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EDITORIAL NOTE ON THE VOLUME 11, NUMBER 2, 2022

Editorial Note

Dr. Chih-Yuan Chen

Associate Professor,

Graduate Institute of Intellectual Property,

National Taipei University of Technology (Taiwan).

Being the Executive Editor of this issue, we would like to express our appreciation to all the authors, reviewers, editors, and advisors who have helped to maintain the academic quality of this journal.

The selected articles in this issue of the journal cover all kinds of IP issues, including IP management, IP comparative law, trade secrets, patent, trademark, and copyright. This indicates that submissions from legal, managerial, or interdisciplinary areas related to IP issues from all over the world are welcome. We hope that our readers will be pleased and benefit from the publication of this issue.

Executive Editor

Dr. Chih-Yuan Chen

Associate Professor

Graduate Institute of Intellectual Property

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Interpretational Dilemma on Divisional Patent Applications in India

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ABSTRACT

A patent grants a limited monopoly to the patent applicant in lieu of disclosing his invention to the public. The scope of protection available to a patent applicant is decided entirely based on the claims of the patent, and hence, what is being claimed forms a critical aspect of the strategy. Further, a patent application may disclose different embodiments of the same invention and/or distinct inventions having different inventive concepts. Ideally, claims could be included for both the different embodiments and the distinct inventions. However, sometimes, due to business considerations or huge costs incurred by including additional claims, patent applicants may claim only some of the different embodiments and/or distinct inventions. During the examination stage, the Controller of Patents may raise an objection in the event he opines that the claims of the patent application relate to multiple distinct inventions, with the remedy under Section 16(1) being available to divide the patent application (now referred as “parent application”) into one or more further applications during the pendency of the parent application. However, is there a remedy available to the patent applicant if he desires to voluntarily divide his parent application to cover any embodiment/distinct invention that was not claimed in the parent application? Using the doctrinal method, the paper analyses the language of Section 16(1) by applying rules of interpretation, and while additionally taking into account the legislative intent behind Section 16, ascertains whether the true import of the said section, as it stands today, is actually what has been decided by the Intellectual Property Appellate Board (IPAB) or if the language of Section 16 does provide some leeway to the patent applicants to file voluntary divisional applications for any matter that has been merely disclosed in the parent application and not claimed.

Keywords: patent application, divisional patent application, division of patent application, Indian patent law.

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1. Introduction

In today's time, as the population across the world continues to grow, there are ever-increasing challenges, like efficient waste disposal, pollution control, cure against fatal and virulent diseases, conservation of natural resources, and bridging the educational divide that need to be addressed. Companies and individuals worldwide rely on developing newer technologies to address these challenges, which entails considerable intellectual and financial capital investments. Due to the high commercial stakes involved in developing these newer technologies, some sort of exclusivity must be provided to innovators to help them derive commercial benefits from their innovations. Patents are, therefore, an essential tool in the hands of the innovators, which provides them with a monopoly, *albeit* for a limited period, to exclusively commercialize their innovations and derive economic benefits from that place.¹ The patent system aims to strike a balance between the patentee's interests and the public.² In particular, by disclosing the inventions to obtain patents, the innovators provide building blocks for other innovators to develop new technologies upon the already existing inventions, protect those new technologies through patents and market their innovations as patented products.³

Historically, the disclosure requirement was in the form of depositing the material which was latter substituted by text in the 19th Century⁴ so as to overcome the practical difficulties involved.⁵ This has been accepted internationally as a requirement.⁶ To satisfy the requirement of disclosure of the invention to the public, in the Indian context, the Patents Act, 1970 (hereinafter referred to as "the Act") mandates that a complete specification filed in pursuance of a patent application must describe the invention fully and disclose the best method of performing the invention for which he is claiming the protection.⁷ In addition, it envisages that the complete specification must end with at least one claim that defines the scope of protection being claimed.⁸ In particular, the claims must define the boundary of protection that is granted to the patent holder while also serving the purpose of describing what constitutes the essential and unique features of the invention that help the invention to achieve the intended.⁹ Thus, the Act prescribes a rigorous set of rules related to disclosure of inventions, which the patent applications must comply with to be considered fit for grant of protection.¹⁰

Patent Application with Multiple Inventions:

¹ Cornish, W., Llewelyn, D., & Aplin, T. (2010). *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights* (pp. 85-106), 7 th. Edition London, Sweet & Maxwell- South Asian Edition.

² Trebilcock, Michael and Howse, Richard, *The Regulation of International Trade* (London, Routledge, 1995), p. 250; Sell, S. K., & Sell, S. K. (2003). *Private power, public law: The globalization of intellectual property rights* (pp. 7-10). Cambridge University Press.

³ Maskus, K. E. (1998). The role of intellectual property rights in encouraging foreign direct investment and technology transfer. *Duke J. Comp. & Int'l L.*, 9, 109.

⁴ Pottage, A., & Sherman, B. *Mechanical Jurisprudence*. In *Figures of Invention* (pp. 85-106). Oxford University Press.

⁵ Sherman, B., Bently, L., & Koskeniemi, M. (1999). *The making of modern intellectual property law* (pp. 172 – 182). Cambridge University Press.

⁶ Ali, F. (2016). *The access regime patent law reforms for affordable medicines*. Oxford University Press. p.36.

⁷ Patents Act, 1970, Sec. 10.

⁸ The Patents Act, 1970, Sec. 10 (4).

⁹ Biswanath Prasad Radhey Shyam v. Hindustan Metal Industries., 1979 (2) SCC 511, p.525. The Court spelled out that that the proper way to construe a specification is to read the description of the invention and understand what the invention relates to and then read the claims to understand the scope of protection. The Apex Court also relied on *Arnold v. Bradbury*, [1871] 6 Ch. A. 706 & *Parkinson v. Simon* [1894] 11 RPC 483 to note that the claims need to be construed along with the specification so as to give an effective meaning to the claims.

¹⁰ Feroz Ali Khader (2009). *The Law of Patents-With A Special Focus on Pharmaceuticals In India*. (pp. 108-120) Lexis-Nexis, India.

In general, many innovations may be an amalgamation of several more minor innovations that work in tandem to effectuate the overall intended benefit of the (parent) innovation. For instance, consider the innovations related to imaging technologies in smartphones. Smartphone companies innovate on imaging technologies to provide users with better quality photographs. These innovative technologies may be a combination of various more minor innovations such as those relating to the number of cameras, colour correction, lighting correction, the addition of special effects (filters), reduced storage space, new methods for sharing the images and alike. These more minor innovations help to render a better and improved camera technology, which is the parent innovation, in a new smartphone that the smartphone manufacturer may be planning to launch in the market. Since the technology is new and is a product of the intellectual inputs of the manufacturer, they may want to have exclusivity thereon and hence, may file a patent application thereon. To satisfy the disclosure requirement, the patent applicant may adopt different approaches, such as (a) disclose and claim the parent innovation and all of the more minor innovations in the patent application; or (b) disclose all innovations in the specification but claim only the parent innovation and some of the critical more minor innovations in the patent application. The latter approach could be due to several reasons, such as oversight by the patent attorney/claim drafter or cost considerations about a higher number of claims as some jurisdictions charge for additional claims over and above a pre-defined number.¹¹ Consequently, the applicants may try to limit their claims to an optimal number due to which some of the inventions, which may not be considered very important at the appropriate time, may not be claimed. However, since the technology is ever-changing, it may happen later that the patent applicant may want to claim those inventions which were disclosed in the specification but not claimed.

Further, even if the patent applicant has claimed all the inventions as per option (a) of the two approaches discussed above, there may still be an issue of non-conformity of such claims to section 10(5) of the Act that mandates that claims of any complete specification must relate to a single invention or a group of inventions related to a single inventive concept. Specifically, the claims of a patent application should relate to one invention or several inventions that have a common underlying inventive concept.¹² The Court has guided in this respect in *Asian Electronics*,¹³ where the Court noted – “*But before you can apply section 3 and ask whether the invention involves an inventive step, you first have to decide what the invention is. In particular, you have to decide whether you are dealing with one invention or two or more inventions. Two inventions do not become one because they are included in the same hardware. A compact motor car may contain many inventions, each operating independently of the other but all designed to contribute to the overall goal of having a compact car. That does not make the car a single invention*”.

An important factor in filing the patent application, thus, is the identification of innovative concepts to be covered under the patent application. A single patent application may suffice if all the innovative concepts can be grouped as related by a single inventive concept. Otherwise, the patent applicant may have to file as many patent applications as the number of different innovative concepts. In this respect, an important question is how does one identify whether an innovation includes one or many innovative concepts? The guidelines for examination published by the European Patent Office

¹¹ The Patents Rules, 2003, Schedule -I. As per the rules, up to 10 claims are free of charge and any additional claim over the free limit incurs a cost for the applicant as specified in the Schedule.

¹² With respect to the elements not included in the application or applications whose priority is claimed, the filing of the subsequent application shall give rise to a right of priority under ordinary conditions. For further details, see Paris Convention for the Protection of Industrial Property, 1883 (as amended on September 28, 1979), Article 4 F. *No country of the Union may refuse a priority or a patent application on the ground that the applicant claims multiple priorities, even if they originate in different countries, or on the ground that an application claiming one or more priorities contains one or more elements that were not included in the application or applications whose priority is claimed, provided that, in both cases, there is unity of invention within the meaning of the law of the country.*

¹³ *Asian Electronics Ltd. v. Asian Electron*, 2010 SCC OnLine Del 1564, para 18.

provide some guidance.¹⁴ As per the guidelines, a group of inventions are considered linked to form a “single general concept” if “*there is a technical relationship among the claimed inventions involving one or more of the same or corresponding special technical features*”.¹⁵

Simply put, if two inventions have a technical relationship such that there are few standard technical features, the same could be considered as related by a single inventive concept. In the example of improved imaging technology referred above, the inventions about colour correction and lighting correction could have a common underlying inventive concept based on image processing, while the inventive concept for reduced storage space could be different. Thus, as per Section 10(5) of the Act, separate patent applications may have to be filed for the grouped inventions of colour correction and lighting correction and another patent application for the invention of reduced storage space.

2. Protection of Plurality of Inventions Contained in a Patent Application in India

In adherence to Article 4 (G) of the Paris Convention,¹⁶ the Indian Patents Act provides a mechanism under Section 16¹⁷ to deal with a plurality of inventions that may have been disclosed in a patent application. From a plain reading of the provision, it appears that the Act provides that a patent applicant may resort to dividing his/her patent application in the event it contains a plurality of distinct inventions; however, this is not as simple as it appears to be. Currently, there is controversy regarding the true import of Section 16 in light of divergent views adopted by the patent applicants and the erstwhile (IPAB).¹⁸ A liberal approach, as adopted by the patent applicants, is based on a plain reading of Section 16, which indicates that a patent application may be divided into one or more “further applications” to cover different inventions (relating to the same or different inventive concepts) that may have been disclosed in the provisional or complete specification filed in pursuance of the patent application. In particular, the patent applicants argue that if the first filed application “discloses” several (not necessarily distinct) inventions, the applicant of the first-filed application may file separate

¹⁴ European Patent Office, (n.d.). Guidelines for examination. F-V, & nbsp;2. Requirement of unity of invention. Retrieved December 22, 2021, from https://www.epo.org/law-practice/legal-texts/html/guidelines/e/f_v_2.htm

¹⁵ Convention on the Grant of European Patents -The European Patent Convention, Article 82 and Rule 44.

¹⁶ Paris Convention for the Protection of Industrial Property, 1883 (as amended on September 28, 1979), Article 4 (G) – (1) *If the examination reveals that an application for a patent contains more than one invention, the applicant may divide the application into a certain number of divisional applications and preserve as the date of each the date of the initial application and the benefit of the right of priority, if any.* (2) *The applicant may also, on his own initiative, divide a patent application and preserve as the date of each divisional application the date of the initial application and the benefit of the right of priority, if any. Each country of the Union shall have the right to determine the conditions under which such division shall be authorized.*

¹⁷ Patents Act, 1970, Section 16 – *Power of Controllers to make order respecting division of applications: (1) A person who has made an application for a patent under this Act may, at any time before the grant of the patent, if he so desires, or with a view to remedy the objection raised by the Controller on the ground that the claims of the complete specification relate to more than one invention, file a further application in respect of an invention disclosed in the provisional or complete specification already filed in respect of the first mentioned application.*

(2). *The further application under sub-section (1) shall be accompanied by a complete specification, but such complete specification shall not include any matter not in substance disclosed in the complete specification filed in pursuance of the first mentioned application.*

(3). *The Controller may require such amendment of the complete specification filed in pursuance of either the original or the further application as may be necessary to ensure that neither of the said complete specifications includes a claim for any matter claimed in the other.*

Explanation—For the purposes of this Act, the further application and the complete specification accompanying it shall be deemed to have been filed on the date on which the first mentioned application had been filed, and the further application shall be proceeded with as a substantive application and be examined when the request for examination is filed within the prescribed period.

¹⁸ IPAB has been dissolved through Tribunal Reforms (Rationalisation and Conditions of Service) Ordinance 2021. Copy of the same is available <https://dpiit.gov.in/sites/default/files/IPAB-GazetteNotification-29June2021.pdf>.

patent applications in respect of said several inventions voluntarily or in the event the Controller objects that the “claims” include a plurality of inventions.

On the contrary, this provision has been differently and narrowly interpreted in a series of decisions by the IPAB to note that a further application may only be filed if distinct inventions are “claimed” in the complete specification and not otherwise. This approach bars filing a further application for inventions, which may not necessarily be distinct from that in the parent application, disclosed in the specification. The present paper aims to dive deeper into the controversy by evaluating whether IPAB was correct in its interpretation of Section 16 and, if not, what is the true import of the provision. As the first step in this direction, it would be worthwhile to discuss the legal position as established by the IPAB and the basis used by the IPAB to arrive at their interpretation of the provision.

3. Interpretation of the Provision by IPAB: The Origin of the Controversy?

The first of the few decisions that have crystallized the legal position regarding Section 16 of the Act is *L.G. Electronics, Inc. vs The Controller of Patents & Designs*.¹⁹ Briefly stating the facts of the matter – patent application number 1191/KOL/2005 was filed as a divisional application by L.G. after being carved out of the first patent application number 489/KOL/2004, which was abandoned by L.G. under Section 21(1), i.e., by way of failure to file a reply to the first examination report. The divisional application was filed with the same claims as those in the first patent application. The Controller of Patents rejected the divisional application, *inter-alia* because the same was infructuous as the first patent application did not contain or claim plurality of distinct inventions. In appeal, L.G. pleaded that Section 16 allows a patent applicant to voluntarily file a divisional application and comply with the directions of the Controller when claims in the parent application relate to more than one invention. L.G. categorically stated that a divisional application might be filed voluntarily even if there are no plurality of distinct inventions in the parent application.

On the contrary, the Patent Office, respondents in the appeal, represented that Section 16, when read with Section 10(5), mandates that a divisional application can only be filed when there is a plurality of distinct inventions in the parent application. While traversing through the rival contentions, the IPAB read Section 16 with Section 10(5) and held that the parent application must disclose more than one invention and not just the same invention to become eligible as a divisional application. The IPAB further held that while a patent applicant may file one or more divisional applications voluntarily, it would be considered valid only if the divisional application(s) were for a plurality of distinct inventions “disclosed” in the parent application. The IPAB emphasized that the essential requirement for Section 16 is the existence of a plurality of distinct inventions in the parent application. An important point to note here is that the IPAB in the L.G. Electronics matter (*supra.*) did not mandate that the multiple distinct inventions should have been claimed in the parent application, and it was just sufficient if there was a disclosure of multiple distinct inventions in the parent application.

However, recently, in the matter of *Esko Corporation vs The Controller of Patents*,²⁰ the IPAB further narrowed down its interpretation in the L.G. Electronics matter (*supra.*) and held that a patent application could only be divided if the same “claims” more than one invention. In the matter at hand, the patent applicant voluntarily filed a divisional application with claims that were not identifiable by the Controller as a distinct invention from those claimed in the parent application. In an appeal consequent to refusal of the divisional application, the IPAB relied on the L.G. Electronics (*supra.*)

¹⁹ Order dated August 10, 2011 in OA/6/2010/PT/KOL, (last accessed: August 27, 2021 at 2 pm). available at <http://www.dpahuja.com/Patent/111-LG%20Electronics%20Inc%20v%20The%20Controller%20of%20Patents.pdf>

²⁰ Decision dated October 27, 2020 in OA/66/2020/PT/DEL, (last accessed: August 27, 2021 at 2 pm). available at <https://www.legitquest.com/case/esco-corporation-v-the-controller-of-patents-designs/1E56BE>

decision to state that the settled law requires that the parent application must claim more than one invention for a valid divisional application to be carved out from there. To define “one invention”, the IPAB referred to Section 10(5) and concluded that it means that claims of the complete specification should relate to a single invention or a group of inventions linked together by a single inventive concept, thereby holding that existence of a plurality of distinct inventions in the claims of the parent application is a must to justify the filing of a divisional application with the claims about distinct inventions. Further, reading Section 16(2) very restrictively, the IPAB held that the divisional application could not include any additional claims which never formed part of the originally filed claims in the parent application. Thus, the legal position as enunciated by the Esko decision is that a divisional application could be filed only if the claims (and not the disclosure) of the parent application relate to multiple distinct inventions and no additional claims, over and above the originally filed claims in the parent application, can be included in the divisional application.

4. Scope and Ambit of Section 16: An Analysis

Since the entire controversy has arisen due to the different interpretations given to Section 16, it would be imperative to start this discussion by identifying the key elements of the language and identifying the scope of misinterpretation, if any, in the language. Section 16(1) states as follows:

(1) A person who has made an application for a patent under this Act may, at any time before the grant of the patent,

(a) if he so desires,

(b) or

(c) to remedy the objection raised by the Controller on the ground that the claims of the complete specification relating to more than one invention,

(d) file a further application in respect of an invention disclosed in the provisional or complete specification already filed in respect of the first-mentioned application. [Emphasis and sub-divisions - (a), (b), (c), (d) – added]

To simplify the interpretation of the provision, the language has been divided into component statements purely based on the punctuation marks. Indian context, in general, punctuation is to be considered as a relevant internal aid.²¹ The use of punctuation as a valid internal aid can be seen clearly in the case of *A. K. Gopalan v. State of Madras*,²² where the Court referred to the punctuation used in Article 22(7)(a), Constitution of India while interpreting it. There are series of cases such as *Mohd. Shabbir v. State of Maharashtra*,²³ *M. K. Salpekar v. Sunil Kumar Shamsunder Chaudhari*,²⁴ *Sama Alana Abdulla v. State of Gujarat*,²⁵ etc., in which the Apex Court and various High Courts have reaffirmed the relevance and reliability of punctuations in the process of interpretation. In support of this approach, reliance is placed on a recently decided case of *Ravi Kumar Sharma v. Union of India*,²⁶ in which the Allahabad High Court remarked that [contrary to the legal position outside India], in the Indian law, punctuation has often been taken into consideration.²⁷ Moreover, reliance is also placed

²¹ *Aswini Kumar Ghose v. Arabinda Bose*, AIR 1952 SC 369, p. 383.

²² AIR 1950 SC 27, p. 45.

²³ AIR 1979 SC 564.

²⁴ AIR 1988 SC 1841.

²⁵ AIR 1996 SC 569

²⁶ Decision dated January 24, 2019, (last accessed: August 27, 2021 at 2 pm). available at <https://indiankanoon.org/doc/99862191/>

²⁷ *Id.*, Paragraph 8 – “The punctuation of the words “the husband and wife reside or last resided together” indicates

on the decision of *Mohd. Shabbir*,²⁸ in which the Supreme Court emphasized the importance of reading a provision while giving due importance to the punctuation marks. Moving next to the legal position regarding usage of conjunctions in legal statutes, in *Raghunath International Ltd. vs Union of India*,²⁹ the Allahabad High Court held that word “or” is ordinarily disjunctive, and the word “and” usually is conjunctive. Only in exceptional circumstances, both could be read as vice-versa.

Applying the principles enunciated above, it is evident that the statements in sub-divisions (a) and (c), since separated by commas and a conjunction “or”, are independent statements having no interdependence on each other. Further, applying the proposition enunciated in *Mohd. Shabbir* case (*supra.*), it is evident that both the independent statements (a) and (c) are qualified by statement (d), and thus the true import of Section 16 could be as below:

A person who has made an application for a patent under this Act may, at any time before the grant of the patent, if he so desires, file a further application in respect of an invention disclosed in the provisional or complete specification already filed in respect of the first-mentioned application,

or

a person who has made an application for a patent under this Act may, at any time before the grant of the patent, intending to remedy the objection raised by the Controller on the ground that the claims of the complete specification relating to more than one invention,

file a further application regarding an invention disclosed in the provisional or complete specification already filed in respect of the first-mentioned application.

Further, from an analysis of the selective use of words “disclosed” and “claimed” within the provision, it is evident that usage at appropriate places is based on careful consideration of the type of coverage the legislature intended to provide for filing divisional applications. In particular, as per subdivision (c), a valid divisional application could be filed to meet the objection that the “claims” relate to distinct inventions. Similarly, from a combined reading of subdivision (a) and (d), it is apparent that a voluntary divisional application could be carved out from a parent application for an invention that is merely disclosed in the provisional or complete specification that was filed in respect of the parent application. Thus, in the language, there is no limitation regarding the further application being carved out only from the claimed subject matter of the parent application.

To support the above interpretation, the language may be put through the test of rules of interpretation. Exceptionally, rules of interpretation prescribe that the statute/provision needs to be given its plain and ordinary meaning, without adding or rejecting any words, when the words of the statute/provision are clear and unambiguous.³⁰ However, if there is a controversy regarding the true import of a legal provision, the Court may rely on additional material like legislative history, as held by the Supreme Court in *Chief Justice of A.P. v. L.V.A. Dikshitulu*.³¹ Thus, in the present case, owing

clearly that ‘together’ must be read with ‘last resided’ only and had intention of the Legislature been to make ‘together’ apply to ‘reside’ we should have expected a comma after ‘reside’ and after ‘resided’.

²⁸ AIR 1979 SC 564, p. 565; In this matter, the Supreme Court was interpreting Section 27 of the Drugs and Cosmetics Act of 1940, which provided that anyone who “manufactures for sale, sells, stocks or exhibits for sale or distributes a drug without license” would be liable for punishment. The Apex Court held that an absence of comma after the word “stocks” implies that the entire phrase “stocks or exhibits” is qualified by the phrase “for sale” that is placed thereafter. The Supreme Court, thus, held that mere stocking of a drug is not an offence, and it becomes a punishable offence only if the drug is stocked for the purpose of sale.

²⁹ (2012) 280 ELT 321 (Allahabad).

³⁰ GP Singh, *Interpretation of Statutes*, Lexis-Nexis, (13th edition, 2012) pp. 85-114 and Amita Dhanda, *N S Bindra’s Interpretation of Statutes*, (11th edition, 2014), pp. 259 -264.

