open to debate whether it was correct in its ruling on the inapplicability of the doctrine when it came to cinematograph films. The reasoning of the court as to why parallel importation is not allowed under Indian law is not sound, and is worth quoting *in extenso*:

“In this case the copies that are being let out for rent/hire by the Defendant are not made in India. Rather, they have been made in the US and imported into India. As noticed earlier, copyright in a work published abroad, in a Berne Convention country, like the United States, entitles its owner to assert copyright in India; such rights are “as if” the works were published in India (Section 40 and provisions of the Order). An infringing copy is one “made or imported in contravention of the provisions of this Act”. In this context, the proviso to Section 51(b)(iv), in the court’s view, provides the key to Parliamentary intention. It carves only one exception, permitting “import of one copy of any work for the private and domestic use of the importer”. The plaintiffs’ argument is that there would have been no need to enact this exception, if

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<sup>34</sup> Warner Brothers Entertainment Inc. v. Santosh V.G., CS (OS) No. 1682/2006, ¶ 58.

there were no restriction on import of cinematograph films, genuinely made outside India. The effect of the proviso to Section 51(b)(iv) is plainly, not to relax the importation of genuinely made cinematographic films but to allow for the importation of one copy of any work “for the private and domestic use of the importer”. This would mean that the proviso allows for the importation of an infringing work, for private and domestic use of the importer, and not commercial use.”<sup>35</sup>

Quite obviously, there are some glaring problems in the court’s reasoning. The proviso to §51(b)(iv) does indeed carve out an exception, but that exception is for *infringing* copies of a work, and not for *non-infringing* or ‘genuine’ copies. The plaintiffs’ argument, according to the Judge, is that if all genuine copies of the cinematograph film could be legally imported, there would be no need to enact this exception. However, there could still be a need to enact this exception to cover a single *non-genuine* copy of a cinematograph film. It is precisely because of this that the exception is so narrow, applying not only to private use, as in § 52(1)(a), but also to a single copy of a work and only for ‘private and domestic use’. This possibility of allowing import of a non-genuine copy is completely overlooked by the Judge. The judgment continues:

“The defendant’s argument that the plaintiffs lost the power to deal with the copy, once placed in the market place, in the United States, is also unsupportable as too broad a proposition. In the context of the Act, the argument is more hopeful, than convincing. Even in the United States, it has been held (*United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977)) that though, after “first sale,” a vendee “is not restricted by statute from further transfers of that copy”, yet a first sale does not, however, exhaust other rights, such as the copyright holder’s right to prohibit copying of the copy he sells. The Federal Appellate court noted that “other copyright rights (reprinting, copying, etc.) remain unimpaired”. It is clear therefore that the copies in question are infringing copies. Therefore, their importation, and more importantly, use for any of the purposes under Section 51, other than the one spelt out in it the proviso is in contravention of the Act. The question, however, is whether the action of the Defendants amounts to infringement of the copyright of the Plaintiffs. This must be answered independently of the question of whether parallel importation of copyrighted goods is permissible under Indian copyright law.”<sup>36</sup>

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<sup>35</sup> *Id.*, ¶ 77-78.

<sup>36</sup> *Id.*

While the reading of the law is correct (i.e., the first sale doctrine does not exhaust all rights, but merely the right to prevent further transfers), the application of the law to the facts is incorrect. In this case, the fact situation before the court was not of “reprinting, copying, etc.”, but of the physical transfer of copies of a work bought in the US into India. As is noted in *United States v. Wise*,<sup>37</sup> after first sale, the buyer “is not restricted by statute from further transfers of that copy”. Indeed, this case can be seen as involving such a ‘further transfer’ (of the rights over that copy from a shop in the US to the buyer in India). However, the manner in which the Judge misread the argument as relating to something other than transfer of property rights in a copy (and more as something akin to reproduction), thereby concluding that the copies in issue were infringing copies, is not clear.

However, the verdict of the Court does not proceed on this ground alone, and involves discussion of the doctrine of first sale with regard to cinematograph films and the provisions of §53 which apply only to cinematograph films, none of which are applicable in case of literary works.

### C. EXPORT OF COPYRIGHTED WORKS

Now that we have dealt with the traditionally contentious part on imports, we may examine the rare but even more contentious issue of exports. Barring a few exceptions, notably the United States, the copyright law in no country regulates exports. Even in the United States, § 602 of their Copyright Act regulates only the export of *infringing* copies (i.e., works that are ‘manufactured’ without the permission of the author), and not the export of legal copies. In India, there are two judgments of the Delhi High Court that seemingly make illegal, export from India of legal copies of a copyrighted work. As one of these decisions<sup>38</sup> is an *ex parte* order without any reasoning (calling the reasoning “bare minimum” would be doing that phrase a disservice), we shall focus only on the other judgement—the one pronounced by Justice Manmohan Singh in *John Wiley & Sons v. Prabhat Chander Kumar Jain* (‘John Wiley’).<sup>39</sup>

The facts of the case are rather simple. John Wiley & Sons Inc., based in New York, exclusively licensed the rights over certain books to Wiley India Pvt. Ltd. (all the other plaintiffs follow the same model, so we shall restrict ourselves to the case of the Wiley corporation). These books were sold at a reduced cost in the Indian market and were clearly labelled as “Wiley Student Edition restricted for sale only in Bangladesh, Myanmar, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam”. Another label on the same book read, “The book for sale only in the country to which first consigned by Wiley India Pvt. Ltd and may not be re-exported. For sale only in

<sup>37</sup> *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977).