³¹ (last accessed: August 27, 2021 at 2 pm). <https://indiankanoon.org/doc/192869/>; Paragraph 63: “The primary

to the controversy at hand because of the apparent difficulty faced by the IPAB in ascertaining the true meaning of the provision/statute, it would be prudent to place further reliance on the legislative history of Section 16 for the removal of any ambiguity in the true scope of Section 16.

The language of Section 16 has been derived from recommendations³² provided by Justice N Rajagopalan Ayyangar Committee in paragraph 387 of the said report.³³ From a reading of the said paragraph, it is apparent that the legislative intent is that the provision should additionally enable the patent applicant to *suo moto* cure a defect where he could not claim, in an earlier-filed application, an additional invention that was “disclosed” in the complete specification of the earlier-filed application. Thus, Section 16(1) is intended to ensure a remedy to patent applicants to cure the defect or oversight by them at the time of filing the parent application, by allowing the applicant to voluntarily divide the parent application and carve out one or more further applications from there to cover inventions that were disclosed, and not merely claimed, in the earlier-filed application.

From the above analysis of Section 16, it is abundantly clear that the following inference could be well drawn. The provision is liberal enough to allow the patent applicant to:

- i. File one or more further applications if the claims of the earlier-filed application (or the parent application) pertain to distinct inventive concepts and the Controller has objected to the claims as relating to different inventive concepts under Section 10(5) of the Act. In such a case, the applicant may delete the claims about distinct inventions from the parent application and file one or more further applications to cover the same; and
- ii. File further voluntary application(s), including claims covering invention(s) that may not have been previously claimed but merely disclosed in the detailed description of the earlier-filed application.

Thus, the understanding that may be evolved from the afore-mentioned discussion is that Section 16(1) is broad enough to allow division of patent applications under different scenarios of disclosure of inventions. In particular, a parent application that includes multiple distinct inventions, which are not related to the same inventive concept, may be divided into one or more child applications. The

principle of interpretation is that a constitutional or statutory provision should be construed "according to the intent of they that made it"(Coke). Normally, such intent is gathered from the language of the provision. If the language or the phraseology employed by the legislation is precise and plain and thus by itself, proclaims the legislative intent in unequivocal terms, the same must be given effect to, regardless of the consequences that may follow. But if the words used in the provision are imprecise, protean, or evocative or can reasonably bear meaning more than one, the rule of strict grammatical construction ceases to be a sure guide to reach at the real legislative intent. In such a case, in order to ascertain the true meaning of the terms and phrases employed, it is legitimate for the Court to go beyond the arid literal confines of the provision and to call in aid other well-recognized rules of construction, such as its legislative history, the basic scheme and framework of the statute as a whole, each portion throwing light on the rest, the purpose of the legislation, the object sought to be achieved, and the consequences that may flow from the adoption of one in preference to the other possible interpretation. [Emphasis added] ”.

³² http://www.delhihighcourt.nic.in/library/reports/Rajagopala_Ayyangar_Report_Report_on_patent_law.pdf (last accessed: August 27, 2021 at 2 pm).

³³ 387. Clause 16 (1) deals with the division of an application. This provision is necessitated by the rule that an application for a patent should be confined to and each patent would cover only a single invention. Where the complete specification filed in respect of an application and the claims based thereon, relate to more than one invention the Controller is bound to raise an objection requiring the applicant to amend his complete specification by confining it to a single invention. But even apart from such objection raised by the Controller, the applicant for a patent might himself realise the defect in his application and seek to amend his complete specification to conform to the Act. In either of these cases the applicant would naturally be desirous of covering his invention which is disclosed in the specification already filed but which is excluded from the earlier complete specification, by filing a further application and obtain a patent therefor. It is to this situation that Clause 16 (1) is directed. [Emphasis added].

IPAB covered this scenario in the L.G. Electronics matter (*supra.*), where it ruled that the existence of a plurality of distinct inventions is a pre-requisite for filing and allowing a further application carved out from an earlier-filed application. However, the IPAB was only partially correct. The presence of multiple distinct inventions, which are not related by a single inventive concept, is only one of the criteria based on which patent applications may be divided under Section 16. However, there may be another scenario where the parent application may include different embodiments of the same invention such that all said the same inventive concept relates different embodiments. For instance, consider a novel method A of depositing a corrosion-resisting layer on a metallic article such that the method has an inventive concept of ensuring that the corrosion resisting layer has a life of 100 years.

Suppose that the novel method A includes a step (a) cleaning the surface of the article by dipping in a chemical and (b) subsequently dipping the article in corrosion resisting chemical for the deposition of the corrosion resisting chemical onto the surface of the article. If satisfying the patentability criteria, this entire method may be considered an invention and hence may be covered under the claims directed to such novel method A. Now suppose that the patent applicant has also developed a variation of method A in which the corrosion resisting layer could be additionally coated with another coating by adding step (c) after step (b) to improve the aesthetics thereof. The additional coating only improved the aesthetics without having any other effect on the efficacy of the corrosion resisting layer, and thus the inventive concept of the variation (referred to as method B) is the same as that of method A. However, the patent application claims only method A in his patent application while both methods A and B were disclosed therein. At the time of commercialization of the invention, the patent applicant realizes that method B is a more commercially viable option as it produces an aesthetic product that appeals to the customer. However, since he has not “claimed” method B in his patent application, method B is not protected, and hence, he may not be able to commercialize method B without risking unauthorized use of the same by third parties. Whether Section 16 provides any type of protection for such a scenario?

As per the legal analysis of Section 16 (1) provided hereinabove, it would be abundantly evident that a parent application could be further divided into one or more child applications for any invention, which is disclosed in the parent application but does not necessarily relate to a different inventive concept. Specifically, Section 16(1) empowers a patent applicant to voluntarily divide his parent applications as for filing voluntary (child) divisional applications, the presence of distinct inventions is not a pre-requisite. Thus, in the above example, the patent applicant has the option of filing a voluntary divisional application to cover method B (subject to the pendency of the parent application covering method A).

Further, as regards the question of whether one or more divisional applications could only be filed for inventions that were claimed in the parent application, it would be evident from the legal analysis of Section 16(1), as hereinabove, that it is only essential that the invention(s) being covered in the divisional applications should have been “disclosed” in the parent application. It is not a pre-requisite for such invention(s) to have been claimed. Thus, the IPAB erred in its decision in the Esko Corporation matter (*supra.*) by holding that the invention sought to be covered in the further application must necessarily be a part of the originally filed claims of the earlier-filed (parent) application. In the light of the above discussion, it is worth to understand the rule position in the USA and EU. Let us examine the same in detail.

5. Division of Patent application in USA and EU

Like India, the US patent system also provides options to divide a patent application into one or more child applications. In particular, the Manual of Patent Examining Procedure (MPEP) notes that the US patent rules provide for a continuing application, which could be a continuation, a divisional

or a continuation-in-part³⁴. While continuation-in-part pertains to any modifications being made in the invention covered in the parent application, continuation and divisional applications are filed to cover one or more different aspects of the invention claimed in the parent application. Thus, continuation-in-part applications in the US are analogous to a patent of addition in India, and continuation and divisional applications under the US patent system find equivalence in Section 16 of the Indian patents act. Particularly, a continuation application could be filed for claiming any subject matter that was “disclosed” in the parent application³⁵. Thus, a continuation application is filed prior to the grant of patent or abandonment of the parent application to seek protection for the different embodiments, aspects, or even scope (narrower or broader) of the invention disclosed in the parent application. The invention being sought for protection under the continuation application should not necessarily be distinct from that in the parent application.³⁶ To the contrary, a divisional application is carved out from the parent application to cover a distinct invention from that claimed in the parent application³⁷. In particular, a divisional application is filed generally in response to a restriction requirement issued in the examination stage, wherein the examiner points out the presence of distinct inventions in the claims of the parent application, and the patent applicant gets an opportunity to carve out the claims directed to distinct invention from the parent application to cover in a child (divisional) application.

As per Article 76 of the European Patent Convention, a divisional application may be filed in respect of the subject matter that does not extend beyond the content of the earlier application as filed. The Enlarged Board of Appeals of the European Patent Office considered the question³⁸ regarding whether the word “content” on the said Article refers to the disclosure in claims or the description, and it was held that anything “disclosed” in the parent application could be covered in a subsequent divisional application, provided that the grant of a patent on the divisional application does not result in double patenting³⁹. The Board, while overruling the decisions of the lower forum that had accorded a restrictive import to the word “content” in Article 76 to mean claims only, held that such a restrictive interpretation would require patent applicants to file applications with claims covering each embodiment disclosed in the specification, thereby leading to public’s legal uncertainty. Thus, European divisional applications could be filed in respect of the subject matter disclosed (and not only claimed) in the parent application⁴⁰. Moreover, the language of Article 76 does not appear to suggest that a divisional application could only be filed in respect of distinct inventions, and seemingly any aspect of the invention disclosed in the pretending application could be covered in a divisional application. Additionally, there’s no statutory restriction that such divisional applications could only be filed in response to an official direction from the patent office, and thus it is apparent that EPO allows the filing of voluntary divisional applications⁴¹.

From a reading of the legal position in Europe and the US discussed above, it would be apparent that the US patent system allows for division of a parent application to cover a different aspect or

³⁴ See 201.06(c) of the MPEP;
(last accessed: May 27, 2022). Available at: <https://mpep.uspto.gov/RDMS/MPEP/e8r9#/e8r9/d0e4514.html>

³⁵ See 201.07 of the MPEP;
(last accessed: May 27, 2022).available at: <https://mpep.uspto.gov/RDMS/MPEP/e8r9#/e8r9/d0e9852.html>

³⁶ (last accessed: May 27, 2022). <https://www.lexology.com/library/detail.aspx?g=9fcfb94f-02b4-451d-840c-162305a53fe2>

³⁷ See 201.06 of the MPEP;
(last accessed: May 27, 2022). available at: <https://mpep.uspto.gov/RDMS/MPEP/e8r9#/e8r9/d0e7252.html>

³⁸ (last accessed: May 27, 2022). <https://www.epo.org/law-practice/case-law-appeals/recent/g050001ex2.html>

³⁹ (last accessed: May 27, 2022). <https://www.lexology.com/library/detail.aspx?g=f2684d9b-2b5a-49e1-aa7e-6a88980d5afc>,

⁴⁰ Examination of Divisional Application, Guidelines for Examination, EPO, (last accessed: May 27, 2022). available at: https://www.epo.org/law-practice/legal-texts/html/guidelines/e/c_ix_1_4.htm

⁴¹ Guidelines for Examination, EPO, available at: (last accessed: May 27, 2022). https://www.epo.org/law-practice/legal-texts/html/guidelines/e/c_ix_1_2.htm

embodiment of the same invention by way of a continuation application and to cover an altogether distinct invention by way of a divisional application, and the European patent system enables a patent applicant to file a divisional application, even voluntarily, in respect of any subject matter disclosed in the preceding (parent) application, in a manner similar to that envisaged by Section 16 of the Patents Act. The only difference that appears to be there is that the US patent system provides a different nomenclature – continuation and divisional application – to cover the two scenarios while the Indian patents act does not provide any nomenclature while referring to the option of “division of patent application” under Section 16. It is noteworthy that the Indian legislation nowhere uses the word “divisional application” and thus, a restrictive reading of the legislation to consider only a specific scenario of division of application may not serve the intended benefits of the legislation.

6. Conclusion

From the preceding discussion, it is evident that Section 16 has been very narrowly applied by the IPAB without realizing the full potential of the provision. Consequently, it is not available for patent applicants to voluntarily file divisional applications for any invention that they may have inadvertently omitted to claim in their patent application and which does not qualify as a distinct invention from the one claimed in the parent application. As it stands today, the restrictive interpretation could have a detrimental effect on the patent rights of patent applications. To appreciate those mentioned earlier, it would be worth noting that most innovator companies file their patent applications for innovative technologies in their potential or existing jurisdictions across the world, including India. As examined and discussed above, provisions similar to Section 16 or division of application exist in the national laws of European Countries, U.K. and U.S., and such jurisdictions allow the filing of voluntary divisional applications for subject matter disclosed in the description. Article 4G(2) of the Paris Convention allows member states to provide for an option of the voluntary division of applications apart from an examination forced division of application; However, due to restrictive application of Section 16, in India, a patent applicant could end up getting the protection of varying scope for the same invention or group of inventions in India than the ones being pursued in other jurisdictions. This would severely affect the patentee’s rights to enforce the patents in different jurisdictions. It thus becomes imperative to analyze if the language is restrictive or an incorrect interpretation has been accorded to that.

While one critique against the practice of filing divisional applications is the restrictive costs that the patent applicant would have to bear in respect of filing separate patent applications and prosecuting the same, however, divisional applications may still be beneficial for some innovators who intend to commercialize their innovations in all existing or future forms. However, with the provision having a restrictive application, the innovators may not secure their patent rights effectively in India. It would now require the courts’ indulgence to re-evaluate this controversy and identify the true import of the provision. Until then, the patent applicants have to be diligent enough to include claims for all inventions disclosed in their patent specifications and carve out one or more divisional applications if the Controller objects to the presence of a multiplicity of inventions.

Preventing Domain Name Infringement: An Introduction to Approaches Adopted by the United Nations, the European Union, and Taiwan

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Abstract

The boom in e-commerce around the world since the COVID-19 outbreak has indirectly yet markedly affected business brands and the marketing strategies they use to promote products and services. To effectively respond to this e-commerce trend, companies must formulate plans to navigate the new digital business landscape and to ensure that their brands stand out from those of competitors. A domain name is a string of text that represents a company. Users type a domain name or URL into a browser's search bar to reach a particular website that they wish to view. All registered domain names are unique and cannot be used by anyone other than their owner. For these reasons, some scholars suggested that domain names must be protected through intellectual property laws. However, because the owner of a registered domain name is only entitled to use that particular domain name for a specific period and thus does not have full ownership of it, domain names are not protected by copyright. Because domain names can be used to promote businesses, improve companies' reputation, and create business opportunities similar to any other form of intellectual property, many cases of domain name infringement have been occurred. Such cases include copying of the domain name owned by somebody else to deceive customers into believing a camouflage website is the corresponding official website. Various preventive measures and policies have been adopted in many countries to resolve such disputes. Taiwan's legal system, however, has not yet taken action to avoid such disputes. Any cases regarding the infringement of domain names can only be handled through negotiation, investigation, and evidence collection. First of all, this paper will introduce the definition of a domain name and then describe the types of infringement may occur in various situations as well as the policies regarding domain name management and protection. This study can serve as a useful reference for Taiwan's legal practitioners and future researchers.

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I. Introduction

A domain name is the text version of an Internet protocol (IP) address and used to identify Internet resources and obtain information. Compared with an IP address, which consists of a string of numbers, a domain name is represented by a set of phrases that are meaningful and easy to remember¹. The Internet Corporation for Assigned Names and Numbers (ICANN)² has established requirements³ for using a hierarchical architecture to manage the domain name space, which is divided into two sections. In the domain name “hugoboss.com,” for instance, “hugoboss” is a second-level domain (SLD). Namely, the specific text could be selected by the registrant, whereas “.com” is a type of top-level domain (TLD). TLDs can be divided into the following two categories: generic TLDs and country code TLDs (ccTLDs). Common TLDs include “.com” (read as “dot” com), which is used by companies, and “.org,” which is mainly used by juridical people or organizations. ccTLDs are mostly associated with a country or a geographical area. For example, “.tw” serves as the official country code domain name for Taiwan, whereas “.jp” does for Japan.

Acquiring a domain name, also known as “domain name registration,” is performed in accordance with the “first come, first served” principle in most countries. In Taiwan, anyone can register a domain name for a website and have the right to “use” it for a specific period as long as the finalized domain name is not confusingly similar to any trademarks, trade names, corporate names, or service marks that are owned by other companies. The same is true for anyone who has not been legally deprived of the right to register a domain name or who does not intend to gain illegal profit or cause harm through a maliciously registered domain name. Government bodies tend not to maintain registries of domain names⁴. The relationship between the registered holder of a domain and a registry is governed through private law and is not considered to be within the scope of public law⁵. As demonstrated in some cases,

¹ Paul Mockapetris, Domain Names—Concepts and Facilities, RFC Editor, United States, November 1983, pp. 1–3.

² Founded in 1998, the ICANN is a nonprofit international organization registered and headquartered in California in the United States. As a top-tier organization that coordinates Internet identifier systems and manages operations worldwide, ICANN is mainly responsible for the technical management of the Internet Domain Name System and IP address space allocation, maintenance of generic top-level domain (gTLD) registrars, and coordination of the New gTLD Program. (accessed on May 31, 2022). Visit its website at: <https://www.icann.org>

³ Bylaws for the Internet Corporation for Assigned Names and Numbers, Article 1, November 28, 2019, (accessed on May 31, 2022). <https://www.icann.org/resources/pages/governance/bylaws-en>

⁴ According to Article 3 of the regulations governing Domain Name Dispute Resolution, when a registrant registers a domain name, pays to maintain the domain name, or makes changes to the information used in the registration process, they must inform the registrar of such actions and ensure the authenticity of the information. Should there be any infringements to the right of another person, the registrant must assume full responsibility for such violations. Regarding the registration of a domain name with the suffix .eu, the “first come, first served” principle applies in all situations. The European Registry for Internet Domains (EURid) also stipulates that domain name options consist of those not registered by other individuals or businesses and those that can be articulated clearly using three or less words or phrases. With an effective and efficient Abuse Prevention and Early Warning System, the EURid can screen and detect any misuse of domain names during the registration process. Register a domain name, EURid, (accessed on May 31, 2022). <https://eurid.eu/en/register-a-eu-domain/>

⁵ Kuo-Chu Yang, A Study on Domain Name Disputes and Issues Regarding Trademark Protection—A Focus on Taiwan’s Current Laws and Regulations. *Intellectual Property Rights*, Vol. 45, September 2002, p. 51.

an SLD that is recognizable is likely to be registered as a trademark, but a domain name (an address used to access a website) is considered to be unrecognizable and cannot be registered as a trademark⁶.

To stem the spread of coronavirus disease 2019(COVID-19), numerous countries have adhered to a policy of border closures and lockdowns as control measures since 2020. Changes in consumer behavior combined with an increasing number of remote workers have reshaped the e-commerce landscape in the last 2 years. In the United States, people typically go on spending sprees during the holiday weekends in November and December. During the November–December holiday period in 2019, US e-commerce platforms and sites reported sales revenue of 142.5 billion US dollars. Following pandemic containment measures in 2020, US e-commerce platforms reported higher sales revenue of 153 billion US dollars during the same holiday period in 2020, a 7%⁷ increase in online retail sales.

COVID-19 accelerated the expansion of e-commerce in an unprecedented manner, resulting in a growing number of firms and people wishing to become involved in e-commerce. To establish an e-commerce business, the first step is making the brand recognizable to customers. To this end, many firms and individuals register a website domain name for their brand. Registering a domain name can assist in attracting new customers and in cultivating a strong market presence. However, when a desired domain name has been registered by somebody else or when a trademark is similar to another which has already been registered as a business name, proceeding with registration could infringe upon an existing domain name or violate someone's trademark rights. Disputes over domain names typically arise in relation to SLDs. Take, for instance, the case of "facebookpay.tw." On November 14, 2019, a registrant attempted to register the domain name "facebookpay.tw" with the Taiwan Network Information Center (TWNIC). However, this particular domain name is nearly identical to the trademark, legal business name, and domain name "facebook" owned by Facebook, the world's leading social media provider headquartered in the United States, which created a dispute over infringement of the "facebook" SLD⁸.

Prevention of .com TLD name infringement is undertaken by the World Intellectual Property Organization (WIPO), a specialized agency of the United Nations (UN). The European Union (EU) has also created a system of organizations and implemented policies to combat ".eu" TLD name infringement and to protect the interests of domain users. In Taiwan, the TWNIC⁹ was founded to manage cases of .tw TLD name infringement, although it handles domain name disputes differently from the aforementioned international agencies. The aims of this study were to describe domain name trademark infringement and the types of disputes arising from misuse of domain names worldwide (section II) and to present the different approaches of the UN, the EU, and Taiwan (sections III and IV). These approaches are compared and measures that can be used to identify redemptive strategies and more effectively manage domain name disputes are reported (section V).

⁶ Trademark Identification and Examination Standards 4.9.4 domain names.

⁷ Giselle Abramovich, Online Shopping During COVID-19 Exceeds 2019 Holiday Season Levels (June 12, 2020), (accessed on March 31, 2022). <https://blog.adobe.com/en/2020/06/12/online-shopping-during-covid-19-exceeds-2019-holiday-season-levels>

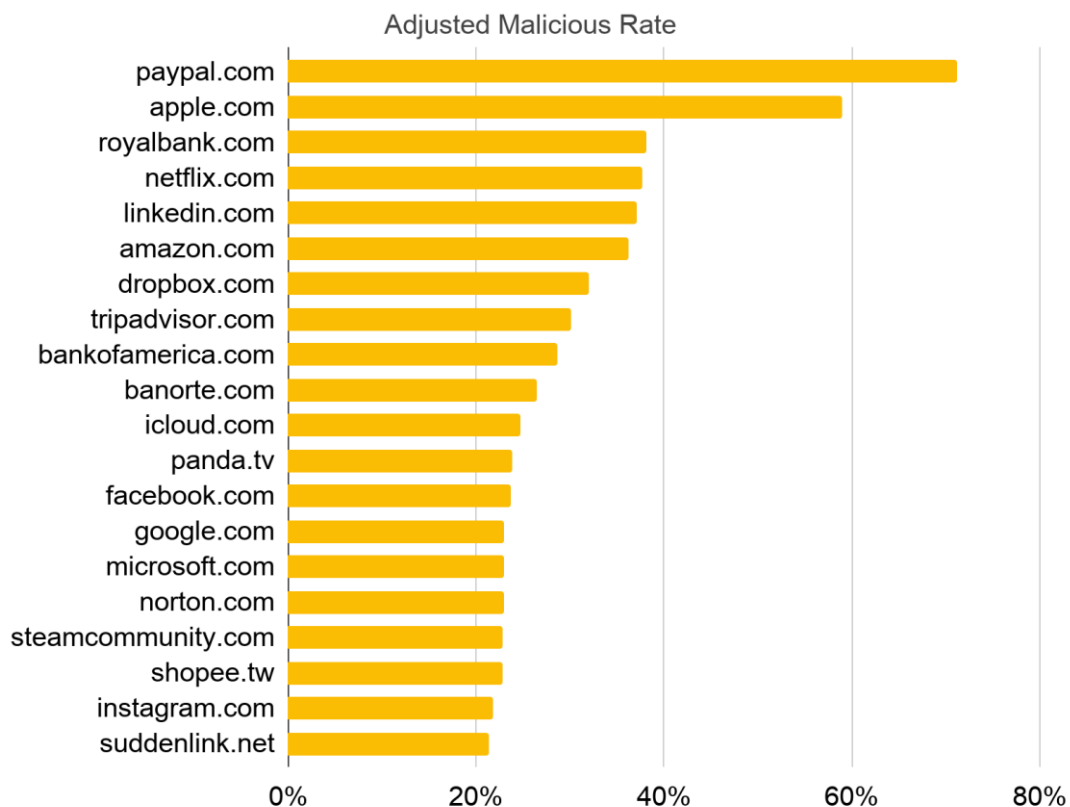
⁸ The complainant (Facebook) filed a complaint with the Science & Technology Law Institute (STLI), Institute for Information Industry on May 30, 2020. Complaint No.: STLI2020-004, (accessed on May 31, 2022). https://twdrp.tw/bulletin_detail.aspx?t=1

⁹ The TWNIC was previously responsible for managing domain names with the suffix .tw and handling complaints with respect to domain name disputes and inquiries about domain name options. It is affiliated with the National Communications Commission. Currently, domain name disputes are handled by the STLI and Taipei Bar Association through a contractual agreement made on March 19, 2001 (accessed on May 31, 2022). https://www.twNIC.tw/dnservice_argue_company.php

II. Domain Name Trademark Infringement and Types of Disputes

A. Misuse of Domain Names Globally

As indicated by statistics¹⁰, well-known companies such as PayPal, Apple, the Royal Bank, and Netflix are most strongly affected by domain abuse. The reason is because these well-known companies have created a positive brand image and maintained a strong brand reputation that promotes customer trust and loyalty. Cyber scam artists copy or mimic a domain name that is nearly or completely identical to that of a renowned brand to increase traffic to their own website, access and steal visitors' personal information, and commit fraud using this information¹¹.