<sup>38</sup> *John Wiley & Sons v. Prabhat Chander Kumar Jain*, CS (OS) No. 2488/2008, May 20, 2010.

<sup>39</sup> *John Wiley & Sons v. Prabhat Chander Kumar Jain*, CS (OS) No. 1960/2008, May 17, 2010.

Bangladesh, Myanmar, India, Indonesia, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam”.<sup>40</sup> Quite clearly, John Wiley & Sons, being the owner of the rights, had given exclusive license to Wiley India Pvt. Ltd. to publish and print an English reprint edition only in the territories entailed in the agreement and not beyond that. Further, they wished to impose this restriction on all buyers of the book by way of that notice and attached conditionality, thereby preventing exports to the United States.

At this stage, it would be pertinent to dwell on the facts of the 1908 US Supreme Court decision in *Bobbs-Merrills*.<sup>41</sup> In this case, the plaintiff-appellant sold a copyrighted novel with a clear notice under the copyright notice stating that, “The price of this book at retail is \$1 net. No dealer is licensed to sell it at a lower price, and a sale at a lower price will be treated as an infringement of the copyright”. Macy & Co., a famous retailer, purchased a number of copies of the book both at wholesale prices and at retail prices, and re-sold the books to its customers at 89 cents per copy. This was quite clearly in violation of the condition imposed by the notice.

It may be seen that the facts in this case mirror the fact situation in John Wiley. It is only the nature of the conditionality that differentiates the two cases, as in one it was a restriction on price at which the book could be further sold, whereas in the other it was a restriction on where the book could be further sold. The court in *Bobbs-Merrill Co.* ruled that it was on the record that Macy & Co. had knowledge of the notice. However, despite that, the notice was held not to be binding on Macy & Co. The court noted that:

“The precise question, therefore, in this case is, ‘Does the sole right to vend secure to the owner of the copyright the right, after a sale of the book to a purchaser, to restrict future sales of the book at retail, to the right to sell it at a certain price per copy, because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum?’ We do not think the statute can be given such a construction ... In our view the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract ... To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made

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<sup>40</sup> While the exact countries were different in the case of each of the plaintiffs, they were all restricted to sale in India and a few of its neighbouring countries.

<sup>41</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment.<sup>42</sup>

This judgment proceeded on privity of contract, the *factum* of a sale having occurred, and created what is now known as the doctrine of first sale; an established principle that the exclusive right to sell, distribute, or circulate a copy of the copyrighted work exhausts the moment the item is placed into a stream of commerce through sale. This can, of course, be contradicted if explicitly stated so in a statute.<sup>43</sup> However, as we noted earlier, the Indian statute explicitly notes that the right to issue copies of a work to the public, guaranteed to the owner of the copyright over a literary, dramatic, or artistic work is restricted to copies not already in circulation. Thus, one might have presumed the ruling of the Court in the John Wiley case. The actual decision, however, turned out to be completely different.

In fact, Justice Manmohan Singh, in a very detailed and circuitous judgment, rules that the defendant's activity is a violation not of some implied contract between Wiley India Pvt. Ltd. and him, but of the Indian Copyright Act, and notably §51 of the Act. The manner in which Justice Singh reaches this conclusion shall be examined below.

Justice Singh's reasoning rests on three dubious pillars. *Firstly*, it rests on the idea that the rights of the licensee are distinct from that of the owner, and that the former may get exhausted without affecting the latter. *Secondly*, it assumes that the licensee cannot pass on better title to those that buy from him than he himself has and *lastly*, the sale or even offer for sale or taking of orders for sale are all forms of circulation or issuance of copies.

*First*, through a close reading of the various provisions of the Copyright Act, he notes that the Act creates a clear distinction between the rights of the owner and the rights of the licensee.<sup>44</sup> He then finally states that:

“A logical corollary drawn from above analysis ....is that for the purposes of Section 51 which is in the preceding chapter, the term owner of the copyright does not include exclusive licensee. Thus, the rights of the owner although may include rights of the exclusive licensee but the court cannot read the term owner of the copyright as that of the exclusive licensee

<sup>42</sup> *Id.*, at 350.

<sup>43</sup> All signatories of the TRIPS Agreement have to ensure a right of rental, over and above a right of first sale, for all video (or what are known as cinematograph films in the Indian law).

<sup>44</sup> John Wiley & Sons v. Prabhat Chander Kumar Jain, CS (OS) No. 1960/2008, May 17, 2010., ¶ 47-50.

and their rights are different as per the allocation by the owner.”<sup>45</sup>

Thus, he establishes that some rights of the licensee may be extinguished (as per the doctrine of exhaustion) without extinguishing that same right of the owner. In other words, while the right of circulation of the licensee gets exhausted, the right of circulation of the owner remains unaffected. Justice Singh doesn't go into the implications of this, but there can be two ways of interpreting what this means. It could mean that by virtue of the circulation rights of the licensee getting exhausted, the circulation right of the owner gets exhausted in those nine countries for which the licensee had been granted rights of circulation. Alternatively, it could mean that the exhaustion of the licensee's circulation rights does not at all affect the owner's circulation rights. The latter interpretation is obviously an absurd idea, since that would, in all cases leave the owner with a cause of action in case of all sales even when the owner is in India. Thus, one is left considering the former as the only logical interpretation.

However, this can't possibly be right as it is demonstrated by the fact that this can easily be applied to a domestic transaction as well. Thus, for instance, the owner of rights can decide never to directly sell any book, but only allow its licensees to sell. Thus, it can contractually bind a licensee to sell only in Andhra Pradesh and hold that because of that licence, any buyer who buys from the licensee in Andhra Pradesh and decides to re-sell to a second-hand bookstore in Karnataka, is actually violating the terms of the licence (because, as per Justice Singh's judgement, the circulation right gets extinguished only insofar as the licensee is concerned, and that licence only allows sales in Andhra Pradesh).

Quite obviously, this cannot be held to be the intention of the lawmakers, who expressly granted the copyright owner only the right of first circulation, and not the power to control all circulation. Thus, the privity of the contract between the owner of the right and the licensee must be upheld and cannot be held to bind a third party purchaser.

The second ground on which Justice Singh rules is on the general property law principle that a person cannot pass on a better title than she herself has. Thus, Justice Singh holds that when the licensee sells a book to a person, that person only receives as much of the title to that book that the licensee has. Thus, since the licensee only has title in the book insofar as those nine countries go, the person who buys that book cannot get better title.

The shortcoming in this reasoning must be unmistakably clear to any reader who has read this far; indeed, it is the foundation of the doctrine

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<sup>45</sup> *Id.*, ¶ 62.

of first sale which provides for the differentiation between property rights in a copy of a book and the copyright in the book. No one has contended in this case that the transaction between the licensee and the book purchaser is not a sale. Once a sale happens, all property rights in that copy of the book are alienated to the book purchaser. It must be remembered that this transaction is not a case of the licensee sub-licensing the right to circulate the book. The licensee cannot sub-license to another party, the right to sell the book in, say, Australia, because she doesn't have that right in the first place. However in this case, the licensee is *invoking* the right to sell the book in India, and is not *passing on* a right. The right of a book buyer to re-sell comes from the statute—from the doctrine of first sale—and not from a passing on of that 'right' from the licensee (and indeed, no such 'right' exists for most classes of copyrighted works).

The last pillar of the Judge's reasoning is that the sale — or even offer for sale, or taking of orders for sale—of a book online are ways of putting into circulation or issuance of copies. It is easy to see why this is mistaken. §40 only deems certain foreign works as 'Indian', and does not deem a sale of an Indian work in a foreign land to be the same as sale in India. Thus, even if we are to accept the other two pillars of Justice Singh's reasoning, it is unclear how an offer made online to sell a book is equated to actually placing a book in circulation in India. How can an Indian law prohibit circulation on the streets of Bogotá? This is possible only if a separate right of export is recognized but Justice Singh is extremely clear that he is not creating such a distinct right.

A notice to the buyer that re-exports are prohibited cannot be held to constitute a valid contract because TOPA clearly makes such a prohibition invalid (§10 and §11)—after all, it is a sale that takes place and not mere licensing.

#### D. AMENDMENT TO § 2(M)

As explained earlier, some publishers managed to stop the government — at least for the moment — from amending § 2(m) of the Copyright Act, clarifying that a parallel import will not be seen as an "infringing copy". One lawyer for the publishing industry has made the claim that allowing parallel importation would legally allow for the exports of low-priced edition and overturn the basis of the John Wiley judgment.<sup>46</sup> However, this is incorrect.

The amendment itself merely adds the following proviso at the end of § 2(m) (which defines what an "infringing copy" means):

"Provided that a copy of a work published in any country outside India with the permission of the author of the work

<sup>46</sup> See Pranesh Prakash, *Indian Law and Parallel Exports*, THE CENTRE FOR INTERNET AND SOCIETY, February 1, 2011, available at <http://cis-india.org/a2k/blog/indian-law-and-parallel-exports> (Last visited on June 2, 2013).

and imported from that country shall not be deemed to be an infringing copy.”

It seems that this is in fact a provision introduced solely to clarify that this (i.e., following international exhaustion) is the position that India holds, and does not change the statute itself. It is merely to clarify that the courts have misread the provisions of the law, or that they have indeed not read the provisions of the law (as in the Eurokids case).

This provision will have no effect whatsoever on the John Wiley ruling. While the John Wiley ruling deserves to fail on its own merits, the reasoning in that case does not depend on whether we follow international or national exhaustion. Indeed, the Judge states:

“As per my opinion, as the express provision for international exhaustion is absent in our Indian law, it would be appropriate to confine the applicability of the same to regional exhaustion. Be that as it may, in the present case, the circumstances do not even otherwise warrant this discussion as the rights if at all are exhausted are to the extent to which they are available with the licensees as the books are purchased from the exclusive licensees who have limited rights and not from the owner. In these circumstances, the question of exhaustion of rights of owner in the copyright does not arise at all.”<sup>47</sup> (emphasis supplied)

Thus the argument that following the principle of international exhaustion will overturn this judgment is incorrect. Imports and exports are distinct. India’s adoption of ‘international exhaustion’ means that the right to first sale is exhausted in India, when the work is legally published anywhere internationally (i.e., regardless of where that copyrighted work is legally published). The principle of international exhaustion doesn’t not exhaust the right of first sale internationally—the word ‘international’ is used to indicate where the publication has to take place for exhaustion to occur, and not where the exhaustion takes place. After all, Indian law on a matter cannot determine whether a book can or cannot be sold anywhere else in the world (which is precisely what it would do if it is to hold that rights are exhausted internationally by virtue of a book being printed in India).