According to the research conducted by Clarivate Analytics in 2020 and 2021, the rise in trademark filing activity has led to an upward trend in trademark infringement over the years. In 2021, 89% of respondents in the research reported trademark infringement¹², which was an increase from 85% in 2019, 81% in 2018, and 74% in 2017. In 2020, nearly 50% of trademark infringement cases were related to the unlawful use of domain names¹³. The aforementioned reports indicate that domain

¹⁰ Cybersquatting: Attackers Mimicking Domains of Major Brands Including Facebook, Apple, Amazon, and Netflix to Scam Consumers, Zhanhao Chen and Janos Szurdi, September 1, 2020 (accessed on May 31, 2022). <https://unit42.paloaltonetworks.com/cybersquatting/>

¹¹ *Ibid.*

¹² *The 2020 Trademark Ecosystem Report: Global insights into the optimization of trademark value, protection, and technology*, Clarivate Analytics, February 2021, pp. 5–6; *The 2021 Trademark Ecosystem Report: Global insights into the optimization of trademark value, protection and technology*, Clarivate Analytics, February 2021, pp. 14–15.

¹³ *The 2020 Trademark Ecosystem Report: Global insights into the optimization of trademark value, protection and technology*, Clarivate Analytics, February 2021, p. 11; *The 2021 Trademark Ecosystem Report: Global insights into the optimization of trademark value, protection and technology*, Clarivate Analytics, February 2021, p. 16.

name abuse has become common in cases of trademark infringement, which in turn suggests that fraudsters can greatly profit from domain name infringement¹⁴.

B. Trademark Infringement on Domain Names as a Global Phenomenon

The European Union Intellectual Property Office (EUIPO) European Observatory on Infringements of Intellectual Property Rights¹⁵ conducted research on management of the intellectual property of small and mid-size enterprises (SMEs) in EU countries in 2016 and discovered that, regardless of company size, the main action that a company must take to protect its intellectual property is to register a domain name. Following interviews held with 8,790 firms in 28 EU countries, the research revealed that only 47% of interviewed firms had registered a domain name¹⁶, exposing more than half of the firms to the risk of domain name infringement. Domain abuse or infringement can cause considerable economic damage to companies and the EU. Domain name infringement cases can be divided into the following two categories¹⁷:

1. Cybersquatting and Typosquatting

Cybersquatting refers to the registration of Internet domain names that are similar to existing trademarks or brands. Cybersquatters are usually competitors in the same or similar industries that maliciously register domain names for their benefit or to sell the names for a profit to the businesses that want to register that domain name. For example, the name “Madonna” was registered by a cybersquatter as a domain name, leading the public to believe the domain was owned by the singer Madonna. Such cybersquatting is trademark infringement, is misleading and confusing, and can potentially affect a brand’s trademark, interest, and goodwill¹⁸.

Typosquatting, similar to cybersquatting, is when a registrant registers domain names with variations on existing domain names, such as those with typos or additional words, letters, or numbers (e.g., “feckbook”). Typosquatters also register false TLDs—for example, changing “facebook.com” to “fackbook.org”—and ccTLDs—for example, changing “facebook.com” to “facebook.cn”¹⁹. With

¹⁴ Domain name fraudsters often mislead Internet users and consumers by registering a domain name that resembles but is not identical to the trademark of another company. A domain name such as “facebook.shop” is one example. Fraudsters may also register a domain name using the existing trademark of another company and then use it to name an illegal website, such as a pornography or counterfeit merchandise website.

¹⁵ The EUIPO European Observatory on Infringements of Intellectual Property Rights is a platform conducting research and promoting awareness on behalf of the EU. It is regarded by the EU as a “think bank.” Initially founded under the name European Observatory on Counterfeiting and Piracy in April 2009 and operated by the Directorate General for Internal Market and Services, European Commission, in 2011, it began closely cooperating with the EUIPO by signing an memorandum of understanding(MOU). Then, with the strong support of the European Commission, the Observatory was transferred to the EUIPO in compliance with Regulation (EU) 386/2012 on June 5, 2012, and was renamed as its current title. Li-Chuan Li, Introduction of the European Union Observatory on Infringements of Intellectual Property Rights and Its Assistance to Enterprises. *Science & Technology Law Review*, Vol. 32, No. 04, April 2020, p. 8.

¹⁶ Intellectual Property (IP) SME Scoreboard 2016, EUIPO, June 2016, p. 27, pp. 40–41

¹⁷ Study on legislative measures related to online IPR infringements, EUIPO, September 2018, p. 21.

¹⁸ In 2000, pop superstar Madonna faced a case of cybersquatting, whereby a cybersquatter registered the domain name “Madonna” and used it as a pornographic website, tarnishing Madonna’s brand and reputation. The singer filed a complaint with the WIPO and, after a trial and deliberation, the WIPO determined that the cybersquatter had infringed on Madonna’s trademark, had failed to prove any legitimate rights or interest in the domain name, and was likely using the complainant’s fame and trademark for profit. This verdict indicated that the cybersquatter registered the domain name in bad faith, leading the WIPO to order the domain name to be transferred to Madonna for exclusive use for a specified time. WIPO Domain Name Decision: D2000-0847, October 12, 2000.

¹⁹ Pieter Agten, Wouter Joosen, Frank Piessensand, and Nick Nikiforakis, *Seven Months’ Worth of Mistakes: A Longitudinal Study of Typosquatting Abuse*, Department of Computer Science, Stony Brook University, February 7, 2015, pp. 1–2.

similar domain names, typosquatting leads to an increase in website traffic and advertising revenue or deceives users into providing personal information for illegal activities (e.g., fraud or producing counterfeit credit cards). Typosquatters infringe on users' property and privacy and reduce the public's trust in the original brand, which lead to a loss in intellectual property, revenue, and goodwill for brand owners²⁰.

2. Registration of Expired Domain Names

Domain abuse perpetrators can also register a domain name that was formerly used by a brand but has since expired to attract users by leveraging the brand's reputation. When users visit a website linked to an expired domain, they may be provided with information on counterfeit products or links to other IP-infringing websites²¹, enabling perpetrators to make illegal profits.

The two aforementioned domain name infringement types can reduce a brand's market share and damage its goodwill, jeopardizing years of its effort. To protect brands from the considerable damages resulting from domain name infringement, the UN, the EU, and Taiwan have established various policies and dispute resolution systems to minimize the risk of domain name infringement.

III. UN and EU Practices Targeting Domain Name Infringement

The UN WIPO largely focuses on resolving disputes arising from domain name infringement, and the EU has implemented additional preventive measures. The following section introduces the practices of these two organizations.

A. The WIPO

A specialized agency of the UN, the WIPO was established to promote the protection of intellectual property and ensure intellectual properties are utilized in good faith. Currently, the WIPO's main objectives²² are 1. to support intellectual property legislation and policy formulation worldwide; 2. to exchange information and research on intellectual properties; 3. to provide a channel for resolving intellectual property disputes; 4. to provide legal and technical support to developing countries and other countries; and 5. to provide tools for storing, searching for, and using intellectual property information.

In addition to the aforementioned objectives, the WIPO settles disputes over .com TLD names in accordance with the Uniform Domain Name Dispute Resolution Policy (UDRP)²³. The UDRP was formally recognized by the ICANN on October 24, 1999, as a policy regarding disputes arising from domain names and trademarks. Under certain conditions, trademark owners can file a complaint with any domain name dispute resolution agency authorized by the ICANN²⁴.

The UDRP provides convenient, fixed-rate, and efficient (3 months from complaint to closing and arbitration) dispute resolution services in multiple languages²⁵ and has therefore become a key

²⁰ Domain Names—Discussion Paper Challenges and Good Practices from Registrars and Registries to Prevent the Misuse of Domain Names for IP Infringement Activities, EUIPO, March 2021, p. 7.

²¹ Research on Online Business Models Infringing Intellectual Property Rights—Phase 2, EUIPO, October 2017, p. 11.

²² Inside the WIPO, WIPO, (accessed on May 31, 2022). <https://www.wipo.int/about-wipo/en/>

²³ Yong-Lun Liao, Yun-Li Chang and Ren-Jie Li, The Dispute Settlement of Inappropriate Domain Name Registration, Lee and Li Bulletin, January 2000, p. 7.

²⁴ Luke A. Walker, ICANN's Uniform Domain Name Dispute Resolution Policy, *Berkeley Technology Law Journal*, Vol. 15, No. 1, 2000, pp. 289–290.

²⁵ Tackling your Domain Name Disputes at WIPO, WIPO, (accessed on May 31, 2022). <https://www.wipo.int/ip->

instrument for challenging domain name infringement in the age of e-commerce. Since the UDRP was established in 1999, 50,000 domain name disputes—including those related to cybersquatting, abuse, and fraud²⁶—and spanning 180 countries have been filed under this policy, which has afforded the UDRP a level of credibility²⁷.

When the ICANN receives a complaint relating to a domain name dispute, the case is transferred to a team of third-party experts in compliance with the UDRP. If the ICANN decides that the dispute constitutes a case of domain name abuse, cybersquatting, or fraud, the domain name in question is transferred to the dispute petitioner or is removed²⁸. In the event that the ICANN decides the disputed domain name does not constitute a case of abuse or cybersquatting, ICANN complies with the UDRP in rejecting the petitioner's request and supporting the original owner's right to the domain name, providing the owner can give a satisfactory reason why they should retain the domain name²⁹.

The COVID-19 pandemic has not merely changed consumer behavior and promoted the growth of e-commerce but also resulted in a growing number of domain name disputes. In 2021, ICANN handled 22% more domain name disputes than the average of previous years. Complaints were filed from 132 countries with France (938 cases), the United Kingdom (450 cases), Switzerland (326 cases), and Germany (251 cases) topping the list³⁰.

In addition to SLD disputes, the WIPO has arbitrated ccTLD disputes³¹ for 80 countries, including Bahrain (.bh and البحرين) and Saudi Arabia (.sa and السعودية) in 2021. In the future, the WIPO is expected to expand into different domain types to provide victims with a place to file relevant complaints.

B. The EU

The European Registry for Internet Domains (EURid) is an Intellectual Property Office (IPO) established in 2003 that is authorized by the European Commission to manage the registration of .eu TLDs. The EURid's vision is to support the European Digital Single Market by actively working to ensure a trustworthy .eu environment and enabling online multilingualism. As such, the EURid's main responsibilities are to manage domain registration, provide domain search platforms, eliminate suspicious fraudulent domain names, and resolve domain name disputes³². The role of the EURid extends beyond managing domain names in the .eu environment to protecting .eu domain names from abuse. As of February 28, 2022, the EURid had handled 3,728,588 domain name registration applications. According to EURid data, the largest industries by domain name in the .eu environment

[outreach/en/ipday/2021/toptips/domain_names.html](https://www.eurid.eu/en/ipday/2021/toptips/domain_names.html)

²⁶ WIPO's Anti-"Cybersquatting" Service Surpasses 50,000 Cases amid COVID-19 Surge, WIPO, (accessed on May 31, 2022). https://www.wipo.int/pressroom/en/articles/2020/article_0026.html

²⁷ Global brands such as "ladygaga.mobi," "facebookloginhelp.net," "pfizer.com," and "paypallogin.com" are among the domain name disputes filed under the UDRP. Search WIPO Cases and WIPO Panel Decisions, WIPO, (accessed on May 31, 2022). <https://www.wipo.int/amc/en/domains/search/>

²⁸ WIPO Guide to the Uniform Domain Name Dispute Resolution Policy (UDRP), §15, (accessed on May 31, 2022); WIPO Guide to the Uniform Domain Name Dispute Resolution Policy (UDRP), The Administrative Panel Decision, WIPO, (accessed on May 31, 2022). <https://www.wipo.int/amc/en/domains/guide/>

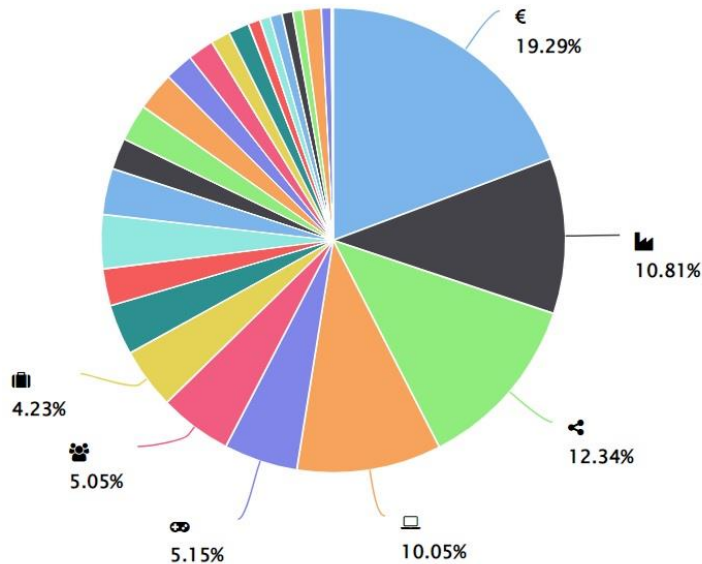
²⁹ WIPO Guide to the Uniform Domain Name Dispute Resolution Policy (UDRP), The Administrative Panel Decision, WIPO, (accessed on May 31, 2022). <https://www.wipo.int/amc/en/domains/guide/>

³⁰ WIPO ADR Highlights 2021, WIPO (accessed on May 31, 2022). <https://mailchi.mp/wipo.int/wipo-adr-highlights-yearly-review-2021>

³¹ Guide to WIPO's Services for Country Code Top-Level Domain Registries, WIPO, Arbitration and Mediation Center, 2021, p.14-16. (accessed on May 31, 2022). <https://www.wipo.int/publications/en/details.jsp?id=4591>

³² Commission Implementing Decision (EU) 2021/1878 of 25 October 2021 on the designation of the .eu top-level domain Registry, EUR-Lex, European Union, October 25, 2021.

as of April 2021 were the trade industry (19.29%) and manufacturing industry (10.81%). Other industries included entertainment, hospitality, and construction³³.



One of the EURid's goals is to create a safe digital environment. To this end, the EURid has developed the following measures to combat domain name abuse.

1. Abuse Prevention Early Warning System

The Abuse Prevention Early Warning System (APEWS) is a system developed by the EURid to combat domain name abuse. The APEWS can evaluate .eu domain names and determine whether the domain has been abused. If the APEWS uncovers cases of domain name abuse, the domain name is publicly displayed as being on "Server Hold" on the EURid's domain name search system ("WHOIS"), and any connected Internet services are terminated until the owner completes a verification process. The owner of the domain name must review the registration information and provide related evidence for the EURid's verification process. If the EURid is unable to verify abuse, the domain name and related Internet services are restored; otherwise, ownership of the domain name is nullified, and the domain name is made available to the public again³⁴.

2. Collaboration with the EUIPO

To combat cybersquatting in .eu environments, the EURid signed a bilateral agreement with the EUIPO in 2016 that focused on sharing information. The EURid pledged to share suspicious domain names with the EUIPO, with both parties adding links to the other party's website on their official websites and search tools³⁵. In 2019, the EURid strengthened bilateral collaboration with the EUIPO

³³ Statistics—Who uses .eu?, EURid, (accessed on May 31, 2022). <https://eurid.eu/en/welcome-to-eurid/statistics/>

³⁴ (accessed on May 31, 2022). <https://eurid.eu/en/register-a-eu-domain/data-quality/>

³⁵ 24.3.1, Explanatory Memorandum to COM(2020)775—Assessment of cooperation of the .eu Registry operator with EUIPO with a view of combating abusive and speculative domain name registrations, pursuant to Article 16 of Regulation (EU) 2019/517, December 2, 2020.

in two steps. First, those applying for a European Union trademark (EUTM) can view trademarks in the .eu environment for registered domain names. If their desired trademarks are still available, the EUTM applicant can register the domain name³⁶. EUTM holders can opt-in to receive alerts when another party registers their EUTM as a .eu domain name. The EURid alerts the EUIPO, and the EUIPO then alerts the EUTM holder³⁷. According to their Planned Activities 2020–2022 memorandum, the EURid and EUIPO are also exploring the possibility of a joint process that allows domain name holders to search the EUIPO listings for trademarks similar to their domain names³⁸.

IV. Taiwan's Practices Targeting Domain Name Infringement

When .tw TLD infringement occurs, the relevant organization must be approached to remedy the situation. Accordingly, the following sections present Taiwan's competent authorities responsible for domain names and their infringement and detail the competent authorities' preventive measures against .tw domain name infringement.

A. Competent Authorities and Services

A neutral nonprofit organization(NPO), the TWNIC is Taiwan's domain name management agency; it was originally under the Ministry of Transportation and Communication but was transferred to the National Communications Commission (NCC) on December 22, 2017. The TWNIC is responsible for .tw domain name services and issuing IP addresses³⁹. The services for .tw domain names include resolving domain name disputes, establishing a .tw domain database (similar to WHOIS), and handling company or agency applications to become TWNIC-authorized registration agencies⁴⁰. The last service indicates that the TWNIC is also an authorization authority and has authorized agencies such as Chunghwa Telecom Company and PChome Online.

B. Domain Name Infringement in Taiwan

A domain name dispute, which involves the management of domain name registration, is often accompanied by trademark infringement or a criminal act. Therefore, this study thoroughly examined the research reports published by the TWNIC and relevant authorities such as the IPO, Ministry of Economic Affairs (MOEA), National Police Agency (NPA), and Ministry of the Interior (MOI) to gain an understanding of domain name disputes in Taiwan, ultimately revealing that domain name trademark infringement has not yet gained its due attention in Taiwan.

1. The TWNIC's *Taiwan Internet Report*

As the organization that oversees domain name management, the TWNIC releases the *Internet Report* every year. The latest report available on its official website was issued in 2020⁴¹. In this report,

³⁶ 25.3.2, 26, Explanatory Memorandum to COM(2020)775—Assessment of cooperation of the .eu Registry operator with EUIPO with a view of combating abusive and speculative domain name registrations, pursuant to Article 16 of Regulation (EU) 2019/517, December 2, 2020.

³⁷ 27., Alerts, Recent cooperation, 26. Availability check, Explanatory Memorandum to COM (2020)775—Assessment of cooperation of the .eu Registry operator with EUIPO with a view of combating abusive and speculative domain name registrations, pursuant to Article 16 of Regulation (EU) 2019/517, December 2, 2020.

³⁸ 28.3.3, Planned activities 2020–2022, Explanatory Memorandum to COM (2020)775—Assessment of cooperation of the .eu Registry operator with EUIPO with a view of combating abusive and speculative domain name registrations, pursuant to Article 16 of Regulation (EU) 2019/517, December 2, 2020.

³⁹ (accessed on May 31, 2022). <https://www.twNIC.tw/about.php>

⁴⁰ (accessed on May 31, 2022). <https://www.twNIC.tw/dnservice.php>

⁴¹ *Taiwan Internet Report 2020*, TNIC, December 2020.

a broad array of topics ranging from the generational gap between Internet users to the time spent browsing websites by users in different age groups, the effect of the COVID-19 pandemic on people's online behavior, the utilization of virtualization in Taiwanese business, and the digital divide are addressed. However, the report fails to describe current domain name disputes in Taiwan. Following a careful review of the *Internet Report* issues released before 2020⁴², we discovered a lack of investigation into domain name infringement both domestically and abroad.

2. IPO Statistics and Annual Reports

The Taiwan IPO is the official Taiwan government body responsible for trademarks and other IP rights. The IPO releases trademark data, including application filings and registration, on a monthly basis. However, as of now, it does not provide domain name trademark infringement statistics⁴³. The IPO also publishes an annual report⁴⁴, which comprises the following seven sections: up-to-date intellectual property filings, reviews and types of services, intellectual property laws, the development of service convenience in an electronically mediated environment, the application of types of industrial properties, international exchange and cross-strait cooperation, and the enforcement of intellectual property rights. No investigations have been conducted exploring domain name trademark infringement in Taiwan.

3. The NPA's Statistics List

As the highest law enforcement agency, the NPA maintains a statistics list⁴⁵ that is updated every 2 weeks⁴⁶. The statistics list provides a comprehensive picture of cybercrime⁴⁷. The list released by the NPA in the seventh week of 2021 indicated a yearly average of 12,000 to 15,000 cases of cybercrime in the period 2016–2020. A total of 14,997 cybercrime cases were reported in 2017, with cybercrime reaching a record high at this time. Major cybercrimes could be classified into crime types, namely fraud, offenses against reputation and credit, offenses against computer users, and intellectual property infringement⁴⁸; these crime types accounted for 72%–82% of cybercrime⁴⁹.