There are two potential concerns to access to knowledge from allowing parallel importation. *Firstly*, the concern is that of cultural imperialism; the worry that a nation will be overrun by cheap foreign cultural imports, negatively affecting the local industry. For instance, the Pakistani film industry has

<sup>47</sup> John Wiley & Sons v. Prabhat Chander Kumar Jain, CS (OS) No. 1960/2008, May 17, 2010, ¶104.

been negatively affected by the Indian film industry,<sup>48</sup> and the American film industry has had such an effect on multiple countries. However, this is not a concern raised by the publishers who have been arguing against the amendment to § 2(m); they are happy to provide Indian readers greater access to foreign books as long as they are the only ones authorized to do so.

*Second*, it is the concern that increased parallel importation, especially from developed countries, will lead to an increase in the price in those developing countries where differential pricing is practised.<sup>49</sup> This is because companies will have less incentive to maintain lower prices in developing countries when those can be freely imported into developed countries. This is not an argument advanced by the publishers in India, since the ability of consumers in developed countries depends on the laws in those countries instead of the Indian laws. Further, the best way to deal with this problem is not to prevent developing countries from freely importing, but to ensure that richer countries are prevented from doing so.

#### IV. IS PARALLEL IMPORTATION DESIRABLE?

In a longer post elsewhere, I argue that parallel importation is desirable in India for a number of reasons.<sup>50</sup> Some of them are explained below.

##### A. HARM ON EXISTING BOOKS

Libraries/second-hand bookshops/consumers have no way of knowing if a book was originally imported legally or not, since there is no easy way of distinguishing between a copy brought in through parallel imports and a copy that has been exclusively imported. If one of them, even unknowingly buys/sells a foreign edition about which they are not sure and it turns out it was not legally imported (there are literally thousands of such books, and I personally own at least a couple dozen foreign editions bought from various second-hand bookshops) then they are committing copyright infringement.

<sup>48</sup> See Bharati Dubey, *Pakistan Film Industry Bombarded by Bollywood*, THE TIMES OF INDIA, November 1, 2009, available at [http://articles.timesofindia.indiatimes.com/2009-11-01/india/28065884\\_1\\_pakistani-film-film-industry-quality-films](http://articles.timesofindia.indiatimes.com/2009-11-01/india/28065884_1_pakistani-film-film-industry-quality-films) (Last visited on June 3, 2013).

<sup>49</sup> Differential pricing in developing countries does not always lead to lowered costs in the developing country. For instance, in South Africa, the price for *Long Walk to Freedom*, Nelson Mandela's autobiography, is more — in absolute terms, and not just relative terms — than that for the same book in the India or in the UK. It costs US \$ 24.30 in South Africa, while being US \$ 15.40 in India, and US \$ 12.10 in the UK. For this see Lawrence Liang and Achal Prabhala, *Comment: Reconsidering the Pirate Nation*, 2006, available at <http://link.wits.ac.za/journal/j07-liang.pdf> (Last visited on April 10, 2013).

<sup>50</sup> See Pranesh Prakash, *Why Parallel Importation of Books Should Be Allowed*, January 5, 2011, available at <http://cis-india.org/a2k/blog/parallel-importation-of-books> (Last visited on June 3, 2013).

This was argued by the library associations and others in the *amici* briefs to the US Supreme Court in the *Costco v. Omega*<sup>51</sup> ('Costco case'). For instance, the brief for the American Library Association, the Association of College and Research Libraries, and the Association of Research Libraries in Support of Petitioner<sup>52</sup> argued that:<sup>53</sup>

“By restricting the application of [the first sale doctrine] to copies manufactured in the United States, the Ninth Circuit’s decision threatens the ability of libraries to continue to lend materials in their collections. Over 200 million books in U.S. libraries have foreign publishers. Moreover, many books published by U.S. publishers were actually manufactured by printers in other countries. Although some books indicate on their copyright page where they were printed, many do not. Libraries, therefore, have no way of knowing whether these books comply with the Ninth Circuit’s rule. Without the certainty of the protection of the first sale doctrine, librarians will have to confront the difficult policy decision of whether to continue to circulate these materials in their collections in the face of potential copyright infringement liability. For future acquisitions, libraries would be able to adjust to the Ninth Circuit’s narrowing of [the first sale doctrine] only by bearing the significant cost of obtaining a “lending license” whenever they acquired a copy that was not clearly manufactured in the United States.”

Similarly, the brief for the Public Knowledge, American Association of Law Libraries, American Free Trade Association, the Electronic Frontier Foundation, Medical Library Association, and the Special Libraries Association in Support of Petitioner states:<sup>54</sup>

“The uncertainty created by the Ninth Circuit’s holding [against parallel importation] will harm used bookstores, libraries, yard sales, out-of-print book markets, movie and video game rental markets, and innumerable other secondary markets. Owners of copyright works or goods containing copyrighted elements manufactured abroad will be unable to

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<sup>51</sup> *Costco Wholesale Corporation v. Omega, S.A.*, 562 U.S. (2010).

<sup>52</sup> *See Amici Curiae Brief of The American Library Association, The Association of College and Research Libraries, and the Association of Research Libraries, In Support of Petitioner, Costco Wholesale Corporation v. Omega, S.A.*, 562, U.S.(2010).

<sup>53</sup> *Id.*, 4.

<sup>54</sup> *See Amici Curiae Brief of the Public Knowledge, American Association of Law Libraries, American Free Trade Association, the Electronic Frontier Foundation, Medical Library Association, and the Special Libraries Association, In Support of Petitioner, Costco Wholesale Corporation v. Omega, S.A.*, 562, 6 U.S.(2010).

dispose of these products without authorization at the risk of liability under copyright law's extensive damages provisions. Furthermore, the chilling effects of the Ninth Circuit's holding will extend beyond works manufactured abroad. Owners of copies of works will be unable to determine whether they are protected by [the first sale doctrine], as they will not always know where their goods were manufactured. Copyright holders will have little incentive to make clear the location of manufacturing of their copyrighted works, as greater uncertainty means a greater ability to sell the right to distribute the goods within the United States. Secondary market sellers who cannot afford to purchase this right will be unable to do business unless they are prepared to engage in lengthy and expensive litigation with an uncertain result. A wide variety of important secondary markets in copyrighted works and goods with copyrighted elements will suffer without the protection of the first sale doctrine."

## B. BENEFITS OF PARALLEL IMPORTATION

### 1. Dismantling distribution monopoly rights

The benefits that will accrue from allowing parallel importations are huge. Currently a large percentage of educational books in India are imported,<sup>55</sup> but with different companies having monopoly rights in importation of different books. If this was open to competition, the prices of books would drop, since one would not need to get an authorization to import books as the licence raj that currently exists would be dismantled and Indian students would benefit. This is especially important for students and libraries because even when low-priced editions are available, they are often of older editions.

Allowing people to import goods without permissions (with appropriate duties) is taken for granted in all other areas, so why not copyrighted works? After all, it is not the act of publication that gets affected, but the right of exclusive distribution. And if that is eliminated after first sale internationally, that's not a bad thing at all.

Generally, there are two main benefits of allowing for parallel importation: faster introduction of the latest international releases into the domestic country, and lower prices by decreasing the costs imposed by a monopoly right over distribution.

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<sup>55</sup> See Pranesh Parkash's statement, *Did Sibal Just Get Arm-Twisted by Book Publishers?*, FIRSTPOST, May 25, 2012, available at <http://www.firstpost.com/india/did-sibal-just-get-arm-twisted-by-book-publishers-321144.html> (Last visited on June 3, 2013).

All the foreign books that an online bookseller like Flipkart delivers in India are procured from international sources.<sup>56</sup> Without parallel importation, Flipkart will have to ask for permission from the book publishers for each foreign book each time it makes a sale. This would cripple Flipkart's business model.

## 2. Helping book publishers

Book publishers will be benefited by parallel importation, just as they are benefited by the existence of libraries and second-hand book stores. Libraries and second-hand book stores help with market segmentation, providing access to people who can't afford expensive books, at much lower rates and often free. However, the existence of second-hand book stores in almost every city in India—I have personally bought second-hand books everywhere from Jhansi (Leo Tolstoy's *War and Peace*) to Delhi's Darya Ganj market (Edmund Wilson's *Letters on Literature and Politics*)—does not prevent me from buying books first hand. Indeed, Wilson's *Letters* is out of print, and cannot be bought in a store like Crosswords or Gangaram's.

The existence of second-hand books, libraries, and parallel imports, are all dependent on the first sale doctrine. The introduction of the modern 'public library' in the mid-19th century led to a surge, as opposed to a decline, in literacy, readership, and book sales. Similarly, there is no reason to assume that allowing parallel importations will lead to a decline in book sales.

## 3. Helping libraries and the print-disabled

Even currently, many people buy books directly from abroad and have them shipped to India. This is especially necessary for libraries whose patrons—scholars and students—very often need access to the latest books. Currently, libraries often buy books from abroad through Amazon, Flipkart, Alibris, etc. Such acts, within a strict reading of the law, might not be legal, since they fall afoul of § 51(b)(iv), since the import is not for the "private and domestic use" of the libraries. This is also of special concern for organizations working with print-disabled individuals, since the number of books legally available domestically in formats accessible by the print-disabled is very small, and often need to be imported. Lack of parallel importation in many jurisdictions is the reason that persons with visual impairment and print disabilities have been forced to try and address this issue through an international treaty at WIPO. In India, less than 0.5% of the books available to the sighted are available to the visually impaired, according to the World Blind Union.<sup>57</sup> Given the

<sup>56</sup> E-mail communication with Jyotika Borah in Flipkart's sales department, on file with author.

<sup>57</sup> Balanarayan, *CIS Campaign to Alter Copyright Law to Favour Visually Impaired*, DNA, September 24, 2009, available at <http://www.dnaindia.com/bangalore/1292662/report-cis-campaign-to-alter-copyright-law-to-favour-visually-impaired> (Last visited on June 2, 2013).

low availability of books in accessible formats in India, it is imperative to be able to import accessible books from other countries.