In the 48th week of 2021, the NPA published an updated statistics list titled *Police Investigating Intellectual Property Crime for the Period January to October 2021*. Intellectual property crime refers to any criminal act that involves manufacturing, selling, or trafficking counterfeit or pirated goods or the criminal theft of trade secrets⁵⁰. A total of 4,946 intellectual property crime cases were reported in 2016, which was the highest rate for the period 2016–2020. Regarding criminal offenses, the statistics list only stated that "...in terms of IP infringement, the online infringement of intellectual property rights through over-the-top media services, digital cloud platforms, and online technology has risen, whereas cases of unauthorized documents, Digital Versatile Discs(DVDs), or other physical media

⁴² *Taiwan Internet Report* from 2002 to 2022: (accessed on May 31, 2022). https://twNIC.tw/stat_n.php

⁴³ (accessed on May 31, 2022). <https://topic.tipo.gov.tw/trademarks-tw/np-581-201.html>

⁴⁴ (accessed on May 31, 2022). <https://www.tipo.gov.tw/tw/cp-177-483190-adbf7-1.html>

⁴⁵ (accessed on May 31, 2022). <https://www.npa.gov.tw/ch/app/data/list?module=wg057&id=2218>

⁴⁶ This statistics list used to be released on a weekly basis before April 2021.

⁴⁷ According to the definition provided by the NPA, cybercrime refers to "any crimes that are committed with a computer," NPA Statistics List (week 7, 2021), February 17, 2021, p. 3. Downloaded from (accessed on May 31, 2022). <https://www.npa.gov.tw/ch/app/data/doc?module=wg057&detailNo=816159848872833024&type=s>

⁴⁸ According to the definition provided by the NPA, intellectual property infringement consist of violations of copyright and trademark.

⁴⁹ Ibid. NPA, Supra note 47., p.1.

⁵⁰ The Statistics List Released by the NPA (week 48, 2021), December 1, 2021, p. 1. Downloaded from (accessed on May 31, 2022). <https://www.npa.gov.tw/ch/app/data/doc?module=wg057&detailNo=915389421547687936&type=s>

have been declining over the years. A large proportion of cybercrime was related to BitTorrent programs, online image theft, and software piracy”⁵¹.

With no mention of cybersquatting or typosquatting in the two aforementioned statistics lists released by the NPA, whether these two forms of domain name infringement occur in Taiwan or whether the NPA has paid sufficient attention to their emergence remains unclear. Regardless of the lack of data, the rise of crime in the virtual world has attracted attention from concerned authorities.

C. Prevention of .tw TLD Infringement

Taiwan’s central government has worked jointly with a private organization to prevent abuse of the ccTLD .tw.

1. The TWNIC’s Domain Name Dispute Resolution Policy

To address disputes arising between a registrant and third party (i.e., complainant) regarding a certain domain name, the TWNIC formulated the Domain Name Dispute Resolution Policy⁵² (hereinafter referred to as “the Policy”) and the Rules for the TWNIC Domain Name Dispute Resolution Policy⁵³ (hereinafter referred to as “the Rules”) in 2011 to achieve effective and efficient alternative dispute resolution beyond litigation⁵⁴. Through this dispute resolution mechanism, the TWNIC remains neutral when handling domain name disputes (Article 13 of the Policy); the Science and Technology Law Institute and Taipei Bar Association act as the TWNIC-authorized agencies that handle complaints in compliance with the Policy and the Rules. To successfully resolve disputes, these two organizations host a panel of one to three experts⁵⁵ on a case-by-case basis. On the basis of their decision, the registrant’s applied domain name is either nullified, or the said domain name is transferred to the complainant (as per Article 13 of the Policy). Because the organizations that handle these conflicts are not competent authorities, the effect of dispute resolution is only recognized among the three parties: the TWNIC, registrant, and complainant. Therefore, the complainant or registrant may still file a lawsuit in the courts to settle the dispute of the domain name (as per Article 10 of the Policy).

2. Government’s Investigation Systems for Recording and Preventing Cybercrime

In this study, we analyzed the government’s systems in relation to cybercrime investigation and prevention from the organizational and implementation perspectives. First, the Executive Yuan established the National Information and Communication Security Taskforce (hereinafter referred to as “the Security Taskforce”) to improve overall information and communication security and to facilitate the construction of a healthy environment for national information and communication security. Two systems, namely the Internet Security Suite and Internet Crime Investigation and Prevention, are affiliated with and supervised by the Security Taskforce. The Internet Security Suite is overseen by the Department of Cybersecurity, Executive Yuan, and is responsible for integrating resources and implementing policies to promote cybersecurity. Internet Crime Investigation and Prevention is cosupervised by the MOI and Ministry of Justice (MOJ) and was established to prevent

⁵¹ Ibid, p. 2.

⁵² Last revised on November 13, 2018.

⁵³ Last revised on December 3, 2020.

⁵⁴ (accessed on May 31, 2022). https://www.twnic.tw/dnservice_argue_method_method.php

⁵⁵ (accessed on May 31, 2022). <https://www.twnic.tw/newdn/dn/Panel.html>

Internet crime.⁵⁶ The Cybercrime Prevention Division was set up under the framework of cybercrime investigation and prevention and is responsible for analyzing and conducting research on responses to cybercrime. The Telecommunications Fraud and Cybercrime Prevention Task Group (hereinafter referred to as “the Task Group”) was also formed by the NCC and is aided by the MOJ and Criminal Investigation Police Office, NPA, MOI. The Task Group convenes meetings with telecommunications providers on an irregular basis to assist in analyzing types of telecom fraud and to guide telecom service providers in adopting appropriate measures to prevent fraud⁵⁷.

Second, the NPA established the 165 Anti-Fraud Website and 165 Anti-Fraud and Internet Scam Hotline for the victims of online scams by creating a list of potentially illegal websites and then reviewing their legitimacy. The NPA also issues official documents to telecom service providers demanding that they install a Domain Name System Response policy zone(DNS RPZ) firewall on the suspicious website for 2 weeks⁵⁸. The aforementioned measure, which concerns the fundamental rights of the public, is prescribed explicitly by the law. Some studies have reported that such a measure can be conducted in accordance with the provisions regarding seizure under the Code of Criminal Procedure⁵⁹; that is, when legal requirements for seizure are met, the prosecutor and police agencies may demand the Internet service provider establish DNS RPZ firewalls for the purpose of seizing the domain name. In view of this, we proposed the following argument: “An item that can be used as evidence or that is subject to confiscation,” as stipulated in Paragraph 1 of Article 133 under the Code of Criminal Procedure, shall be exclusively a tangible object; however, the legal nature of the domain name, explicated either as contractual rights⁶⁰ or as intangible property⁶¹, is deemed intangible. Therefore, a domain name cannot be the object of seizure and such a measure lacks a legal basis. To address cybercrime disputes and combat digital crimes, the Taiwan High Prosecutors Office established the Supervisory Center for Cybercrime Investigation in 2021. This center is mainly in charge of formulating a plan to legalize the seizure of domain names and implementation of DNS RPZ firewalls⁶² to assist in protecting human rights and in settling disputes about the application of law.

⁵⁶ Articles 1 and 5 of the Direction for the Establishment of National Information and Communication Security Taskforce.

⁵⁷ Yao-Shiung Chen, *A Special Report on State-Level Information Security and the Role and Function of the Investigation Bureau in Improving Information Security*, April 2020, p. 1.

⁵⁸ Official document No. 1100101222 issued by the Criminal Investigation Police Office on August 20, 2021.

⁵⁹ Chi-Hong Tsai, The Digital Transformation of Justice—Domain Name Seizure and Forfeiture, *Criminal Policies and Crime Prevention*, Vol. 31, April 2022, pp. 210–211; Jhe-Cyun Jhu, A Preliminary Study on the Judicial Dilemma of the Seizure of Domain Names, *Justice Newsletter*, Vol. 3097, March 11, 2022, pp. 3–5.

⁶⁰ In theory, rather than having rightful ownership of a domain name, a domain name registrant is entitled to the right of use of the domain name, which is based on “the contract for the use of the domain name.” According to such a contract, only the parties in the contract may claim the right of ownership of the domain name, which is not exclusive. Kuo-Chu Yang, *supra* note 5, pp. 51–52.

⁶¹ We identified the following two arguments on the legal nature of a domain name. One view holds that domain names have economic value and can be used to identify the source of information. Similar to a recognizable trademark that distinguishes a product from all others of its type, when a domain name is registered, it is exclusively used by the registrant. A domain name must therefore be protected through intellectual property rights. Ming-Yang Shieh, Lecture 1: An Initial Discussion about Intellectual Property Rights. *The Taiwan Law Review* (Trial Issue), October 2002, p. 110. The second view maintains that the same domain name cannot be acquired through repeated registration. In addition, a domain name may be transferred to another domain name registrar at any time. Accordingly, holding a domain name is as exclusive as rights in rem and even transcends the privity of obligatory rights. Thus, it shall be legally categorized as an intangible property. Chi-Hong Tsai, *supra* note 59, p. 206.

⁶² Integrating Investigation on Cybercrime: The Supervisory Center for Cybercrime Investigation Is Founded by Taiwan High Prosecutors Office (press release by Taiwan High Prosecutors Office): (accessed on May 31, 2022). <https://www.tph.moj.gov.tw/4421/4509/4515/922048/post>

V. Conclusions

Viewed in comparison with the cooperative mechanism developed by the EURid and EUIPO, Taiwan's government and authorized organization the TWNIC have not yet developed a comprehensive system for preventing the infringement of domain names under a cooperative model led by the competent authority. We make the following recommendations. First, the TWNIC must connect the WHOIS database to the Trademark Search System and Online Application System of the Taiwan IPO by emulating the cooperative model adopted by the EURid and EUIPO to prevent future domain name trademark infringement. Second, the TWNIC is advised to create a website for monitoring the use of the Taiwan ccTLD .tw. When any suspicious domain name activity is detected, the TWNIC must suspend the contract with the domain name owner and report the suspicious activity to investigative agencies for follow-up.

Additionally, we urge police departments, which are the first line in crime control, to publish statistics lists about domain-name-related crime. Police departments are also encouraged to work with schools, businesses, and government agencies to increase public awareness of domain name crime and to implement a series of measures and policies aimed at preventing and combating such crime in the future.

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RE-THINKING CELEBRITY DOMAIN NAME ARBITRATION IN INDIA: ENFORCING THE RIGHT OF PUBLICITY THROUGH PRIVATE DISPUTE RESOLUTION *

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Abstract

In the recent past, there have been several cases of ‘cyber-squatting’ of celebrity names by Indian domain name holders. Almost decade ago, former US President and entrepreneur Donald Trump sought damages to the tune of USD 400000 against a Brooklyn-based man for having acquired and registered domain names ‘trumpindia.com’ and ‘trumpmumbai.com’ after it was announced in 2007 that the real estate mogul had plans to set up Trump-hotels in India in Delhi, Mumbai and Bangalore. Even before that, Hollywood actress and Academy Award winner, Julia Roberts faced a slew of cyber-squatters from India, having attempted to acquire domain name registration of her own, very identifiable name. More recently, Mark Zuckerberg paid a sum of USD 700 to purchase the domain “maxchanzuckerberg.com” from a boy in Kochi, who proudly admitted to having registered not one, but more such names, even “hashtagging” his Facebook status update with “#cyber_squatting!”.

Most cases of domain name cyber-squatting are resolved via the INDRP dispute resolution rules, an alternative dispute resolution mechanism for ‘.in’ domain names in India; or at the WIPO Arbitration and Mediation Centre, following the UDRP Rules. However, this paper seeks to address the question of right of publicity of the celebrities whose names have been misappropriated by the cyber-squatters. While remedies against unlawful taking of domain names may be claimed under Trademark Law or the common law passing off doctrine, more often than not, these cases also raise concerns of right of publicity. For example, in the case of the “tatacyrusmistry.com” domain name, the WIPO Tribunal did, albeit in passing, bring up the rights of publicity of the plaintiff, in furtherance of observations of the Delhi High Court (‘Delhi HC’). The right of publicity, most simply put, protects any individual’s marketable image or persona. While the right has always been envisaged as an economic right in India, similar to, however distinct from the passing -off remedy, Justice Kaul, in his separate opinion in the Supreme Court’s Puttaswamy decision, (that clarified the position of the right to privacy as a fundamental right guaranteed under Part III of the Constitution), went a step further. He elevated the right of publicity, otherwise having been previously enunciated only as a common law right,¹ to a being a facet of the fundamental guarantee of privacy.

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¹ Titan Industries Ltd.v M/s Ramkumar Jewellers, CS(OS) No.2662/2011, Delhi HC Decision of April 26, 2012 (“Titan

The conception of fundamental rights has always carried with itself its inherent inalienability, as opposed to the conception of property rights, which carries with itself a distinct characteristic of transferability. Thus, while most property disputes are arbitrable, including private disputes in relation to intellectual property,² questions of fundamental rights are NOT open to adjudication by private methods, as they relate to rights in rem and not rights in personam.³

This paper shall thus address the nature of the right of publicity, and whether Justice Kaul made an inadvertent error in equating an economic *in personam* interest to a fundamental right, an *in rem* interest, that is otherwise non-arbitrable, in light of the celebrity domain name arbitration cases. In reaching this conclusion, the paper shall look at both the primary rules and case rulings under the WIPO-UDRP, the auDRP and the INDRP as well as court decisions in India on personal name trademarks and passing off, alongside other case studies of actual practice and secondary materials such as other scholarly works on personality rights and personal domain name arbitration; thereby seeking to propose a methodology of how and why private arbitral tribunals can address right of publicity claims, as they continue to do.

Keywords: Arbitrability of IPR, Celebrity Domain Names, Cyber Squatting, Right of Publicity

1. Introduction

*“The internet is all-pervasive. With the internet today transcending all national boundaries, the protection of IP and penalising its infringement over the ‘world-wide-web’ has become even more difficult, given the territorial nature of the grant of the intellectual property right.”*⁴ In the fast-growing cyber space, it comes as no surprise that with an increase in e-commerce and e-commerce platforms on the World Wide Web, cyber-squatting is also on the rise, especially in India.⁵ It came to be reported in 2016 that over 700 domains with ‘.in’ and ‘.co.in’ were handed over to legitimate owners from illegal registrants in the past decade by NIXI – the National Internet Exchange of India (NIXI), an autonomous regulator for domain names in India.⁶ While the aforementioned is the more familiar, traditional and rampant form of cybersquatting, that includes *“the registration used for trafficking in the domain name corresponding to the trademark of another with a bad faith intent to profit from that trademark of another,”*⁷ it has also come to be increasingly observed that personal names of well-known persons – be it in the sporting, entertainment or even the public service industries (politics included), are being registered and held by unauthorised persons. In the recent past, there have been several cases of ‘cyber-squatting’ of Indian celebrity names and by Indian domain name holders. It

case”); D.M. Entertainment Pvt. Ltd. v Baby Gift House and Ors, CS(OS) 893/2002, Delhi HC Decision of April 29, 2010 (“Daler Mehndi case”)

² Eros International v. Telemax Links India, 2016 SCC OnLine Bom 2179.

³ Booz Allen & Hamilton Inc v. SBI Home Finance Limited & Ors., AIR 2011 SC 2507 (“Booz Allen”)

⁴ Aakanksha Kumar, *Internet Intermediary (ISP) Liability for Contributory Copyright Infringement in USA and India: Lack of Uniformity as a Trade Barrier* 19(4) JIPR 272 (July 2014).

⁵ Rasul Bailey, As e-commerce grows, so does cybersquatting, ECONOMIC TIMES (January 21, 2016) http://economictimes.indiatimes.com/articleshow/50661553.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

⁶ *Ibid.*

⁷ Cybersquatting On Personal Names, Traverse Legal (September 27, 2013) <https://www.traverselegal.com/blog/cybersquatting-on-personal-names/>

was over half a decade ago that former US President Donald Trump sought damages to the tune of USD 400000 against a Brooklyn-based man for having acquired and registered domain names ‘trumpindia.com’ and ‘trumpmumbai.com’ after it was announced in 2007 that the real estate mogul had plans to set up Trump-hotels in India in Delhi, Mumbai and Bangalore.⁸ Even before that, Hollywood actress and Academy Award winner Julia Roberts faced a slew of cyber-squatters from India, having attempted to acquire domain name registration of her own, very identifiable name.⁹ More recently, Mark Zuckerberg paid a sum of USD 700 to purchase the domain ‘maxchanzuckerberg.com’ from a boy in Kochi, who proudly admitted to having registered not one, but more such names, even “hash tagging” his Facebook status update with “#cyber_squatting!”.¹⁰

Most cases of domain name cyber-squatting are resolved via the INDRP (.IN Domain Name Dispute Resolution Policy) dispute resolution rules, an alternative dispute resolution mechanism for ‘.in’ domain names in India; or at the WIPO’s (World Intellectual Property Organisation) Arbitration and Mediation Centre, following the UDRP (Uniform Domain-Name Dispute-Resolution Policy of the ICANN - Internet Corporation for Assigned Names and Numbers) Rules. However, this paper seeks to address the question of the other right that becomes entangled in such cases of cyber-squatting, i.e. the *right of publicity* of the celebrities whose names have been misappropriated by the cyber-squatters. Thus, while remedies against unlawful taking of domain names may be claimed under the trademark law or the common law passing off doctrine, more often than not, these cases also raise concerns of *right of publicity*. On August 24, 2017, the Supreme Court of India, issued a seminal decision¹¹, clarifying finally, the position of the *right to privacy* under Indian law as a fundamental right of all citizens, guaranteed under Part III of the Constitution. In his separate opinion, Justice Kaul went a step further and elevated the *right of publicity*, otherwise having been previously enunciated only as a common law right¹² to a being a facet of the fundamental guarantee of privacy. It is with this opinion that the researcher chooses to respectfully disagree, while highlighting specifically, cases where personal names have seen ADR procedures successfully adopted in domain name cyber-squatting matters.

The above argument comes in light of the fact that the conception of fundamental rights has always carried with itself its inherent inalienability, as opposed to the conception of property rights, which carries with itself a distinct characteristic of transferability. The *right of publicity*, as distinct from its privacy moorings¹³, is now recognised as a stand-alone right in several states in the USA¹⁴ and also as a manifestation of the common law tort of passing off, in Indian case law interpretation¹⁵. It has thus been enunciated as an intellectual property right, capable of licensing – as was the

⁸ Laura Ly, Trump seeks damages in 'cybersquatting' case, CNN. <https://edition.cnn.com/2013/03/31/us/new-york-trump-lawsuit> (April 1, 2013)

⁹ Arik Hesseldahl, Legal battle being waged over Juliaroberts.com, FORBES <https://www.forbes.com/2000/06/05/mu3.html> (June 5, 2000)

¹⁰ Mark Zuckerberg Buys Domain Name from Engineering Student in Kochi, TIMES OF INDIA (April 16, 2016) http://timesofindia.indiatimes.com/articleshow/51847179.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

¹¹ K.S. Puttaswamy and Anr v. Union of India (2017) 10 SCC 1 (“Puttaswamy Case”).

¹² Refer Titan case, Daler Mehndi Case, *Supra* note 1.

¹³ Sheldon W Halpern, *The Right of Publicity: Maturation of an Independent Right Protecting the Associative Value of Personality*, 46 HASTINGS LAW JOURNAL 853 (1995), See also Opinion of Circuit Judge Frank in Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc, 202 F.2d 866 (2d Cir. 1953), at para 2. “We think that, in addition to and independent of that right of privacy (which in New York derives from statute), a man has a right in the publicity value of his photograph, i. e., the right to grant the exclusive privilege of publishing his picture, and that such a grant may validly be made "in gross," i. e., without an accompanying transfer of a business or of anything else.” (“Haelan case”)

¹⁴ “Currently, 25 states have some form of right of publicity statute, with Louisiana, Alabama, Arkansas, New York and South Dakota among the most recent to pass a Right of Publicity legislation.” Right of Publicity, (accessed Sep 23, 2022) <https://rightofpublicity.com/statutes>

¹⁵ Titan case, *Supra* note 1.

background in the *Titan case* wherein the Bachchans had transferred their *right of publicity* to Titan for their endorsement of the Tanishq Jewellery brand. In India, the test case for whether a subject matter is objective arbitrable (objective arbitrability (or “arbitrability *ratione materiae*”) focuses on whether a certain subject-matter can be settled through arbitration), is the Supreme Court decision in *Booz Allen*¹⁶, wherein the right in question in the dispute to be referred to arbitration, needs to pass muster of the *in rem* versus *in personam* test. The *right of publicity*, as enunciated in India, by its very nature operates as an *in personam* right. Thus, its elevation to a fundamental right runs the risk of not just affecting its transferability, but also shifting a large chunk of dispute resolution cases away from the domain name ADR processes, back to the constitutional courts!

This paper, in the first part, shall look at a brief overview of the UDRP and the INDRP in relation to the types of disputes they cover and their applicability to personal name-domain name disputes, while also looking at sample cases (if any) that have dealt with, or addressed *right of publicity* issues. Part II of the paper shall look at the test for subject matter (objective) arbitrability in India, and case law that has addressed intellectual property arbitration in India. Part III of the paper shall look at the nature of the right of publicity in India and make the case for continuing ADR of *right of publicity* claims, as opposed to its enforcement as a fundamental right in the constitutional courts.

2. Personal name -Domain Name ADR: A Brief Overview

Most of the cases of personal domain name cyber-squatting are resolved under the trademark law in India, as unlike the USA¹⁷, India does not possess a special anti-cyber-squatting legislation. However, for a personal name owner to succeed against a cyber-squatter, it must be proved that there exists either a registered trademark in the personal name to claim statutory infringement, or that there are trademark rights in the nature of sustained goodwill to succeed in a common-law passing off action. Furthermore, instead of adopting the course of protracted trademark enforcement litigation, the legitimate owner of the personal name-domain name can also instead choose to seek an administrative remedy – an alternative dispute resolution (ADR) mechanism through the UDRP – which is the WIPO administered, ICANN mandated Policy. The UDRP is a global online dispute resolution procedure, incorporated into domain name registration agreements by reference such that domain name registrants are mandatorily bound to submit to an online arbitration if a third party complains about their *registration or use* of the domain name.¹⁸ Complaints are premised on the complainant’s assertion of trademark rights, compulsorily, corresponding with the relevant domain name.¹⁹

However, it may not always be the case that all legitimate personal names also have the requisite trademark rights to prove a case under the UDRP. In fact, this is a main distinguisher between claiming domain name protection for personal name rights under the UDRP, *versus* similar claims being brought under the core *right of publicity* regime. This has been explained in the WIPO Overview of WIPO Panel Views on Selected UDRP Questions²⁰ to the effect that merely claiming ‘fame’ in a name, without the corresponding ‘trademark-like’ use being evidenced, would dis-entitle a celebrity plaintiff from bringing a UDRP cyber-squatting action.²¹ The WIPO Panel discussed this distinction in *The*

¹⁶ *Supra* note 3

¹⁷ The United States enacted the Anti-cybersquatting Consumer Protection Act (ACPA), 15 U.S.C. § 1125(d) in 1999. A detailed discussion on the ACPA is beyond the scope of this paper.

¹⁸ UDRP, Para 1, *available at* : <https://www.icann.org/resources/pages/policy-2012-02-25-en>

¹⁹ UDRP, Para 4.