#### 4. Helping all consumers

An excellent report was prepared in 2006 by Consumers International,<sup>58</sup> in which they studied the costs of textbooks in eleven countries, including India, by average purchasing power of each country's citizens, instead of absolute cost. Based on that study, and a detailed investigation of international treaties on copyright and the flexibilities allowed in them, Consumers International recommended that India should amend its law to make it clear that parallel importation of copyrighted works is legal.<sup>59</sup>

Various publishers have claimed that there is no need for a provision on parallel imports, as there is adequate access to foreign works in India. Research by Promoting Public Interest Lawyering ('PPIL') and the Centre for Internet and Society ('CIS') shows that this is not the case. CIS research shows that the latest editions of many textbooks are often not available as 'Indian editions',<sup>60</sup> and that the price differential between foreign editions and Indian editions are significant.<sup>61</sup> This corroborated the evidence gathered by PPIL,

<sup>58</sup> CONSUMER INTERNATIONAL, COPYRIGHT AND ACCESS TO KNOWLEDGE: POLICY RECOMMENDATIONS ON FLEXIBILITIES IN COPYRIGHT LAWS, Kuala Lumpur, 2006.

<sup>59</sup> *Id.*, 51.

<sup>60</sup> Data for 226 books that form part of the college syllabus for engineering students was collected from Flipkart and Amazon. All of these books were found to be Indian editions. Due to the prohibition on parallel imports, 26% of the books available in India were outdated versions and only 9% were latest editions. Moreover, the average difference in editions available in the US and in India was of 2 editions. (For example, students in the US have access to the 4th edition of 'Mechanics of Materials' by Stephen P. Timoshenko and James M. Gere, but students in India have access only to the 2nd edition). The maximum difference in editions has even gone up to 7. That means, if a student in the US is using the 8th edition of a book, a student in India is still using the 1st edition.

With regard to medical syllabus books, data was collected for 196 books. Of these, 11% were outdated and only 4% of the books were of the latest edition. This again goes to show that since parallel imports are prohibited, availability of latest editions is extremely low. There were 23 instances where the latest editions of the textbooks were not available in India. There was a significant price difference in this discipline as well, with the average price difference between the equivalent price (in Rupees) and the Indian price being Rs. 3178.

<sup>61</sup> The average price at which Flipkart offers these books for sale in India is Rs. 431, whereas the same books in the US on an average cost \$137. This shows that these books are, on an average, about 17 times more expensive in the US, at the current exchange rate. In absolute terms, the equivalent price (in Rupees) of the foreign editions was, on average, Rs. 7391 more (where the Indian edition number was less than the foreign edition number), Rs. 2068 more (where the Indian edition number was the same as the foreign edition number), and Rs. 6160 more (where the Indian edition number was more than the foreign edition number). Interestingly, not in a single case of engineering books was the price of the Indian edition comparable to that of the foreign edition, with the latter being much more expensive in each case.

Out of the 196 books surveyed, 88 were imported. These 88 were of the same edition, both in India and the US. This strengthens the claim that parallel imports allow India to have access to books of the latest edition without delay. Moreover, the cost at which these books were

who noted that of 1,554 foreign titles acquired by two leading law libraries during 2009-11, there were hardly any titles with equivalent low-priced Indian editions. Even in rare cases where such editions were available, they were never the latest ones.

Almost all foreign titles were available for prices equal to or higher than rates prevailing in the West. These had to be imported through websites such as Amazon or procured through leading local distributors, who would place orders directly with publishers abroad. The shipping charges escalated the costs for India, and in one case, the price differential between India and the US was as high as 165%.

## 5. Authors' won't lose out on royalties

Authors do not lose out on royalties because of parallel importation, just as they do not lose out on royalties because of libraries or second-hand book stores. For parallel importation to take place, books have to be purchased legally, and the first sale itself ensures that authors are paid royalties.

Of course, publishing contracts often have a clause that remaindered books will not garner royalties. But in that case, the problem is not with parallel importation, but the overstocking and subsequent remaindering of books. The authors wouldn't be paid (or would be paid very little) for remaindered books even if the books weren't imported into India. Parallel importation does not change that in any way.

## 6. Indian authors

There is a worry that an Indian author would be hit if remaindered copies of her books started entering the Indian market. That would mean that foreign publishers had overstocked the Indian author's book, i.e., the expectation from the book was much higher than the actual demand. If this happens infrequently, then the author does not have much to worry about (since remainders aren't a big problem). If it happens frequently, then *firstly* the publisher should re-adjust to the market and realize that demand is low. *Secondly*, the author needs to worry more about quality of the book (and whether it caters to foreign audiences) than the possible effects that the availability of cheaper copies of that book would have.

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available in India were far lower, more than 3 times less than that available in the US. The average price at which Flipkart offers these books for sale in India is Rs. 1074, whereas the same books in the US on an average cost \$77. This shows that Indian editions of books are, on an average, about 3 times cheaper than the US editions.

### C. *REMAINDERED BOOKS ARE IN PUBLISHER'S CONTROL*

India has amongst the cheapest book prices in the world. Then why would book publishers be wary of even cheaper books overrunning the Indian market? Publishers have argued that remaindered books have the potential to destroy the Indian book market. Remaindering of books has been happening for decades. If remaindered books haven't already destroyed all book markets worldwide, then it is unlikely that they will do so suddenly due to the permissibility of parallel importation of books in India.

Remainders happen because of a miscalculation by the publisher whereby they expected more demand than was actually present. The excess stock is then controlled by the publishers, as they can choose to pulp them, burn them, or even push them into other channels of commerce. Since those multiple strands of commerce exist, each of which would enable the seller to get a better profit (being in a developed country) than in India, there is no reason to fear overrunning of the market with remainders.

### D. *DUMPING OF BOOKS SHOULD BE TACKLED SEPARATELY*

An extension of the remaindered books concern is that of India becoming a land where all books will be dumped. This hasn't happened in case of countries like New Zealand, Mexico, Chile, Egypt, Cameroon, Pakistan, Argentina, Israel, Vietnam, South Korea, Japan, and a host of other countries, all of which allow for parallel importation of books. Australia has allowed for parallel importation of books in one form or another since 1991 (when the law was changed to allow for parallel importation of all books that weren't introduced in the Australian market within 30 days of it being released elsewhere in the world or within 90 days in case of re-supply),<sup>62</sup> yet their book market has not collapsed. New Zealand did a study after removing the ban on parallel importation, and declared that cheaper books were available on a more timely basis than previously.<sup>63</sup> None of these countries have been overrun by grey market books.

Even assuming that this fear is well-founded, copyright law is not the best way to deal with the problem. Dumping of books should be regulated by customs laws (anti-dumping and countervailing duties). Using copyright law to regulate apprehended book dumping practices (which might not even

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<sup>62</sup> Copyright Act 1968 (as amended in 1991), §29(5) and § 44A.

<sup>63</sup> See David Moore *et al*, *Parallel Importing Review: Impact upon Creative Industries* (2007), available at <http://www.med.govt.nz/business/intellectual-property/pdf-docs-library/parallel-importing/LECG-report-impact-parallel-importing-Nov-07.pdf> (Last visited on June 2, 2013).

happen) is like using a trawler hoping to catch only shrimp. It is naive to think that there won't be unintended bycatch, and the consequences can be disastrous for the knowledge environment in case of books.

Customs laws are more flexible because they are imposed by the executive, and unlike copyright law, can be more easily changed as per the requirements. Hence, even if copyright law allows for parallel importation of copyrighted works, a special case can be made out by publishers in case of trade publishing, for instance, and that can be targeted specifically by imposing duties. However, the inverse cannot happen, since we are not aware of any mechanism whereby libraries, consumers and others can get to 'override' the provision in the Copyright Act.

Additionally, these duties can be made to operate only if the book is already being sold in India or only on a new book etc., thus enabling flexibility. A ban on parallel importation, on the other hand will apply equally to books that are out of print, to books where the original copyright owner has not even granted an exclusive Indian distributorship and are not even being sold in India. It goes right to the heart of freedom of speech, which the Supreme Court has held includes the right to receive information.<sup>64</sup>

#### *E. FEAR OF 'UNSECURE' MARKETS LEADING TO FEWER LOW-PRICED EDITIONS*

Parallel importation, which is what the amendment to §2(m) allows for, affects only importation. It does not in any way affect publication in India or exports. As shown in this paper, the John Wiley judgment is gravely flawed. The amendment does not change that position, for reasons explained earlier in this paper. The incentive to print low-priced editions hence does not change because of the amendment. If at all, the incentive to publish low-priced editions will increase because currently books that are not available as low-priced editions cannot be imported without exclusive licensing, and with a change in this position, the incentive to compete in the form of low-priced editions will come into effect.

Indeed, even before the John Wiley judgment prohibiting exports to the United States, many low-priced editions were being printed in India. And even before the Eurokids case prohibiting parallel imports, many low-priced editions were being printed in India. This won't change, regardless of the law, because India is an increasingly profitable and expanding market, and low-priced editions are a necessity in this market due to lower average income.

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<sup>64</sup> See *Bennett Coleman v. Union of India*, AIR 1973 SC 106; *Secretary, Ministry of Information and Broadcasting, Government of India v. Cricket Association of Bengal*, AIR 1995 SC 1236; *People's Union for Civil Liberties v. Union of India*, 2004 (2) SCC 476.

However, this argument might not hold water in all developing countries.

Some fear that ‘open markets’ do not produce renowned authors, noting that Malaysia, Singapore, and Hong Kong do not have a ‘history of creativity’.<sup>65</sup> In this context, it may be helpful to ask the number of authors one can name from closed markets like Bhutan, Kazakhstan, Cambodia, Papua New Guinea, Indonesia, Jordan, and Ukraine. Further, the largest book publishers in the world are not ‘closed’ markets.

Earlier this year, in *Kirtsaeng v. John Wiley* (‘Kirtsaeng’),<sup>66</sup> the U.S. Supreme Court ruled that parallel importation was allowed in the United States. Thus, for all intents and purposes, under copyright law, the United States is an open market. In the United Kingdom, as per European Union law, parallel importation is permitted from anywhere within the EU. And in Australia, parallel importation of parallel goods is largely allowed, with some conditions to encourage faster publishing in Australia of foreign books.<sup>67</sup>

Most importantly, none of the developing countries are looked upon as ‘role models’, except India. This makes all the difference, as the Consumers International report underscores.