²⁰ WIPO Overview of WIPO Panel Views on Selected UDRP Questions, Third Edition (“WIPO Jurisprudential Overview 3.0”) *available at* : <https://www.wipo.int/amc/en/domains/search/overview3.0/#item13>

²¹ *Id.* At para 1.5.2 – “The UDRP does not explicitly provide standing for personal names which are not registered or otherwise protected as trademarks. In situations however where a personal name is being used as a trademark-like identifier in trade or commerce, the complainant may be able to establish unregistered or common law rights in that

*Estate of Cheri Blum v. k, j*²², (“Cheri Blum Case”) answering the question of when and how can an un-registered personal name claim *trademark* rights under common law. It is pertinent to note here that the WIPO-UDRP Panel still requires showing trademark rights. The Panel has further observed: - “*distinction is made between trademark protection and the right of publicity. The difference, as noted in J. Thomas McCarthy’s well-known treatise, largely stems from the historical fact that the right of publicity had its origins in the law of “privacy,” whereas the law of trademarks had its origins in the tort of fraud. While the key to the right of publicity is the commercial value of a human identity, the key to the law of trademarks is the use of a word or symbol in such a way that it identifies and distinguishes a commercial source. Thus, while a trademark identifies and distinguishes a commercial source of goods and services, the “persona” protected by right of publicity law identifies a human being.*”²³

Thus, personal names may or may not really be ‘trademarked’.²⁴ Instead, the emerging right that protects personal names, is either the statutorily recognised (as in some states in USA) or common law, *sui generis* right – the *right of publicity*. The *right of publicity*, most simply put, protects any individual’s *marketable image or persona*. This formulation has been most succinctly put forth by McCarthy in his seminal work as – “*The right of publicity is not merely a legal right of the “celebrity,” but is a right inherent to everyone to control the commercial use of identity and persona and recover in court damages and the commercial value of an unpermitted taking.*”²⁵

In India, the ‘.INRegistry’ (set up by NIXI, the National Internet Exchange of India), functions as an autonomous body with the primary responsibility of maintaining the ‘.IN ccTLD’ and ‘*ensuring its operational stability*’²⁶. Registration can be sought and is made available to all parties from anywhere in the world, without requiring any other additional criteria to be fulfilled. The Registry had also published the INDRP -IN Dispute Resolution Policy - which is also an online arbitration mechanism, that explains what types of disputes can be brought, and the criteria that will be considered by the arbitrators.²⁷ Interestingly, while the policy only covers “*a dispute between the Registrant and the Complainant, arising out of the registration and use of the .in Internet Domain Name*”²⁸ it is not as restrictive as the UDRP, in that it does not mandate trademark rights to be shown by the complainant.

Para 4 of the INDRP provides thus:

“Types of Disputes

name for purposes of standing to file a UDRP case where the name in question is used in commerce as a distinctive identifier of the complainant’s goods or services.

Merely having a famous name (such as a businessperson or cultural leader who has not demonstrated use of their personal name in a trademark/source-identifying sense), or making broad unsupported assertions regarding the use of such name in trade or commerce, would not likely demonstrate unregistered or common law rights for purposes of standing to file a UDRP complaint”.

²² WIPO Arbitration and Mediation Center, Case No. D2006-0103, *citing* Julia Fiona Roberts v. Russell Boyd, WIPO Case No. D2000-0210; Jeanette Winterson v. Mark Hogarth, WIPO Case No. D2000-0235; Dr. Michael Crichton v. In Stealth Mode, WIPO Case D2002-0874; Daniel C. Marino, Jr. v. Video Images Productions, et al. WIPO Case No. D2000-0598; Israel Harold Asper v. Communication X Inc, WIPO Case No. D2001-0540; Ahmanson Land Company v. Save Open Space and Electronic Imaging Systems, WIPO Case No. D2000-0858; and Ahmanson Land Company v. Vince Curtis, WIPO Case No. D2000-0859.

²³ *Id.* at para 6.1.

²⁴ Jacqueline D. Lipton, *Celebrity in Cyberspace: A Personality Rights Paradigm for Personal Domain Name Disputes*, 65 WASH. & LEE L. REV. 1445, 1449. (2008).

²⁵ J. THOMAS MCCARTHY, RIGHTS OF PUBLICITY AND PRIVACY § 1:3 (2nd ed. 2005).

²⁶ Read more about the .INRegistry, here - <https://www.registry.in/about/in-registry>

²⁷ The .IN Domain Name Dispute Resolution Policy (INDRP), available at:

<https://www.registry.in/policies/dispute-resolution>

²⁸ INDRP, Para 2.

Any Person who considers that a registered domain name conflicts with his legitimate rights or interests may file a Complaint to the .IN Registry on the following premises:

*(i) the Registrant's domain name is identical or confusingly similar to a **name**, trademark or service mark in which the Complainant has rights;*

(ii) the Registrant has no rights or legitimate interests in respect of the domain name; and

(iii) the Registrant's domain name has been registered or is being used in bad faith.

The Registrant is required to submit to a mandatory Arbitration proceeding in the event that a Complainant files a complaint to the .IN Registry, in compliance with this Policy and Rules thereunder."

Thus, the INDRP does allow a complainant to show interest in a 'name' and not necessarily that the 'name' be a registered trademark. However, the pitfall of the INDRP remains that it is only for '.in' domain names. On the contrary, the UDRP is broader in scope, with its coverage including "second-level domain name registrations in the following gTLDs: .aero, .asia, .biz, .cat, .com, .coop, .info, .jobs, .mobi, .museum, .name, .net, .org, .pro, .tel and travel. The UDRP also applies to all New gTLDs."²⁹

While the decisions under the INDRP till date have not addressed the question of the *right of publicity* in personal names of famous persons, there have been decisions that have addressed the trademark rights in well-known personal names. For example, in *Kenneth Cole Productions Inc v. Viswas Infomedia* ³⁰, the NIXI arbitral tribunal held that it was not necessary for the complainant to have a registered domain name bearing the well-known personal name and that the registrant's use and registration of the domain name <kennethcole.in> was in bad faith, as it wholly incorporated the personal name registered trademark of the complainant. Earlier in the same year, in the case of *G.A. Modefine S.A. v. Naveen Tiwari trading as MKHOJ*, ³¹ the sole arbitrator held that when the complainant had been trading under registration of personal name "ARMANI", and given the fact that it had acquired well-known status, the mere fact of non-renewal of disputed domain name <armani.co.in> in 2007 by the complainant had not entitled the Respondent to adopt, register and use it. The sole arbitrator held that "Even in the absence of prior adoption of disputed domain name <armani.co.in> the Complainant is entitled to take action against the Respondent. It is because the disputed domain name <armani.co.in> wholly incorporates the prior registered well-known trademark ARMANI of the Complainant."³² Similarly, in the case of *Ray Marks Co. LLC v Rachel Ray Techniques Pvt. Ltd*³³ the sole arbitrator transferred the disputed domain name <RACHELRAY.IN> to the complainants, on the finding that a mere spelling change was not enough to remove the likelihood of confusion based on the visual and phonetic similarity. Furthermore, the tribunal found that given that Ms. Rachel Ray was a well-known television personality, celebrity chef, talk show host and author, "that only purpose for the registration of the disputed domain name was to capitalise on the fame and reputation of Complainant and to make monetary benefit. The Respondent has got registered and used the disputed domain name in bad faith."³⁴

²⁹ Domain Name Dispute Resolution Service for Generic Top-Level Domains, WIPO available at: <https://www.wipo.int/amc/en/domains/gtld/>

³⁰ Kenneth Cole Productions Inc v. Viswas Infomedia Respondent, NIXI Award dated April 10, 2009.

³¹ G.A. Modefine S.A. v. Naveen Tiwari trading as MKHOJ, NIXI Award dated February 20, 2009.

³² *Id.* at para 5.16.

³³ Ray Marks Co. LLC v Rachel Ray Techniques Pvt. Ltd., NIXI Award dated July 9, 2011.

³⁴ *Id.* at para .21.

The WIPO -UDRP cases, specifically in relation to name rights of Indian famous persons, are equally intriguing. A few have if not directly, then in passing, addressed the question of *right of publicity* (this is in comparison to personal name as domain name cases of American famous persons being discussed under both trademark as well as the *right of publicity* regimes; distinguishable from each other, by the WIPO UDRP Panel³⁵). The most relevant case on this point relates to the disputed domain name <barkhadutt.com>³⁶. Famous Indian TV journalist and public figure, Barkha Dutt unfortunately found that her name had been cyber-squatted on by the respondent who claimed that her name wasn't distinctive, as it comprised of two Sanskrit words, combined to mean "rain/life giving". The WIPO sole arbitrator, while finding for the complainant, alluded to Barkha Dutt's name being famous, and that due to her easy public identifiability her consistent use of her name – the name had trademark status. Furthermore, the WIPO Sole arbitrator mentioned that – "*It is well recognized that a celebrity is entitled to the right of exploiting the economic value of his/her name and fame. Publicity rights are recognized as genre of intellectual property rights and are considered a reward or incentive for the celebrity's work, which can be used by the celebrity to derive monetary benefits through endorsements or merchandising products or services. Such rights are assignable and inheritable rights...The right to commercially use or exploit one's own name, vests with the person who has worked to create the fame and can lawfully restrict any other third party from exploiting that fame for commercial purposes.*"³⁷

Another interesting case, that forms part of a series of disputes regarding the Tata and Cyrus Mistry name-trademarks and domain names, relates to the disputed domain name - <tatacyrusmistry.com>.³⁸ The complainants had armed themselves with an earlier Delhi HC order granting *ex parte ad interim* injunction in their favour in the matter of *Tata Sons Ltd. & Anr. v. Mr. Dharmendrai.*³⁹ The defendant in that case had got registered the domain name <cyruspallonjimistry.com> on November 24, 2011, i.e., a day after the complainant's official public announcement of the appointment of Mr. Cyrus Mistry as its Deputy Chairman. The Delhi HC restrained the defendant from using the names Cyrus Pallonji Mistry or any other deceptively similar variant thereto amounting to invasion of the right to publicity/privacy of Mr. Mistry. The WIPO arbitral tribunal accepted the reliance on this case, and while the final ruling did not address the *right of publicity*, nonetheless, the arguments led by the complainants were entertained.⁴⁰

The aforementioned WIPO dispute arose *before* the Delhi HC decision in *Tata Sons Limited & Anr v. Aniket Singh*⁴¹. The Delhi HC matter dealt with two different domain names, viz. <cyrusmistry.co.uk> and <cyrusmistry.com>, wherein the plaintiffs, *inter alia*, sought a remedy against continued infringement of *right of publicity*. Citing the *Titan* and *Daler Mehndi* cases, the court recognised the *right of publicity* as a facet of the IP rights possessed by the Plaintiff and found that the continued use and registration by the defendant of the aforementioned domain names, was "*with the mala-fide and ulterior motive of holding the Plaintiffs to ransom and thereafter with the evil intention of extorting huge amounts of money from the plaintiffs...Such acts of the defendant amount to invasion of the right to publicity/privacy rights of Mr. Mistry, as well as passing off in right to protect his name, persona or anything emanating out of these as enshrined in Article 21 of the Indian Constitution... it is a well settled position of law as has been upheld in a catena of judgments and judicial pronouncements of this court as well as of the Supreme Court that trademark law today extends to cover the Internet and that domain names deserve protection just like trademark and that personal*

³⁵ Refer Cheri Blum Case, Supra note 22.

³⁶ Ms.Barkha Dutt v. Easyticket, WIPO Arbitration and Mediation Center, Case No D2009-1247.

³⁷ *Id.* at para 6.C

³⁸ Tata Sons Limited v. Deep Bhasin/PrivacyProtect.org, WIPO Arbitration and Mediation Center, Case No. D2012-2188.

³⁹ Tata Sons Ltd. & Anr. v. Mr. Dharmendra, CS(OS) No. 2963/2011.

⁴⁰ Tata Sons Limited v. Deep Bhasin/PrivacyProtect.org, Supra note 38 at para 5(A).

⁴¹ Tata Sons Limited & Anr v. Aniket Singh, CS(OS) 681/2012, Delhi HC Decision dated November 17, 2015.

*names forming apart thereof constitute no exception. The same is necessary in order to prevent cyber-squatting or trafficking or trading in domain names or marks, involving well-known trademarks/personal names.”*⁴²

An interesting parallel to draw at this juncture is Australia – that does not recognize any stand-alone *right of publicity* – either in statute or in common law. Australia’s .au Dispute Resolution Policy (auDRP), of the auDA (.au Domain Administration Limited. Rule 4(1)(a) reads *identical* to the INDRP, in that it requires submitting to the mandatory procedure if:

“(i) your domain name is identical or confusingly similar to a name [Note 1], trademark or service mark in which the complainant has rights; and...

...

Notes:

[1] For the purposes of this policy, auDA has determined that a "name ... in which the complainant has rights" refers to:

...

b) the complainant's personal name.”

This seems to, in plain reading of the text suggest that, even under the auDRP, like the UDRP, *trademark-style* rights must be shown, and claims of rights in famous persons’ personal names being used without authorization; without themselves having used the name as a trademark, would not lead to a successful claim. However, importantly, when the Australian domain names decisions are considered, they have even recognised rights in personal names where the complainant had not traded under his/her name; or where the complainant had no common law trademark rights by showing trademark-style use in the course of a business or vocation; or registered trademark rights. This is illustrated best by the decision in *Shane Keith Warne v Sure Thing Services Pty Ltd*,⁴³. The disputed domain names <warne.com.au> and <warney.com.au> were claimed to have led to the creation of a false endorsement leading to a likelihood of confusion, as not only the domain name itself, but also the content on the website carried images of the famous celebrity cricketer, the late Shane Warne, alongside – “*products featuring his likeness, slogans such as “WARNEY FOR P.M.”, a statement that “donations go toward the Shane Warne Foundation (Charity for sick children)”*, a reference to “*VB WARNIE DOLLS*” (which alludes to one of the Complainant’s well known sponsorship arrangements with the brewer of VB beer) and a statement that “*Shane Warne, one of Australia’s most prominent and successful cricket players, seems to have taken up new business ventures*”⁴⁴

The claim also established rights in the nicknames being cyber-squatted on by the defendant by arguing that there are common law trademark rights in these nicknames for the complainant’s “celebrity services”. The Panel’s findings suggest that the requirement to prove unauthorized taking under auDRP includes not only absolute establishment over the right for trademarks, but also offers the complainant a special provision that if the panel is entirely satisfied that the Complainant’s rights over the title, then the panel can reconsider the status of the trademark with the respondent.⁴⁵ This conclusion is reached by the panel’s consideration that the defendants did intend to leave the internet

⁴² *Id.* at paras 32-34.

⁴³ LEADR Case No auDRP10/08 (May 26, 2010)

⁴⁴ *Id.* at page 3, para 5.A.

⁴⁵ *Id.* at page 7, para 2

users confused because of a celebrity's affiliation, more so because of acquired *fame and notoriety* by the complainant.⁴⁶

Most recently, an equally illuminating decision, in a non-famous personal-name as domain name case was handed down by the Resolution Institute's Administrative Panel in *Varinder Singh Toor trading as Vicky Driving School Melbourne v Vikas Sharma*.⁴⁷ The disputed domain name is <vickydrivingschool.net.au>. Here, while the complainant had registered trademark rights in VICKY DRIVING SCHOOL and thus, the impugned domain name was found to be identical, nonetheless, the Panel found that unfortunately, the complainant had not been able to show common law rights in the name "Vicky" itself as it's a common nickname; "Driving School" is a descriptive expression and the complainant had not brought evidence on record to show that he had used VICKY DRIVING SCHOOL between 2012 and 2015 as claimed.⁴⁸ Thus, the domain name was allowed to be registered with the respondent. This case shows how "fame and notoriety" accrue to names that are more famous, without showing trademark use on the one hand, enabling successful actions; and common first name-personal names need to satisfy a heightened burden of proof to claim common law rights even in domain-name actions. Nonetheless, the bottom line remains that even the Australian practice shows that rights in the name as an indicia of persona of an individual, is treated as an intellectual property style right, and is hence a *right in personam*.

Further, it is submitted and argued that personal names of famous persons, whether or not used in the course of trade or vocation of these (mostly) famous individuals, constitute private rights in the nature of either trademark rights or are protectable through the *right of publicity* (without having to show trademark style rights). Thus, while *common law trademark-style rights* are protectable under a *misrepresentation regime* of the *passing-off* remedy, the *common law right of publicity* is protectable under a *misappropriation regime*. This right is not tantamount to a fundamental, inalienable, non-descendible right. Instead, in India, the claim for protection of personal names used in the course of trade, operates as a tortious claim like that of *passing off*, *misrepresentation*, or the gradually recognised, stand-alone, *misappropriation-type* common law claim of the *right of publicity*. Such rights are thus transferrable (license, not complete assignment)⁴⁹ and descendible⁵⁰, like an *intellectual property-type – economic right* – in the *economic associative value* of an individual's persona⁵¹.

3. Subject-matter arbitrability in India and the specific question of IPR – Arbitrability

The law of the land in India regarding the test for subject-matter arbitrability is the decision of the Supreme Court in *Booz Allen*⁵². The court observed, "...Generally and traditionally all disputes relating to rights in personam are considered to be amenable to arbitration; and all disputes relating to rights in rem are required to be adjudicated by courts and public tribunals, being unsuited for private arbitration. This is not, however a rigid or inflexible rule. Disputes relating to sub-ordinate

⁴⁶ *Id* at page 8, para 4

⁴⁷ RI-auDRP03/22 (June 7, 2022).

⁴⁸ *Id* at page 9, para 2

⁴⁹ Refer facts in *Titan case and Daler Mehndi Case*, *Supra* note 1. The claims seeking protection and enforcement of the Right of Publicity were brought not by the individual celebrities but the legal entities in whom such right had been vested.

⁵⁰ The potential descendability of the right of publicity has been recognized by the Bombay HC in its *dicta* in *Chitra Jagjit Singh v Panache Media*, 2016. It is also currently in dispute before the Delhi HC and has been discussed in the *dicta* in the interim order of the court in *Krishna Kishore Singh v. Sarla S. Sarogi & Ors.*, CS(COMM) 187 OF 2021, Decision of Delhi HC on June 10, 2021.

⁵¹ David Tan, 'Beyond Trademark Law: What the Right of Publicity Can Learn From Cultural Studies' (2008) 25 CARDOZO ARTS & ENTERTAINMENT LAW JOURNAL 913 at 959 ("Tan, 2008")

⁵² *Supra*, note 3.

rights in personam arising from rights in rem have always been considered to be arbitrable.”⁵³ Thus, it created the test of the *in rem* right versus *in personam* right, to answer the question of whether a particular subject matter was capable of settlement by arbitration. Much earlier, Justice Raveendran, in the landmark ADR case law in India, *M/S. Afcons Infra. Ltd. & Anr v. M/S Cherian Varkey Construction*⁵⁴ highlighted types of matters considered suitable and not suitable for ADR Processes, given their nature.⁵⁵ He pointed out, *inter alia* that “*All other suits and cases of civil nature*” as well as “*All cases relating to tortious liability*” are capable of settlement through ADR processes. Thus, it would seem that the common law claims of infringement of *right of publicity* and common law passing off and statutory infringement claims seeking enforcement of trademark rights are capable of settlement by ADR processes.

This is further qualified by the opinion of Justice Patel of the Bombay HC in the matter of *Eros International v. Telex Links India*.⁵⁶ While the final ruling deals with the question of arbitrability of copyright infringement claims (answered in the affirmative), in his obiter observations, Justice Patel explained the nature of trademark disputes and how trademark oppositions may not be arbitrable. He propounded that registration creates a right *in rem*, whereas trademark infringements operate *inter parties* - i.e. between the legitimate proprietor-owner and the defendant-infringer of the mark, thereby creating an *in personam* dispute in issue, capable of settlement by arbitration.⁵⁷ Furthermore, the Madras HC, in the *Lifestyle Equities v. Odseatoman Designs*⁵⁸ case held that patent disputes can be arbitrable if the dispute is about the licensing or infringement of a patent, but a dispute challenging the validity of the patent will not be arbitrable – thereby clearly distinguishing between *in rem* and *in personam* rights, whereby *infringement* or *violation* related disputes are arbitrable.

The *Booz Allen* test came to be used as the yardstick against which the *arbitrability* question came to be answered, until late 2020, when a 3-judge bench of the Supreme Court in the *Vidya Drolia v. Durga Trading*⁵⁹ decision expounded the “four-fold test”. The court observed⁶⁰ :

“we would like to propound a four-fold test for determining when the subject matter of a dispute in an arbitration agreement is not arbitrable:

(1) *when cause of action and subject matter of the dispute relates to actions in rem, that do not pertain to subordinate rights in personam that arise from rights in rem.*

(2) *when cause of action and subject matter of the dispute affects third party rights; have erga omnes effect; require centralised adjudication, and mutual adjudication would not be appropriate and enforceable;*

(3) *when cause of action and subject matter of the dispute relates to inalienable sovereign and public interest functions of the State and hence mutual adjudication would be unenforceable; and*

⁵³ *Id.* at para 23.

⁵⁴ *M/S. Afcons Infra. Ltd. & Anr v. M/S Cherian Varkey Construction*, (2010) 8 SCC 24.

⁵⁵ *Id.* at paras 18 and 19.

⁵⁶ *Eros International Media Ltd. v. Telex Links India Pvt. Ltd. & Ors.*, 2016 Bom CR 3.

⁵⁷ *Id.* at para 17.

⁵⁸ *Lifestyle Equities Cv v. Qdseatoman Designs Pvt. Ltd.*, (2017) 8 MLJ 385.

⁵⁹ *Vidya Drolia v. Durga Trading Corporation*, (2021) 2 SCC 1

⁶⁰ *Id.* at para 45.

(4) *when the subject-matter of the dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s).*

These tests are not watertight compartments; they dovetail and overlap, albeit when applied holistically and pragmatically will help and assist in determining and ascertaining with great degree of certainty when as per law in India, a dispute or subject matter is non-arbitrable.

The court further pointed out that questions of *grant* of patents and trademarks have “*erga omnes effect*”⁶¹ as they are state-protected monopolies, and therefore remain sovereign prerogative and are hence not-arbitrable. This observation led to some concerns being expressed about the arbitrability of IPR matters in India. However the Delhi HC clarified the standard applicable, in the case of *Hero Electric Vehicles Pvt. Ltd. & Anr. v. Lectro E-Mobility Pvt. Ltd. & Anr.*⁶² While addressing a question of unauthorised use of trademarks under a family group assignment, the court observed⁶³ -

*“The controversy, in the present case, does not relate to grant, or registration, of trademarks. The trademarks already stood granted, and registered, prior to the FSA and TMNA. The dispute is regarding the Family Group to which the rights to use the said trademarks, in connection with electric cycles and eFSA and TMNA. This assignment is by contractual, not statutory, fiat. It does not involve any exercise of sovereign functions (unless, of course, the patriarchs of the four Family Groups are, in a limited sense, to be regarded as “sovereigns”). **In any event, no inalienable exercise of sovereign governmental functions can be said to be involved, in the assignment, to the various Family Groups, of their individual rights to use the existing trademarks, in respect of one, or the other, categories of goods.** The dispute does not, therefore fall under any of the categories of disputes excepted, by the Supreme Court, from the arbitral umbrella.”*

In a similar tune, a judgement of the Delhi HC in *M/S. Golden Tobie Private Limited v. M/S. Golden Tobacco Limited.*⁶⁴ reaffirmed the arbitrability of trademark disputes vis-à-vis trademark license agreements. While the defendants sought to rely on the *Vidya Drolia* test to oppose arbitration, the Delhi HC, while relying on its earlier pronouncement in the case of *Hero Electric*, created a distinction between rights emanating from a contract or agreement as opposed to rights arising out of a statutory act or sovereign function. The former lie in the gamut of rights *in personam* as they do not have any *erga omnes* implications, i.e.; they are disputes between one party seeking relief against a particular party, and hence capable of arbitration. The court in *Golden Tobie*, further clarified that since the facts in dispute actually related to the contractual relationship, and not directly the trademark itself, the subject matter would be furthermore arbitrable.

Thus, from the above judgements, it can be concluded that the arbitrability of IP disputes is limited to claims arising out a contract or agreement that function as inter-party disputes, as settled in *Golden Tobie*. Conversely, resonating with Justice Patel’s obiter in *Eros* and the Madras HC’s decision in *Lifestyle Equities*,⁶⁵ while each of them deal with a different kind of intellectual property, it is clear that disputes arising out of registration and ownership of rights *in rem* are reserved for public

⁶¹ *Id.* at para 32 and para 46.

⁶² *Hero Electric Vehicles Pvt. Ltd. v. Lectro E-Mobility Private Ltd*, 2021 SCC OnLine Del 1058

⁶³ *Id.*

⁶⁴ *M/S. Golden Tobie Private Limited v. M/S. Golden Tobacco Limited CS(COMM)178/2021*, Delhi HC Decision dated June 4, 2021 (“*Golden Tobie*”).

⁶⁵ Justice Patel’s obiter in *Eros* explicitly recognises infringement claims as being inter-party disputes, creating rights *in personam* and thus being capable of settlement by arbitration. Further, in *Lifestyle Equities*, the Madras HC recognises the arbitrability of patent infringement claims on grounds of similar reasoning.

adjudication, which operate as disputes related to the public at large and are asserted vis-à-vis the whole world, and hence precluded from the scope of arbitration.

At this juncture it is pertinent to note (and repeat) that, for a dispute to be capable of settlement by arbitration *simpliciter*, nonetheless, the underlying relationship may or may not be contractual⁶⁶. The test of arbitrability continues to remain the test of the nature of the dispute and the nature of the underlying rights.

4. Understanding Right of Publicity: A Brief Overview of the Development of the Right in India

As explained before, the *right of publicity*, most simply put, protects any individual's *marketable image or persona*. This formulation has been most succinctly put forth by McCarthy in his seminal work as – “*The right of publicity is not merely a legal right of the "celebrity," but is a right inherent to everyone to control the commercial use of identity and persona and recover in court damages and the commercial value of an unpermitted taking.*”⁶⁷ Since celebrities are, simply put, “*brokers of their personae and traders in their own identities*”,⁶⁸ these identities are exploitable assets with pecuniary worth, liable to legal protection. Prof. David Tan calls this the “*economic associative value*” that a celebrity brings to a brand when he/she chooses to exploit this image asset, through the transfer of the perceived attributes of the celebrity – for example, success, glamour, beauty and talent – directly to the brand he or she is associated with.⁶⁹ Also, the more well-known and more well-liked an individual, the greater will be the potential commercial value of that identity.⁷⁰ This right is more well-developed in the United States through the recognition of the common law *right of publicity*, as a “misappropriation tort” (as opposed to the misrepresentation tort, understood as the passing-off claim in trademark law)⁷¹; however, in many states statutory publicity rights are also granted.⁷²

The modern formulations of the *right of publicity*, even in the US, are traced back in almost all leading texts to the *right of privacy* espoused in the influential law review article by Warren and Brandies in 1890.⁷³ The authors, “*lamenting technological and cultural developments invading the private sphere...advocated a right of privacy to forbid the publication of idle gossip and restore*

⁶⁶ Refer S.7(1) of the Arbitration and Conciliation Act, 1996 (India) – “(1) In this Part, “arbitration agreement” means an agreement by the parties to submit to arbitration all or certain disputes which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not.” – based in Article 7 of the UNCITRAL Model Law on International Commercial Arbitration.

⁶⁷ McCarthy, *Supra* note 25.

⁶⁸ PATRICIA LOUGHLAN, BARBARA McDONALD AND ROBERT VAN KRIEKEN, *CELEBRITY AND THE LAW*, 27 (2010).

⁶⁹ Tan 2008, *Supra* note 51.

⁷⁰ *Vanna White v. Samsung Electronics America Ltd.*, 971 F.2d 1395, 1399 (9th Cir, 1992) (‘Vanna White, 1992’); David Tan, “Affective Transfer and the Appropriation of Commercial Value: A Cultural Analysis of the Right of Publicity” (2010) 9 Va. Sports & Ent. L.J. 272 at 278.

⁷¹ Loughlan et al, *Supra* note 68 at 34-50. The misrepresentation tort is more used in Australia and UK, however, due to the vast expanse of case-law availability from circuit courts in the US, the judges in both these jurisdictions are becoming increasingly partial to the misappropriation tort formulation of the celebrity personality right.

⁷² For example, California Civil Code CIV Section 3344.; Article 5 of the New York Civil Rights Law *etc.*

⁷³ Samuel D. Warren and Louis D. Brandeis, *The Right to Privacy*, IV(5) Harv.L.Rev.193 (December, 1890)

*propriety and dignity to the press.”*⁷⁴ However, with time, as pointed out above, celebrities came to view the right as very limited, not proffering them the opportunity to protect the economic value in their image. Subsequently, in 1953, the New York 2nd Circuit Court formulated the common law *right of publicity* in the matter of *Haelan Laboratories*.⁷⁵ The court held thus: “*In addition to and independent of that right of privacy (which in New York derives from statute), a man has a right in the publicity value of his photograph, i. e., the right to grant the exclusive privilege of publishing his picture, and that such a grant may validly be made "in gross," i. e., without an accompanying transfer of a business or of anything else. Whether it be labelled a "property" right is immaterial; for here, as often elsewhere, the tag "property" simply symbolises the fact that courts enforce a claim which has pecuniary worth.*

*This right might be called a 'right of publicity', for it is common knowledge that many prominent persons (especially actors and ball-players), far from having their feelings bruised through public exposure of their likenesses, would feel sorely deprived if they no longer received money for authorising advertisements, popularising their countenances, displayed in newspapers, magazines, busses, trains and subways. This right of publicity would usually yield them no money unless it could be made the subject of an exclusive grant which barred any other advertiser from using their pictures”*⁷⁶

In India, the earliest judicial enunciation of a similar right's existence can be traced back to the Supreme Court's formulation of the *right to privacy* in what is popularly known as the *Auto Shankar's* case.⁷⁷ The court opined that – “*The right to privacy as an independent and distinctive concept originated in the field of Tort law, under which a new cause of action for damages resulting from unlawful invasion of privacy was recognised. This right has two aspects which are but two faces of the same coin (1) the general law of privacy which affords a tort action for damages resulting from an unlawful invasion of privacy and (2) the constitutional recognition given to the right to privacy which protects personal privacy against unlawful governmental invasion. The first aspect of this right must be said to have been violated where, for example, a person's name or likeness is used, without his consent, for advertising or non-advertising purposes or for that matter, his life story is written whether laudatory or otherwise and published without his consent..* In recent times... this right has acquired a constitutional status.... Right to privacy is not enumerated as a fundamental right in our Constitution but has been inferred from Article 21.”⁷⁸

Highly unfortunately, in the opinion of this researcher, the course taken for recognition of a *right of publicity*, post the *Auto Shankar* case in India, has not been as advanced as that in the USA, despite

⁷⁴ ROBERT P. MERGES, PETER S. MENELL AND MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 1020 (2010) at 1020.

⁷⁵ *Haelan* case, *Supra* note 13.

⁷⁶ *Id.* at para 3.

⁷⁷ *R. Rajagopal v State of Tamil Nadu*, (1994) 6 SCC 632.

⁷⁸ *Id.* at 639, para 9.

India being home to one of largest and oldest entertainment industries in the world. As mentioned, the case law development to give way to a right formulated in economic asset/property value preservation terms, has been sporadic and limited. There is no Supreme Court decision recognising the common law right, and therefore, guidance is being sought from jurisprudence available from High Court decisions, most of which is now being contributed to by the pro-active Delhi Judiciary. One of the most important decisions in this regard, is the April 2012 single-judge decision in *Titan Industries Ltd. v M/s Ramkumar Jewellers*.⁷⁹ Justice Manmohan Singh, held thus “*When the identity of a famous personality is used in advertising without their permission, the complaint is not that no one should not commercialise their identity but that the right to control when, where and how their identity is used should vest with the famous personality. The right to control commercial use of human identity is the right to publicity*”.⁸⁰ This further cites and modifies an earlier decision of the court in a mark-merchandising-passing-off matter, *D.M. Entertainment Pvt. Ltd. v Baby Gift House and Ors.*,⁸¹ wherein the single judge had observed that “*The right of publicity can, in a jurisprudential sense, be located with the individual's right and autonomy to permit or not permit the commercial exploitation of his likeness or some attributes of his personality*.”⁸² Justice Ravindra Bhat, also explained that “*..to avail the right against the infringement of right to publicity, the plaintiff must be "identifiable" from defendant's unauthorised use...As a secondary consideration, it is necessary to show that the use must be sufficient, adequate or substantial to identify that the defendant is alleged to have appropriated the persona or some of its essential attributes*.”⁸³ Thereby, a two-step test for infringement of the right was laid out- that of ‘identifiability’ of the celebrity from the unauthorised use; and the “substantiveness” of the use so as to sufficiently qualify as misappropriation of the image or attributes of the celebrity plaintiff.

Interestingly, there is a seeming inconsistency between the decision in the *Daler Mehndi* case and the *Titan* case. While the *right of publicity* has been explicitly recognized in both, the standard to conclusively establish the existence of the right varies. In *Daler Mehndi* case, the right is perceived through the lens of appropriation of personality indicia of the well-known individual. By extension, mere evocation is not sufficient to constitute a violation of personality rights. As Justice Bhatt points out in the *Daler Mehndi* case, “*the right of publicity protects against the unauthorised appropriation of an individual's very persona which would result in **unearned commercial gain** to another. In the present instance, the **commercial use** of an individual's identity is intended to increase the sales of product by fusing the celebrity's identity with the product and thereby the defendants were selling those dolls, on the basis of publicity value or goodwill in the artist's persona into the product*”.⁸⁴ Thus, commercial exploitation *qua* misappropriation forms the nucleus of the publicity infringement claim.

⁷⁹ Titan case, *Supra* note 1.

⁸⁰ *Id.* at para 15.II citing, Haelan Laboratories, *Supra* note 13.

⁸¹ Daler Mehndi case, *Supra* note 1.

⁸² *Id.* at para 14.

⁸³ *Id.* at para 13.

⁸⁴ *Id.*

In contrast, in the *Titan case*, Justice Manmohan, in culling out the methods to evidence identification of the celebrity-plaintiff observes that, “*If the plaintiff is very well known and widely recognised celebrity a simple comparison of the defendant’s use and the plaintiff’s identifying features may itself be sufficient to create a strong inference of identifiability. This is termed as unaided identification.*”⁸⁵ Therefore, per the two-step test, the “identifiability” threshold of the plaintiff is satisfied even if there is a mere comparison of the defendant’s use and the plaintiff’s identifying feature, subject to the plaintiff being well-known, thus implying that *evocation* by itself is enough to amount to a transgression of the plaintiff’s *right of publicity*. The author acknowledges that both these decisions, though certainly valuable in their explanations of the applicable standards, are only single-judge decisions from a High Court – thereby have only persuasive value outside the jurisdiction. The jurisprudence of the *right of publicity* in India, is still to evolve and reconcile the standards of identifiability.

Nonetheless, this absence of an explicit statutory recognition of the *right of publicity* in India, allows the right to be claimed and made actionable through different avenues. In *Shivaji Rao Gaekwad v. Varsha Productions*⁸⁶, the plaintiff, more commonly known as ‘Superstar Rajinikanth’, claimed violation of his *right of publicity*, while also bringing in claims under the common law action of passing-off as well as civil defamation. Transplanting the thresholds of identifiability from *Titan Industries*, Justice Subbiah of the Madras HC explained that “*infringement of right of publicity requires no proof of falsity, confusion, or deception, especially when the celebrity is identifiable.*”⁸⁷ – thereby clearly distinguishing between the “*likelihood of confusion + goodwill*” requirements of claiming passing off, versus the easier threshold of the burden of proof on the plaintiff in a *right of publicity* claim. Further, he borrowed from the WIPO Arbitral Tribunal decision in *Ms. Barkha Dutt v. Easyticket*⁸⁸, to establish “*that an unauthorised use of a famous person’s name is not a bonafide use and if such name is used to lure users, it does not confer rights or legitimate interests on the infringer*”.⁸⁹ Similarly, in *Rajat Sharma v. Zee Telefilms*⁹⁰, the Delhi HC cited the *Titan Industries case* and *Shivaji Rao Gaekwad* to injunct Zee Telefilms from publishing advertisements that contained the name of the plaintiff through the phrase “*Now, in India Rajat’s ‘ADALAT’ is over*” (translated from Hindi to English). However, while the *Titan case* was cited, there was no mention of the two-step test of infringement. Nonetheless, it appears implicitly that the locus of success for the injunction lies in the plaintiff meeting the threshold of identifiability from the alleged taking in dispute.

Per contra, every unauthorised use of a name does not constitute personality right infringement. In *Gautam Gambhir v. D.A.P & Co & Anr*⁹¹, the cricketer-politician Gautam Gambhir sought an

⁸⁵ *Id.* at para 15.

⁸⁶ *Shivaji Rao Gaekwad v. Varsha Productions* 2015 SCC OnLine Mad 158.

⁸⁷ *Id.* at para 21.

⁸⁸ *Supra* note 36.

⁸⁹ Para 22, *Supra* note 86..

⁹⁰ *Rajat Sharma v. Zee Telefilms.*, CS(COMM) 15 OF 2009, Delhi HC Decision of January 11, 2019.

⁹¹ *Gautam Gambhir v. D.A.P & Co & Anr.*, CS(COMM) 395 of 2017, Delhi HC Decision of December 13, 2017.

injunction against the owner of a restaurant by the name, “Blue Waves by Gautam Gambhir”. An argument led by the plaintiff, *inter alia*, was that his image and thus personality right was being tarnished because of association with the restaurant. While the personality right of Gautam Gambhir was recognised, in the absence of direct taking of the economic associative value of the plaintiff, the plaintiff was unable to succeed in his claim. The unauthorised taking must be for commercial gain substantiated by a direct identifiability of the plaintiff, similar to *Titan Industries*, which was missing in this case – more so because the defendant restaurateur’s name himself is “Gautam Gambhir”.

Again, while the aforementioned decisions also do throw light on the contours of the right, a lot of questions remain nonetheless, and the later observations post *Titan and Daler Mehndi* are all in Single Judge decisions from several High Courts. Further, it is interesting to note that in another matter⁹² where the *right of publicity* as formulated in the *Daler Mehndi* matter could have been easily put to use, **was not**, and expert advocates chose to instead rely on the passing off tort jurisprudence, and built their argument for Mr. Arun Jaitley on what the court articulated as a goodwill in his name thus “*Mr. Arun Jaitley falls in the category wherein it besides being a personal name has attained distinctive indicia of its own. Therefore, the said name due its peculiar nature/ distinctive character coupled with the gained popularity in several fields whether being in politics, or in advocacy, or in part of emergency protest, or as leader or as debator has become well known personal name/ mark under the trade mark law which ensures him the benefit to refrain others from using this name unjustifiably in addition to his personal right to sue them for the misuse of his name.*”⁹³

5. Recent decisions and cases on right of privacy and its descendability versus the right of publicity: What is the true nature of these rights?

In the recent past, with the Indian film industry (all regional cinema included) becoming increasingly invested in bringing *biopics* to the screen, several cases of claims from family members of the deceased celebrities have been brought, carrying claims of unfavourable portrayals, and *interestingly* – *right of privacy* violations! Surprisingly, in **most** of these recent matters, the claims seeking protection of the deceased *right of publicity* have not been raised. For example, in the case concerning the posthumous privacy rights of the former Chief Minister of Tamil Nadu – the late Ms. Jayalalitha, a Division Bench of the Madras HC⁹⁴ held that the right of privacy of an individual is not inheritable. The claim had been filed by her niece before the single-judge of the Madras HC⁹⁵, seeking an injunction on further continuing production work and airing of any promotional materials for two *in-production* projects – the movie ‘Thalaivi’ and the web series ‘Queen’ that were purportedly based on the life of the late Ms. Jayalalitha. While reaching its conclusion on appeal, the DB held that “*right of privacy of an individual extinguishes with the human being*” while declining to comment on the larger question of inheritability of what the court dubbed ‘personality rights’.⁹⁶ Thus, it potentially

⁹² Mr. Arun Jaitley v Network Solutions Pvt. Ltd., CS(OS) 1745 OF 2009, Delhi HC Decision of July 4, 2011.

⁹³ *Id.* at para 31.

⁹⁴ Deepa Jayakumar v. A.L Vijay MANU/TN/3107/2021

⁹⁵ *Id.*

⁹⁶ *Id.* at paras 33-35.

allowed for a distinction between non-inheritable rights over reputation and personal privacy on one hand, and the right to *commercially exploit* one's own image – the economic *right of publicity*. To reach the same conclusion, the court explained that what the *right of privacy* protects, is a right against reputational harm, and such *civil law* claims (as opposed to the criminal defamation claims that under IPC is inheritable)⁹⁷ are not available post-mortem and do not operate in the nature of transferrable rights over movable or immovable property (including intangible intellectual property rights). It can thus be argued, , that the subject matter of protection of *right of privacy* is clearly and categorically distinguishable from the subject matter of the *right of publicity* which is potentially descendible.

This came to be further elaborated in the interim order passed by a single judge of the Delhi HC⁹⁸ in the ongoing matter concerning the posthumous rights of the late actor Sushant Singh Rajput, who allegedly died by suicide in June 2020. While the order lacks any precedential value, it reads as a detailed enunciation of the distinction between the several rights that are recognised as part of the larger 'celebrity rights' bundle. The claim was brought by the late Sushant Singh Rajput's father seeking to injunct the makers of the film '*Nyay: The Justice*' from releasing the same, alleging that it was based on the events around the late actor's death. While the plaintiffs sought to rely on the decision of the Gujarat HC in *Kiritbhai*⁹⁹, where the court allowed for posthumous rights to be preliminarily enforced via an injunction in favour of the legal heirs of the late Jalaram Bapa, the Delhi HC in the aforementioned matter distinguished the Gujarat HC order on facts and refused to entertain the plaintiff's reliance on the same. The same was done while holding that even the Gujarat HC decision does not delve into the inheritability question at all, and instead the injunction has been given on balance of convenience being heavier in favour of Bapa's heirs.

Nonetheless, relying on the observations of Justice Kaul in *Puttaswamy* read with the scope of the *right of privacy*, Justice Narula in his order continued to obliterate the distinct fields occupied by the subject matters of *right of publicity* and *right of privacy*. He opined that in the absence of *statutory* protections for distinct intellectual property rights applicable within the 'celebrity rights' bundle, both *privacy* and *publicity* seem to trace their roots to the Article 21 guarantee of the right to life and personal liberty.¹⁰⁰ Justice Narula explicitly *rejects*, the descendability of the *right of publicity*, while nonetheless affirming the descendability of certain intellectual property rights vested with the celebrity.¹⁰¹ This matter is currently pending trial, and it will be interesting to see what the court says on the question of the right of publicity.

The foregoing discussion on inheritability is nonetheless relevant to establish the claim that the author seeks to make – that *right of publicity* and rights over personal names, when used in the course of trade, function as *economic rights* – akin to trademark rights – that are transferrable, inheritable and therefore enforceable via private dispute resolution mechanisms. More recent instances of such 'accepted' transferable nature of the *right of publicity* in India are noticed from the case studies of two-time Olympic Gold medalist, Indian Badminton player P.V. Sindhu's "unauthorized" image-taking by brands¹⁰² and Amazon finally rolling out its first Indian celebrity voice - celebrated and legendary Indian actor Amitabh Bachchan for Alexa's India users¹⁰³ In P.V. Sindhu's case, it is interesting to

⁹⁷ S.499 of the Indian Penal Code, 1960 contains the definition of criminal defamation.

⁹⁸ Krishna Kishore Singh v. Sarla S. Sarogi & Ors., CS(COMM) 187 OF 2021, Decision of Delhi HC on June 10, 2021, *Supra* note 50..

⁹⁹ Kiritbhai Raval & Ors v. Raghuram Jaisukhram Chandrani Appeal from Order No. 262 of 2007, 20th January 2010 by the Gujarat High Court.

¹⁰⁰ Para 20, *Supra* note 50.

¹⁰¹ Para 21, *Supra* note 50..

¹⁰² Maryam Farooqui, PV Sindhu to send notices to 15 firms for using her name, pictures in ads, Money Control (August 7, 2021) <https://www.moneycontrol.com/news/trends/sports-trends/pv-sindhu-to-send-notice-to-15-firms-for-using-her-name-pictures-in-ads-7292371.html>

¹⁰³ Jagmeet Singh, Amazon Alexa Gets Amitabh Bachchan's Voice in India, for a Price, Gadgets360 (August 19, 2021)

note that it was the sports marketing firm that manages her portfolio, *Baseline Ventures* (and not Sindhu herself), that sent legal notices to 20 Indian and foreign firms with presence in India, for using her image and its likeness (caricatures, sketches, evocative elements like shuttle cocks and badminton rackets alongside her name, *etc.*) on ‘congratulatory’ broadcasts, that also carried their name, branding, logo, taglines and/or insignia.¹⁰⁴ In the other case of the voice feature on Amazon Alexa, now including the Amitabh Bachchan baritone, what is equally intriguing is that Amazon is seemingly experimenting with its ‘neural speech technology’ to not have to keep pre-recording and to be able to closely replicate the unique baritone that is the USP of Mr. Bachchan.¹⁰⁵ While the terms of the contract between Mr. Amitabh Bachchan, his PR team and Amazon are not in the public domain, there can be speculation, arguably legitimate, that the subject matter *inter alia* entails a license over use of the baritone as personality indicia, alongside voice recordings of individual phrases being sought sound mark registrations for. As on August 20, 2021, a sound mark search in all possible classes, however, reveals no applications being made either in the name of Amazon or Mr. Amitabh Bachchan before the TM Registry in India. Nonetheless, these cases denote the property-style nature of the *right of publicity* and its containing indicia, rather than the ‘fundamental-inherent’ right -style nature of the *right of privacy*.