#### F. PARALLEL IMPORTS AND PRICE ARBITRAGE

The recent decision by the U.S. Supreme Court in *Kirtsaeng*,<sup>68</sup> has established that parallel importation is allowed under U.S. copyright law. However, from a public policy perspective, this may not be beneficial for the rest of the world, since it reduces the opportunities for price arbitrage by multinational firms, thus providing them an incentive to increase costs in developing countries (other than large markets like India, for the reasons mentioned in the previous section). There are two factors that help negate this incentive. *First* is the fact that multinational firms already price their product highly in all markets where they find it to be a sustainable pricing model. In South Africa, for instance, the price of Nelson Mandela’s autobiography is costlier than it is in the United Kingdom or in India.<sup>69</sup> *Second*, the global nature of the World Wide Web is making it more difficult to have geographic price arbitrage on goods, especially digital goods, given the ease with which geographic IP restrictions can be bypassed with web proxy servers, SSH tunnelling, and virtual private networks.

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<sup>65</sup> Abraham, *supra* note 1.

<sup>66</sup> *Kirtsaeng v. John Wiley and Sons*, March 2013.

<sup>67</sup> Copyright Act, 1968 (as amended in 1991), §29(5) and § 44A.

<sup>68</sup> *Kirtsaeng v. John Wiley and Sons*, March 2013.

<sup>69</sup> See Lawrence Liang and Achal Prabhala, *Comment: Reconsidering the Pirate Nation*, available at <http://link.wits.ac.za/journal/j07-liang.pdf> (Last visited on April 10, 2013).

Thus from a public interest perspective, ideally, developing and least-developed countries would adopt international exhaustion —especially since many copyrighted works are not even introduced in the developing world markets— while developed countries would adopt national exhaustion, to allow for price arbitrage in favour of developing and least-developed countries. However, the best manner in which this could be achieved, whether through export restrictions, copyright law in individual developing countries, an international instrument, or through other means, is beyond the scope of this paper.

As pointed out in the earlier section of this paper, in India, unlike in some other jurisdictions, the extension of protection to foreign works happens not through a mere declaration that they are also covered by the copyright statute,<sup>70</sup> but through a legal fiction that foreign works are protected *as though they were published in India or by an Indian domiciliary, or an Indian citizen*.<sup>71</sup> This means that we need not deal with a separate category of foreign work anymore but merely deal with whether a copy of that work, being dealt with as an Indian work due to the legal fiction, is an ‘infringing copy’ or not. It further helps clarify why the main issue faced with parallel importation in the United States — that of determining whether a work was “made under this title”<sup>72</sup> — does not arise in India. The foreign work is not only given equal protection as its Indian counterpart, but it is also given protection *as* an Indian work.<sup>73</sup>

In the United States, before the Supreme Court finally ruled in *Kirtsaeng*, there had been a split in *Quality King*<sup>74</sup> and *Costco*<sup>75</sup>, where different results were reached on the basis of the foreign origination of the work. In *Quality King*, the copies of the work in question were of American origin, taken abroad, and re-imported into the USA, while in *Costco*, the copies of the work were of Swiss origin and imported into the USA.

## V. CONCLUSION

In this article, I have argued that various Indian courts have fundamentally misconstrued the Copyright Act when it comes to the question of exhaustion and parallel importation, and have made serious errors in their judgments. They have completely ignored the first sale doctrine, the 1994 amendment to the Act, and have also failed to give adequately reasoned judgements.

<sup>70</sup> See 17 U.S.C. §104 (b)(2).

<sup>71</sup> Indian Copyright Act, 1957, § 40.

<sup>72</sup> 17 U.S.C. § 109.

<sup>73</sup> There seems to be a slight inconsistency created due to this, which might prove fruitful to explore at a later stage. One wouldn’t talk of ‘importing’ Indian works, except if they were written by an Indian citizen, but initially circulated outside of India. However, § 40 also deems works published outside India to be “first published within India”.

<sup>74</sup> *Quality King Distributors, Inc., Petitioner v. Lanza Research International, Inc.*, 523 U.S. 135 (1998).

<sup>75</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008).

These shortcomings are also evident in the court's interpretation of export of copyrighted works. Therefore, these decisions have wrongly imposed a national exhaustion regime upon India.

The proposed amendment to § 2(m) is necessary in order to undo the problematic decisions that have been passed. The proposed amendment to § 2(m) should be viewed as a clarification of the existing law — aimed at correcting erroneous court rulings — rather than leading to an actual change in the law. Further, I have tried to show from a policy perspective, the manner in which such an explicit international exhaustion regime would benefit Indian authors, libraries, second-hand book stores, persons with disabilities, and consumers in general, who would have easier and cheaper access to knowledge. Moreover, absurdities, uncertainties and adverse effects that will be created by criminalizing parallel imports can be avoided by bringing in this amendment.

Given the flexibility allowed by the TRIPS under Article 6 with regard to exhaustion, it is important for India to make use of this flexibility and create a beneficial regime. It is also necessary to bear in mind that law should reflect the needs and expectations of its society and given the problems created by the 'license raj' in relation to copyrighted works (including but not limited to books), it is time for the Parliament to remedy this ill and give to the people of India what they expect and need. Given that many developing nations have adopted international exhaustion of copyrights and have benefited immensely from this, it is time for India to tread the same path.

Lastly, I propose that it might be beneficial for developed countries and developing countries to tread different paths when it comes to international exhaustion. However, this proposal is complicated by the difficulties of enforcing any form of national exhaustion in a globalized marketplace, especially one in which digital goods can be bought with the click of a mouse while being seated anywhere.