6. The Problem: Private Economic Right versus Fundamental Right – what is ADR-able?

The problem of the true nature of the *right of publicity* in India got magnified on August 24, 2017, when the Supreme Court issued a seminal decision¹⁰⁶, clarifying finally, the position of *the right to privacy* under Indian law as a fundamental right of all citizens guaranteed under Part III of the Constitution. The majority decision, in part, provides for the horizontal applicability of the privacy right, finding the ground in the enunciation of the right as having both *common law* and *fundamental right* aspects, thereby enabling the simultaneous enforcement of the same right as against those entities that qualify the test of *state* under Article 12 as well as against private entities.¹⁰⁷ Interestingly, Justice Kaul went a step further. In his separate opinion, he elevated the *right of publicity*, otherwise having been previously enunciated only as a common law right,¹⁰⁸ to a being a facet of the fundamental guarantee of privacy. He opined thus – “*Aside from the economic justifications for such a right, it is also justified as protecting individual autonomy and personal dignity. The right protects an individual’s free, personal conception of the ‘self.’ The right of publicity implicates a person’s interest in autonomous self-definition, which prevents others from interfering with the meanings and values that the public associates with her.*”¹⁰⁹

In light of the foregoing discussion on the nature of the civil-law (tort law) claim of *right of privacy* and the contrary yet related *economic, commercial* right enforceable *also* in a civil-law (tort

<https://gadgets.ndtv.com/apps/news/amazon-alexa-amitabh-bachchan-voice-india-update-price-rs-149-2513811>

¹⁰⁴ Meenakshi Verma Ambwani, *Baseline Ventures sends legal notices to 20 firms for unauthorised use of PV Sindhu’s image*, The Hindu Businessline (August 6, 2021) <https://www.thehindubusinessline.com/news/baseline-ventures-sends-legal-notices-to-20-firms-for-unauthorised-use-of-pv-sindhus-image/article35770116.ece>

¹⁰⁵ Manish Singh, *Amazon rolls out India’s first celebrity voice on Alexa with Amitabh Bachchan*, TechCrunch (August 19, 2021) “*The company said it is also applying neural speech technology to make Alexa sound like Bachchan even if there’s no direct pre-recording.*” <https://techcrunch.com/2021/08/18/amazon-rolls-out-indias-first-celebrity-voice-on-alexa-with-amitabh-bachchan/>

¹⁰⁶ *Supra* note 11.

¹⁰⁷ *Id.* at paras 397, 398 and 428.3.

¹⁰⁸ *Refer* Titan case and Daler Mehndi case, *Supra* note 1.

¹⁰⁹ *Supra* note 11 at para 626. *See also* Prashant Reddy, *The Supreme Court’s Privacy Judgment Elevates Personality Rights to the Constitutional Plane*, SpicyIP (August 26, 2017) <https://spicyip.com/2017/08/the-supreme-courts-privacy-judgment-elevates-personality-rights-to-the-constitutional-plane.html>

law) claim, read against this one observation by Justice Kaul in *Puttaswamy*, the author argues that Justice Kaul's obiter leads to a plethora of potential interpretational and implementational issues:

➤ for one, fundamental rights, by their very nature, are non-assignable, and non-waivable.¹¹⁰ It is noteworthy that in his majority opinion, Justice Chandrachud in the *Puttaswamy* case has recognised that the *right to privacy* includes 'decisional autonomy'. Further, as explained by celebrated expert Sr. Advocate Mr. Arvind Datar, "*This would include the right of a person to make an informed decision not to enforce his fundamental right. In other words, he can "waive" it.*"¹¹¹ Nonetheless, as suggested by McCarthy, the non-assignability of traditional privacy rights was one important reason for the creation of the separate concept of the *right of publicity*¹¹². The US courts have uniformly held that the *right of publicity* is a 'property' right, since the *Haelan Laboratories* decision. Courts also view the *right of publicity* as a form of 'intellectual property', having both similarities to and differences from other forms of intellectual property such as copyrights and trademarks.¹¹³ The nature of personality rights is such that it is separable from the persona embodying it, unlike the *right of privacy* which is inherent to the individual human person. This is further explained by Post, thus "[P]ersonality is commodified and becomes 'something in the outside world, separate from oneself.' For this reason, commodified personality can endure long beyond the living self of the individual who creates it and can also be owned and used by persons other than its creator."¹¹⁴

➤ Further, fundamental rights in their essence were meant to be enforced by the citizen against the state (vertical application) and not against other citizens (horizontal application). One of the problems with *Rajagopal* is that it conceives of a very broad horizontal right to privacy, which has also been endorsed in *Puttaswamy*. As pointed out by Prashant Reddy, it is one thing to claim a strong fundamental right to privacy against the state, but what is the logic of a fundamental right to privacy against fellow citizens?¹¹⁵ Further, since the *Basheshar Nath*¹¹⁶ decision has not yet been overruled, fundamental rights are inalienable – **a very literal interpretation and application of Justice Kaul's opinion would then seem to suggest that right of publicity is not alienable at all.** Such an absurd consequence definitely would not have been the intention!

This further leads to the problem of the arbitrability of these claims. Fundamental rights are rights held against the world at large – they do not create actions of infringement *in personam* but are enforceable only in the constitutional courts via their writ jurisdiction, as rights *in rem*. In further creating this artificial "equivocation" between *right of publicity* as a right in the nature of protection against commercial misappropriation and the *fundamental* guarantee of the *right of privacy* as a protection against unlawful invasion, the decision allows for now only *writ courts* to have *exclusive jurisdiction* over such claims. This would do little to further India's aims to become an arbitration hub if private infringement claims of the right to publicity are believed to be enforcements of fundamental rights. It would potentially start flooding our already overburdened court system¹¹⁷ with even more matters that will have to undergo the preliminary 'nature of right claimed'-style scrutiny. This would

¹¹⁰ *Basheshar Nath v Commissioner of Income Tax*, [1955] 1 S.C.R.773 ("Basheshar Nath").

¹¹¹ Arvind Datar, Can a Fundamental Right be waived?: Legal Notes by Arvind Datar, BAR&BENCH (September 11, 2017) <https://barandbench.com/can-fundamental-right-waived-arvind-datar/>

¹¹² McCarthy, *Supra* note 25 at §§ 10:6 to 10:13.

¹¹³ *Id.*

¹¹⁴ Robert C. Post, *Rereading Warren and Brandeis: Privacy, Property, and Appropriation*, 41 Case W. Res. L. Rev. 647, 668 (1991).

¹¹⁵ Reddy, *Supra* note 107.

¹¹⁶ *Supra* note 110.

¹¹⁷ According to the National Judicial Data Grid, there are 1,05,93,809 civil cases pending before the District and Taluka Courts and 41,37,251 civil cases pending before High Courts in India as of August 2021.

potentially furthermore lead to the absurdity of the appellate court system operating as first instance ‘summary’ disposal courts, thereby diluting the sanctity of the constitutionally vested writ process.

7. Concluding Observations

In India, celebrities have always had a limited right, under common law, to control the use of their image and personality. For example, if a particular company decides to give the impression that a celebrity has endorsed their product, they could be sued for the tort of passing off, or the Delhi HC style *right of publicity* tort itself which has emerged. The problem with Justice Kaul’s judgment is that he has converted this erstwhile common law right to a fundamental right and widened it to give every individual (not just celebrities) the right to control the manner in which their life and identity is portrayed to the world, for commercial purposes. Thus, while the debate on whether the *right of publicity* exists – and whether it even exists as a property type right, a standalone common law right, or a fundamental right might continue to remain open – what it decidedly cannot be – is a horizontally enforceable fundamental right as a prong of the right to privacy. Apart from the concern that the same would lead to a chilling effect on the free speech rights of legitimate takers; it would also have far-reaching consequences for the idea of a post-mortem *right of publicity*.

The author thus argues that the *right of publicity* claims in celebrity name-domain name disputes are definitely arbitrable. They have been since the beginning of domain name disputes themselves and shall continue to remain so. An absurd potential consequence of an Apex Court decision is to remain just that, a bleak potential, not a reality in application and action. Nonetheless, even though Justice Kaul is one judge giving a separate opinion, he does comprise a larger nine-judge bench, and his opinion has not been side-lined or discounted by the others. Hence, it is a cause of worry, especially since the earlier opinions are by single judge High Court benches, given that Article 141 of the Constitution provides that law declared by the Supreme Court binds all lower courts. Furthermore, if projections from the currently *sub judice* matter in the case of the rights of the late Sushant Singh Rajput are looked at, it seems that the Delhi HC is unfortunately more inclined towards recognizing that the *right of publicity* is also ‘non descendible non inheritable’. The author sincerely hopes that this does not turn out to be true. One can only hope and keep a close watch as the matter unfolds¹¹⁸.

¹¹⁸ The matter is next listed for hearing on November 03, 2022.

**‘Blank CD tax’ — a tax or not a tax:
current copyright levy mechanisms**

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ABSTRACT

This article studies the nature of the so-called ‘blank CD tax’ — collection of compensation for authors in return to the possibility to copy works for private use. The mechanism is analyzed from the position of IP and tax and finance law. The territorial scope of the article is based on the regulation of Russia with comparison to foreign experience. The authors deliberate on the pluses and minuses of a parafiscal system and budget-funded system of the copyright levy.

In conclusions the authors outline that despite the historic IP rationale of existence there are inevitably some public law features in the levy mechanism. Their mitigation is only possible by implementation of evaluative approach on a case-by-case basis for disputable situations, creation of a various flat rate system, taking into consideration the type of device, type of use, type of user and so on.

Keywords: copyright levy, private copy, fair compensation, equitable remuneration, parafiscal payment

I. Introduction

‘Blank CD tax’ is a common expression in Russian reality, however no one has ever paid such a tax to the Federal Tax Service of the Russian Federation. It is though quite a common knowledge that these are ordinary people who are burdened with this ‘tax’ — the amount of the ‘tax’ is included in the price of electronic devices as well as, for example, VAT.

At the very beginning of the discussion, we avoid harsh terminological judgements. While calling this payment a ‘tax’, we still remember about the copyright roots of this category — the final goal of this payment is to allocate money among the right holders. However, any average consumer aware of a ‘blank CD tax’ primarily remembers that it is a flat rate of 1% of the device price that is paid to the Russian Union of Rightholders¹, no matter what happens next. From this point of view such a payment naturally looks like a tax.

In this article we analyze in detail the pros and cons of connecting this payment with tax or copyright law. Moreover, we try to reveal any drawbacks of the system existing in Russia and other countries, so that it would be possible to discover a balanced solution.

This ‘blank CD tax’ is widely discussed and highly criticized in mass media as well as in scientific works. Mass media sources are often concentrated on the amount of money received and allocated, in accounts, unfairness, corruption or suggestions to abolish the levy.² Scientific works usually address this issue either from the position of tax law³ or more frequently from the position of IP law⁴. Of course, there are some complex works that study the copyright levy as a part of a greater regulation or trends⁵, but we do not set such a goal in this article. Our article tries to combine two approaches: the one of public law (tax and finance) and the one of private law (intellectual property).

The study is conducted with the use of the comparative method, as we look into the regulation of different countries — mainly the countries of the civil law like Russia and most of the EU territory. Analysis and synthesis are used in order to find some tendencies, advantages or disadvantages of the existing regulation.

¹ Russian Union of Rightholders: official website. (accessed 10 May 2022). URL: <https://rp-union.ru/en/main/>

² The Association of trade companies and producers of electrical and computer equipment (RATEK) consulted the president about copyright fees from electronics. (accessed 10 May 2022). URL: <https://cinemaplex.ru/2016/08/31/less-taxes-4-ratek-please.html>; The right to collect the ‘Blank CD tax’ may be taken away from the Russian Union of Rightholders, *Izvestia* newspaper. (accessed 10 May 2022). URL: <https://iz.ru/news/609035>

³ Masaltseva A.I., *Specifics of legal regime of compensation in case of exclusive right limitation according to Articles 1245, 1326 of the Civil Code of the Russian Federation*, 2019 (12) IP. Copyright and related rights 65 (2019); Selivanov A., Orlov M., Zaripov V., Bryzgalin A., Shchekin D., Timofeev E., Nikitin K., Kozyrin A., Vinnitskiy D. & Machekhin V., *Non-tax payments in the Russian legislation: will there be a systematization?*, 2018 (3) Statute 14 (2018); Shokhin S., Kudryashova E. & Shashkova A., *Taxing digital economy: the end of optimism*, 19 (2) *Mezhdunarodnye Protsessy* 138 (2021); Kudryashova E.V. & Shashkova A.V., *Tax incentives issue for innovations in sustainable energy within the BRICS strategic partnership framework*, 220 E3S web of conferences 01007 (2020); Koretskaya A.E., *Remuneration for private copy of sound recordings and audiovisual works*, 2011 (3) *Nalogoviy Vestnik* 102 (2011).

⁴ Entin V.L., *Fair Reward as a Driver of Copyright Reform in the Digital Environment*, 2019 (3) *Modern Law* 53 (2019); Ermolina D.E., Khabarov D.I. & Perevalov V.A. *Problems Brought by a Formal Approach to Copyright Levies*, 2017 (6) *Statute* 101 (2017); Chen K.-C., *Research on the effects of droit de suite on the first sale doctrine: An economic analysis of law*, 5 (2) *NTUT Journal of Intellectual Property Law and Management* 1 (2016).

⁵ Quintais J.P., *Copyright in the Age of Online Access: Alternative Compensation Systems in EU law* (2017); Lin C.-L., *The conflicts and co-competition between the national laws and transnational laws in Taiwan’s IP law and legal system*, 9 (1) *NTUT Journal of Intellectual Property Law and Management* 1 (2020).

II. Copyright nature of the fee

According to the Article 1245 of the Civil Code of the Russian Federation ‘the authors, performers and manufacturers of sound recordings and audiovisual works are entitled to receive a fee for a free reproduction of the sound recordings and audiovisual works exclusively for personal purposes’⁶. The organization entitled to implement this provision is an accredited collective managing society (Art. 1244 Civil Code) — in this case the Russian Union of Rightholders (in 2015 it has renewed accreditation for a 10-year period⁷). The procedure and the amount of payments are set by the Decree of the Government of the Russian Federation № 829 ‘On remuneration for the private copy of sound recordings and audiovisual works’⁸. This fee is payable by the importers and manufacturers of the devices which technically allow copying of the said copyrighted works. As a result, this fee is included in the final price of the device and ordinary people pay it from their pockets while buying sound recorders, phones, USB-sticks and other gadgets sometimes even not realizing it.

The principles of distribution of the collected funds are set in the Civil Code (Art. 1245) and read as follows: 40% belong to authors, 30% belong to performers, 30% belong to manufacturers of sound recordings. Detailed accounting is vested in the Russian Union of Rightholders.

The fee is often mentioned as a demonstration of corruption, unfairness or dishonesty of the Russian Union of Rightholders⁹, but in this article we avoid this somewhat political issue and analyze some informative critics. For example, it is still raises questions when some authors or other entitled right holders have decided to disseminate their works freely upon publication but the fee is still collected for their benefit. Of course, the author may just not request for the sum due, but once collected the 1% of price cannot be returned back.

III. Tax law nature of the fee

Now let us go back to the term ‘blank CD tax’ — this is not a coincidence that a totally not IP law term is used. There have been spotted public law features in this mechanism. Indeed, there is a flat rate which is similar to a tax rate, this flat rate is applied to specific scope of goods which is similar to an object of taxation. More than that, in scientific literature¹⁰ as well as in the legislative provisions (Article 8(1) of the Tax Code of the Russian Federation¹¹) there are some established characteristics of a tax: monetary form, obligatory, non-repayable, gratuitous. The discussed ‘blank CD tax’ also conforms to these criteria.

Another term from tax and finance law that should be discussed is a ‘levy’. This term is often used for the fee in question, but from the position of doctrine of Russian law the content of the term does not really correspond to the nature of the ‘blank CD tax’. A levy is a fee that is usually paid in

⁶ Civil Code of the Russian Federation (Part four) dated 18.12.2006 №230-FZ. (accessed 10 May 2022). URL: http://www.consultant.ru/document/cons_doc_LAW_64629/

⁷ Certificate of state accreditation of a collective management organization № MK-06/15. (accessed 10 May 2022). URL: <https://rp-union.ru/upload/svidetelstvoRSP.pdf>

⁸ Decree of the Government of the Russian Federation dated 14.10.2010 № 829 ‘On remuneration for the private copy of sound recordings and audiovisual works’. (accessed 10 May 2022). URL: http://www.consultant.ru/document/cons_doc_LAW_105883/

⁹ Nefediev A., *Authors’ levy of the RUR — call for transparency* (2014). (accessed 10 May 2022). URL: https://zakon.ru/blog/2014/8/4/avtorskij_sbor_rsp_%E2%80%9393_prizyv_k_prozrachnosti

¹⁰ Pepeliaev S.G. (ed.), *Tax Law*, 33–34 (2015).

¹¹ Tax Code of the Russian Federation (part 1) dated 31.07.1998 N 146-FZ. (accessed 10 May 2022). URL: http://www.consultant.ru/document/cons_doc_LAW_19671/

return for realization of some functions of a public body or a fee that is connected with the possibility to carry out some specific type of business activity (Article 8(2) of the Tax Code of the Russian Federation).

The ‘blank CD tax’, however, has some differences from real taxes or levies. First of all, its goal is not to fund public authorities or the government in general — it is deemed to form a separate monetary fund with a special purpose — it shall be used to allocate money among right holders of audiovisual and musical works and sound recordings.

Due to these public law traits the fee at question is said to be a parafiscal payment. A parafiscal payment is a fee, levied on the same terms as a tax, but established for the sake of economic or social interests for the benefit of legal persons which are not governmental bodies or public authorities.¹²

Parafiscal payments are often criticized¹³ as they blur the tax system of a country, setting more obligatory payments than it is mentioned in tax legislation. They are also said to be an interim measure, which than should be substituted by a tax or budget mechanism established by a state.¹⁴ That is why there have been numerous suggestions either to fit this ‘blank CD tax’ in national tax legislation or abolish it completely.¹⁵

Major counter arguments to these initiatives are the ideas of copyright nature of the fee, which makes inclusion of the fee into the Tax Code doubtful. And the very importance of the fee as a remuneration or compensation to authors does not allow to abolish the mechanism.

III. Foreign experience

In this part of the article, we address the foreign experience in the sphere. We cannot say that the approach to the fee mechanism and its regulation is uniform even in the territory of the European Union. The reason for that is that historically such a mechanism was created on the national level and only after that there were some attempts to unify the regulation on the international level.

The historical cause for the introduction of this fee collection was the invention and the mass production of devices that allow easy copying audio- and video works at home. Obviously, a right holder cannot control whether an ordinary buyer of a CD has copied it to his flash drive or has even given such a copy to his friend — these are the activities out of control of any public body from a practical point of view. It is said that the impossibility to control private life should not lead to negative economic consequences for the right holder. Every right holder shall get some sort of a compensation as a part of a potential market.

The first EU country that introduced the said compensation was Germany. In a case of 1964¹⁶ German organization for collective management of rights of authors (hereinafter — GEMA)¹⁷ claimed

¹² Pepeliaev S.G. (ed.), *Tax Law*, 36 (2015); Kornev A.D., *Characteristics of fiscal payments and parafiscalities*, 2017 (7) Actual Problems of Russian Law 28 (2017).

¹³ Vinnitskiy D.V., *Taxes and levies: definition. Legal characteristics*, 47 (2002).

¹⁴ Fedorov (Dementev) I.V., *Legal regulation of mandatory public law payments in Russia*, 2014 (10) Law and Economics 46, 49 (2014).

¹⁵ The right to collect the ‘Blank CD tax’ may be taken away from the Russian Union of Rightholders, *Izvestia* newspaper. (accessed 10 May 2022). URL: <https://iz.ru/news/609035>

¹⁶ Personalausweise, Federal Supreme Court (Bundesgerichtshof), BGH, Urteil vom 29. Mai 1964 – Aktenzeichen: Ib ZR 4/63. (accessed 10 May 2022).

URL: https://www.prinz.law/urteile/bgh/Ib_ZR_4-63

¹⁷ GEMA — Gesellschaft für musikalische Aufführungs- und mechanische Vervielfältigungsrechte. (accessed 10 May

that technical devices manufacturers and sellers should give GEMA the lists of buyers of these devices so that GEMA could then collect compensation for the authors directly from the people using such technological equipment for copying purposes. Creating such a mechanism of collection from each customer and user was deemed impossible, so the manufacturer of the devices was charged with liability for complicity in copyright infringement. The same position was held in a previous case of 1955¹⁸, however in 1964 the German court suggested to set a flat rate to be collected from manufacturers of technological products — the very mechanism that we see now in numerous countries.

At the same time a new copyright exception was introduced in the German law — private copy exception on the basis of compensation, ensured by the collective management society (Article 54 of the Copyright Law¹⁹). Such an exception exists in the national legislation of many countries and conforms to international instruments such as the Berne Convention²⁰, TRIPS Agreement²¹ and others.

At the level of the EU the predominant instrument on the topic is the ‘InfoSoc’ Directive 2001/29/EC²². Its goal is to harmonize specific aspects of copyright, including for example the list of copyright exceptions and limitations which can exist on the national level of the members of the EU. The list as a whole (Article 5) is exhaustive but not obligatory. The only mandatory exception is the temporary copy exception. However, being an optional exception, the private copy exception is the implemented all over the EU.²³

The Directive introduces the term ‘fair compensation’ as a corresponding right of the right holders. The term ‘equitable remuneration’ which sounds analogical to the Russian term is not used for the sphere — it could only be found in the Rental and Lending Directive (Article 8(2))²⁴ in respect to the rights of performers and record producers.

Such a difference in terms is not accidental. The term ‘fair compensation’ is linked to infliction of harm — it is not meant to be an absolute payment. In Recital 35 of the Directive there were criteria of the fairness of the compensation. Such a compensation is deemed to reimburse the harm inflicted due to the use of copyrighted items within the framework of copyright exceptions. There is still no special mechanism to calculate the harm, and it is seen as a category of the EU law, so the results upon the harm calculation shall be applied uniformly throughout the EU.²⁵ More than that, the Directive

2022). URL: <https://www.gema.de/>

¹⁸ Gema v. Grundig. Federal Supreme Court (Bundesgerichtshof), BGH, Urteil vom 18 Mai. 1955 – Aktenzeichen: I ZR 8/54. (accessed 10 May 2022).

URL: https://www.prinz.law/urteile/bgh/I_ZR_8-54

¹⁹ Gesetz über Urheberrecht und verwandte Schutzrechte vom 9. September 1965 // Gesetze im Internet. (accessed 10 May 2022). URL: <https://www.gesetze-im-internet.de/urhg/>

²⁰ Article 9(2) of Berne Convention for the Protection of Literary and Artistic Works. (accessed 10 May 2022).

URL: <https://www.wipo.int/treaties/en/ip/berne/>

²¹ Article 13 of Trade-Related Aspects of Intellectual Property Rights. (accessed 10 May 2022).

URL: https://www.wto.org/english/docs_e/legal_e/27-trips_01_e.htm

²² Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L 167) 10. (accessed 10 May 2022).

URL: <http://data.europa.eu/eli/dir/2001/29/oj>

²³ Private copying (Art. 5.2(b) InfoSoc). (accessed 10 May 2022).

URL: <https://copyrightexceptions.eu/#info52b>

²⁴ Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, 2006 O.J. (L 376) 28. (accessed 10 May 2022).

URL: <http://data.europa.eu/eli/dir/2006/115/oj>

²⁵ Komada Y., *Reference Points for and Obligors of Levies in the Online-World: Should ISPs Be Obligated to Pay the Levies for Cloud Services and Private Copying?* in Remuneration of Copyright Owners: Regulatory Challenges of New Business Models 101, 112 (Kung-Chung Liu & Reto M. Hilty eds. 2017); Chen K.-C., *Research on the effects of droit*

mentions ‘possible harm’ as a cause for compensation. And what is important for the procedural aspect is that infliction of harm in the course of private copying is factually presumed.²⁶

Let us make a resume for the fee: the underlying copyright exception is not listed as a mandatory copyright exception on the EU level, the rationale of the copyright fee is set in the EU Directive as the ‘fair compensation’ but the mechanisms of collection of the levy are left for the interests of the countries, which makes this aspect of the relations absolutely dissimilar.

The **EU has addressed the issue** of the private copy levy several times since their introduction. Being neutral at first to national initiatives on copyright levies (for analogous equipment in this times) the EU still believed that copyright levy mechanism was not appropriate for the digital environment as it could never compensate for the harm that could be inflicted by digital copying.²⁷ After some time it became obvious that different levy schemes may hinder the free market of goods and services of the EU. Especially remarkable was the case where a Dutch online retailer was selling products into Germany, which raised the question whether the copyright levy had to be paid in Germany, in the Netherlands or in both jurisdictions.²⁸ With that in mind the EU set several key points that had to be reconciled throughout its territory (including methodology of the levies, the type of equipment that is subject to levies, tariff rates, and the inter-operability of the various national systems in light of the cross-border effects).²⁹ Finally the European Parliament expressed its considerations in favor of harmonization and improvement of private copy levies throughout the EU, pointing out several existing problems.³⁰

We see it important to mention some general European experience in the article. The most popular system of the levy collection is the passing of the expenses on to the consumers i.e. to the users of copyrighted items. Some countries have introduced the exception with functioning on a gratuitous basis.

In general, **the main difference** among countries is the **list of devices** and the amount of payment due. As for the devices, the payment is usually levied from data storage devices and also from the devices that make it possible to copy files.

There have been several studies conducted recently that are focused of statistics and survey data on the topic, so we are not going to repeat all this profound information in this article.³¹ In order to show the variety of approaches it is important to pay attention to some unusual experience of specific countries of the EU.

de suite on the first sale doctrine: An economic analysis of law, 5 (2) NTUT Journal of Intellectual Property Law and Management 1 (2016).

²⁶ Pereira A.L.D., *Levies in EU copyright law: an overview of the CJEU's judgments on the fair compensation of private copying and reprography*, 12 (7) Journal of Intellectual Property Law & Practice 591 (2017). (accessed 10 May 2022). URL: <https://doi.org/10.1093/jiplp/jpx060>

²⁷ Green Paper on Copyright and the Challenge of Technology - Copyright Issues Requiring Immediate Action: COM (88) 172/ Commission of the European Communities. 7 June 1988. P.132–134. (accessed 10 May 2022).URL: [http://aei.pitt.edu/1209/1/COM_\(88\)_172_final.pdf](http://aei.pitt.edu/1209/1/COM_(88)_172_final.pdf)

²⁸ Case C-462/09 Stichting de ThuisKopie v Opus Supplies Deutschland GmbH and Others [2011] ECR I-05331 (accessed 10 May 2022).

URL: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62009CJ0462>

²⁹ A Single Market for Intellectual Property Rights Boosting creativity and innovation to provide economic growth, high quality jobs and first class products and services in Europe: COM/2011/0287 final, European Commission. 24.5.2011. (accessed 10 May 2022). URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2011:0287:FIN>

³⁰ European Parliament resolution of 27 February 2014 on private copying levies (2013/2114(INI)). URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014IP0179>

³¹ International Survey on Private Copying - Law and Practice 2016, WIPO (2017). (accessed 10 May 2022). URL: https://www.wipo.int/edocs/pubdocs/en/wipo_pub_1037_2017.pdf

The first country under analysis is Spain. In 2011 they introduced a new source of financing private copy levies — budget funding.

However, after some years this system struck a reef as there was a lot of criticism.³² First, the amount of remuneration is set every financial year by a legal procedure followed by the Minister of Education, Culture and Sport within the limits specified by the budget of the State. There is some doubt that such an amount can be construed as ‘equitable’ or ‘fair’ as is calculated in advance and cannot outgrow the specified budget sum. Second, the burden of payment of such remuneration is factually lying on all the taxpayers of the state (not only on the individuals as it is presumed by the general idea) without any connection of their activities to factual or presumable private copying.

All these arguments finally were outlined in the case C-470/14, EGEDA v. Administracion del Estado³³, and then also in the Decision of the Supreme Court of Spain of 10 November 10, 2016, according to which the governmental Decree 1657/2012 was found illegal and also not conforming with the Directive 2001/29/EC.

Nevertheless, a similar model of budget funded ‘fair compensation’ still exists in Finland, Estonia and Norway. They find it a good alternative to the parafiscal payments. Of course, there are some advantages: authors are likely to finally get their remuneration as everything is under control of the state. Another major advantage of such system is that it is neutral to the type of use, type of devices, type of technologies: it encompasses the online sphere as well. Moreover, it is said that such funding is big enough to propose appropriate compensation to the authors. At the same time the volume and frequency of copying shall be determined by a special independent research organization. All in all, they say that it is a viable system, especially if improved a bit, with all the disadvantages of the parafiscal system taken into account.

And these drawbacks do exist in the mechanism of parafiscal payments. First, the problem with identifying devices and gadgets to be levied on, that is the **scope of equipment** used for private copying. In most cases one follows formal criteria: government creates some lists of types of equipment, that fall under the levy procedure. The payment is though not levied upon professional equipment. It is obvious that it is impossible to enumerate all and every particular device, that is why these lists are often linked to some classifiers³⁴. For example, in Russia we use the classification of goods according to the Foreign Economic Activity Commodity Nomenclature of the Customs Union (hereinafter — FEACN of the CU)³⁵ for the imported goods and the ‘Russian Classifier of Products by Type of Economic Activity’³⁶ for the goods produced in the territory of Russia.

³² Caballero Gutiérrez J. L., *The Spanish fair compensation scheme for private copying: what is unlawful?*, 11 (10) Journal of Intellectual Property Law & Practice 734 (2016). (accessed 10 May 2022). URL: <https://doi.org/10.1093/jiplp/jpw113>

³³ Case C-470/14 Entidad de Gestión de Derechos de los Productores Audiovisuales (EGEDA) and Others v Administración del Estado and Asociación Multisectorial de Empresas de la Electrónica, las Tecnologías de la Información y la Comunicación, de las Telecomunicaciones y de los contenidos Digitales (AMETIC) [2016]. Digital reports (Court Reports - general). (accessed 10 May 2022). URL: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62014CJ0470>

³⁴ Kudryashova E.V. & Casetti M., *Digital technologies in wine sector: Russian legislator preferences*, 699 IOP Conference Series: Earth and Environmental Science 012002 (2021).

³⁵ Decision of the Council of the Eurasian Economic Commission № 54 dated July 16, 2012 ‘On approval of the unified Foreign Economic Activity Commodity Nomenclature of the Eurasian Economic Union and the Unified customs tariff of the Eurasian Economic Union’. URL: (accessed 10 May 2022). <http://www.eurasiancommission.org/ru/act/trade/catr/ett/Pages/default.aspx>

³⁶ OK 034-2014 (CPA 2008). Russian Classifier of Products by Type of Economic Activity’ (approved by the Order of Rosstandart dated 31.01.2014 № 14-st). (accessed 10 May 2022). URL: http://www.consultant.ru/document/cons_doc_LAW_163703/

The problem is that the product is deemed falling under the copyright levy upon simple correspondence with the code number without any analytical approach. Sometimes similar formal approach is found not only among officers but also in the course of judicial process. Yet the doctrine and jurisprudence have suggested some informative criteria separating professional equipment, for example: the need of special professional skills to use the equipment; high price-policy for the equipment (for an average consumer); specific part of economic market and order of after-sales service; informing consumers about professional purpose of use of the equipment.³⁷

So, the existing list of codes of equipment with the declared exception for professional equipment is not enough, as it comprises only a presumption that this or that device would be used for private or professional purposes — factual purposes of use are not taken into account. Moreover, the payment is levied in advance — before any use at all, so we talk here only about potential use for private copying purposes.

Second, the scope of equipment should be analyzed from the perspective of principal **functions**. The list contains all the devices that make it possible to make any copy of a file (a sound recording, for example). But we understand that there are devices that are meant to copy or to record by their principal functions (a sound recorder), and there are devices where copying or recording is meant as an additional function (a cellphone). As the significance of the functions is not the same, the provoked harm would also differ in its amount.

So, taking into account the rationale of the levy, set in the EU Directive — compensation for the harm to the right holders — it is necessary to assess the levy differently depending on the type of equipment using different rates. In this context we should mention the system existing in Germany, where rates differ depending of the type and functions of the device.³⁸

Russian legislation does not have direct link to the compensational character of the levy, which made it possible to set a fixed rate of 1% of the price for all the equipment mentioned in the list established by the Government.

Third, there is some ambiguity in the aspect of **persons**. By the initial idea private copy may be made only by a natural person — legal persons do not have any ‘private’ needs. Nevertheless, as the payments are levied in advance, even before the final buyer is known, it might happen that a legal person buys some equipment and by that action pays the copyright levy — as the levy is actually ‘included’ in the final price.

The CJEU also somehow addressed this issue in the Padawan case (Case C-467/08)³⁹. There are obvious practical difficulties in identifying private users that actually conduct private copy and making them pay compensation. That is why we have to set a system with at least some specific known responsible persons. And as for the legal persons that have bought the equipment, there should be a mechanism that allows to reimburse this paid levy (included in the price of a good) if the good was not sold to a natural person and therefore was not used for private copying purposes.⁴⁰ The said

³⁷ Decision of the Intellectual Property Court of the Russian Federation dated 18.04.2017 № C01-809 / 2016 in case № A40-97879 / 2015

³⁸ Produkte & Tarife, Zentralstelle für private Überspielungsrechte. (accessed 10 May 2022). URL: <https://www.zpue.de/en/products-rates.html>

³⁹ Case C-467/08 Padawan SL v Sociedad General de Autores y Editores de España (SGAE) [2010]. ECR I-10055. (accessed 10 May 2022). URL: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62008CJ0467>

⁴⁰ Gupta I. & Devaiah V.H., *CJEU addresses private copying and fair compensation issues*, 11 (6) Journal of Intellectual Property Law & Practice 403, 404 (2016). (accessed 10 May 2022). URL: <https://doi.org/10.1093/jiplp/jpw035>

mechanism was found conforming with the ‘InfoSoc’ Directive 2001/29/EC in the case practice of the CJEU⁴¹.

Fourth, there are some doubts as to the application of the existing system to the modern **digital** reality. The idea of the levy was born in the analogous world — there were not so many copying devices, it was easy to categorize them and to keep an eye on them. And nowadays they back down, they are used less often and the harm they inflict is less significant than the one from the digital technologies. And the digital technologies practically always have such a side function as copying, though their primary functions are often storing and using (performing, executing and so on).

When there is at least some physical existence in the hands of a consumer, there is no doubt that such a device may be levied on — for example, HDDs (special HDDs for servers, by the way, may cause many problems with regard to the professional criterion and personal criterion). But now there are technologies that allow copying for the consumers without any additional physical devices held by such consumer — cloud copying, for example. These are corporations that set servers, where all the data is stored. And the consumers only get access to the capacity of such servers while executing private copying in their cloud storage accounts. Recently the CJEU has addressed this issue in the *Austro-Mechana* case (C-433/20)⁴², concluding that copying in the cloud can be construed as private copying if made by a natural person and if not made available to the public with the use of a weblink.

Another mediumless situation is the use of streaming technologies⁴³. Usually these are websites that allow real-time viewing or listening to some media content (which automatically means caching — making some interim copies), moreover, some online services allow downloading the content for subsequent offline viewing or listening within the application (in this case the content is usually protected by a digital rights management system and cannot be transferred somewhere else by the user). The first type of copy surely does not presuppose paying copyright levy, as all the interim copying necessary for technological working are usually either established as a copyright limitation⁴⁴ or directly excluded from the exclusive right to copy⁴⁵.

As for the second type of copy, according to an expert’s opinion this case does not fall into the category of copyright levy.⁴⁶ One major reason for that is the existence of an agreement between the consumer and the streaming website. Access to media content is usually given by subscription, and the streaming website has some agreements with the right holders. So, we have licensed use here — the one based on contractual relations which directly allow copying in a restricted way (sufficient technological control). More than that, in case of streaming the requirement of ownership of the copy is not met — the user does not own the initial file streamed by the service, nor does he own the copy on his device, as it is usually available for a limited time of subscription, which makes it practically a

⁴¹ Case C-521/11. *Amazon.com International Sales Inc. and Others v Austro-Mechana Gesellschaft zur Wahrnehmung mechanisch-musikalischer Urheberrechte Gesellschaft mbH* [2013]. (accessed 10 May 2022). URL: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62011CJ0521>

⁴² Case C-433/20. *Austro-Mechana Gesellschaft zur Wahrnehmung mechanisch-musikalischer Urheberrechte Gesellschaft mbH v Strato AG* [2022]. (accessed 10 May 2022). URL: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:62020CJ0433>

⁴³ Kudryashova E. & Casetti M., *The Internet of Things - the Nearest Future of Viticulture*, 13 (2) AGRIS on-line Papers in Economics and Informatics 79 (2021).

⁴⁴ The provision for transient copies — Article 5(1) of the Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, 2001 O.J. (L 167) 10. (accessed 10 May 2022). URL: <http://data.europa.eu/eli/dir/2001/29/oj>

⁴⁵ Article 1270(2)1 of the Civil Code of the Russian Federation (Part four) dated 18.12.2006 №230-FZ. (accessed 10 May 2022). URL: http://www.consultant.ru/document/cons_doc_LAW_64629/

⁴⁶ Strowel A., *Private Copying Levies Do Not Apply in the Case of Streaming*, 4 (2020). (accessed 10 May 2022). URL: https://www.digitaleurope.org/wp/wp-content/uploads/2021/04/Expert-Opinion_Streaming-and-Private-Copying-Levies_Strowel.pdf

rented copy. Therefore, there is no need to apply copyright exception and additional compensational mechanism here.

Most of the said ambiguous aspects of existing parafiscal mechanisms of copyright levies were mentioned by the Parliament of the European Union in its Resolution of 2014⁴⁷. With the digital world being at popular positions the EU stresses the necessity to use the benefits of the digital sphere and to give preference to various licensing models ('S'). They acknowledge a large number of legal actions ('L'), different types and functions of equipment ('J'), professional equipment ('Q') and so on.

Further uniformity might be necessary for the purposes of economic analysis of the regulation. Leaving this deep topic to the specialists in law and economics⁴⁸ we would mention that while calculating the rates for the copyright levy one should take into consideration only the damage caused by those private copying activities falling under the said copyright exception, but not all the damage that might occur because of illegal copying in the analog and even mostly digital sphere.

Worth mentioning in this context is the fact that according the above-mentioned 'Padawan' case copyright levy is an autonomous EU law concept which must be interpreted uniformly.⁴⁹ Therefore, we might envisage further work of the EU on that topic.

IV. Conclusion

We would not lie if we say that copyright levy is a very important concept which is as well disputable and difficult in practical realization. In most countries it exists in the form of a parafiscal payment, which places it between two spheres of law: tax law and civil law. Obviously, its historical background is closer to private law, to the law of intellectual property. But due to the methods of private law, and to some practical issues of IP enforcement (one cannot control private life of another) some aspects from public law have to be introduced inevitably — by that we mean centralized levy imposed on a wide circle of people collected by an authorized entity. This kind of a payment conforms with all the criteria of a parafiscal payment.

Such a mechanism inevitably has some inherent drawbacks. What we can do, is to provide for some mechanisms of correction or improvement (reimbursement schemes for the wrong subject) and establish meaningful approach (flexible assessment based but not limited to the lists of equipment destined for private copying). As for the connection with the harm to the right holder, the situation is more ambiguous — there is still no technical ability to calculate factual harm regarding particular device, particular work, particular right holder. That is why there has to be deep economic analysis before the establishment of particular copyright levy rates in a country.

⁴⁷ European Parliament resolution of 27 February 2014 on private copying levies (2013/2114(INI)). (accessed 10 May 2022).

URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014IP0179>

⁴⁸ See Poort J. & Quintais J.P. *The Levy Runs Dry: A Legal and Economic Analysis of EU Private Copying Levies*, 4 Journal of Intellectual Property, Information Technology and E-Commerce Law 205 (2013). (accessed 10 May 2022). URL: <http://www.jipitec.eu/issues/jipitec-4-3-2013/3846>

⁴⁹ Allgrove B., Hart M. & Dockrell V., *Court of Justice rules on scope of fair compensation for private copying exceptions*, 6 (2) Journal of Intellectual Property Law & Practice 80, 81 (2010). (accessed 10 May 2022). URL: <https://doi.org/10.1093/jiplp/jpq189>

More than that, in our opinion the future consists in minor part in the development of a technically controlled method of calculation of the harm and in greater part in the licensed form of cooperation and technical measures of protection from copying.

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DISCLOSURE UNDER SSO IPR POLICIES: A THEORETICAL PERSPECTIVE

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ABSTRACT

Of the various roles, a standard-setting organization (SSO) is likely to play in the development of standards, the most important involves striking a balance between the interests of innovators and implementers. Towards that end, most SSOs require their members holding patents to disclose and license all essential patents on terms that are fair, reasonable, and non-discriminatory (FRAND). These obligations are imposed to facilitate the development of standards, while at the same time reducing the risk of opportunistic conduct by standard essential patent (SEP) holders. However, seeking their enforcement has proved to be difficult for both, the SSOs and the implementers relying on the same.

The academic literature is replete with theories that may help in understanding disclosure and further justifying the enforcement of disclosure obligations at SSOs. But despite the existence of these theories, most SSOs have been unsuccessful in seeking the enforcement of SEP holders' disclosure commitments. A part of the reason, it could be argued, is the approach to standard-setting, offered by the existing theories on disclosure. The present paper focuses on a qualitative assessment of some of these theories, with the object of understanding the obligations of disclosure in a better manner. In doing so, it carries out a comparative analysis of the strengths and weaknesses of each of these theories and discusses the possibility of an alternative theory for the enforcement of disclosure obligations at SSOs.

Keywords: Disclosure, FRAND, SSOs, SEP, standards, implementers

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1. INTRODUCTION

Of the various roles that a standard-setting organization (SSO) is likely to play in the development of standards, the most important involves striking a balance between the interests of innovators and implementers. The said balance is necessary to ensure that while innovators have enough incentives to contribute their technology towards the development of standards, implementers, on the other hand, continue to have access to standardized technology.¹ Towards that end, members of most SSOs are required to disclose and license all such patents that are potentially essential to a standard, on terms that are fair, reasonable, and non-discriminatory (FRAND).² The scope of this paper is limited to the former of the two obligations, i.e., disclosure. The obligation to disclose is imposed to facilitate the development of standards and reduce the risk of opportunistic conduct by standard essential patent (SEP) holders. However, with patent disclosure being self-declaratory in nature, there is, in the absence of a review of patent declarations by SSOs, a major risk that patents that may not be essential, may still be disclosed as essential; a phenomenon known as over-disclosure.³

The academic literature is replete with theories that may help in understanding disclosure and further justify the enforcement of disclosure obligations at SSOs. However, despite the existence of these theories, most SSOs have been unsuccessful in seeking the enforcement of SEP holders' disclosure commitments. A part of the reason, it could be argued, is the lack of a holistic approach to standard-setting, offered by the existing theories. Against this background, the present paper focuses on some of the theories in disclosure literature, with the object of understanding the obligations of disclosure more effectively. In doing so, it carries out a detailed analysis of the strengths and weaknesses of each of these theories in terms of the enforcement of disclosure obligations. The Paper begins with the justification for information disclosure, followed by its importance in the context of standard-setting. The next part focuses on the different theories present in disclosure literature and assesses the applicability of each of these theories to standard-setting. This is followed by an overview of the disclosure practices followed at some of the major SSOs operating in the information and communication technologies (ICT) sector. Having analyzed some of the existing theories and practices of disclosure, the next part presents a hybrid theory for understanding the disclosure obligations at SSOs. The last part involves a discussion on the adequate extent of disclosure in standard-setting, rounded off by the conclusion.

2. JUSTIFICATION FOR DISCLOSURE

When it comes to achieving transparency in corporate governance, information asymmetry has, over the years, proved to be a major obstacle.⁴ The key to removing the said obstacle lies firmly rooted

¹ 'Balancing Innovation and Intellectual property Rights in a Standard-setting Context' (*ITU News*, 2012), (accessed 22 October 2019). <https://itunews.itu.int/en/3049-Balancing-innovation-and-intellectual-property-rights-in-a-standard-setting-context.note.aspx>

² Ian D. McClure, 'Accountability in the Patent Market Part II: Should Public Corporations Disclose More to Shareholders?' (2016) 26(2) *Fordham Intellectual Property, Media and Entertainment Law Journal* 417.

³ Robin Stitzing, Pekks Saaskilahti, Jimmy Royer and Marc Van Audenrode, 'Over-Declaration of Standard Essential Patents and the Determinants of Essentiality' (27 October 2017) Available at SSRN: (accessed 18 March 2021) <https://ssrn.com/abstract=2951617>

⁴ Etienne Farvaque, Catherine Refait-Alexandre et Dhafer Saidane, 'Corporate Disclosure: A Review of Its (Direct and Indirect) Benefits and Costs' (2011) 128 *International Economics* 5; Rahul Ravi and Youna Hong, 'Firm Opacity and Financial Market Information Asymmetry' (2014) 25 *Journal of Empirical Finance* 83; William Fuchs, Aniko Ory and Andrzej Skrzypacz, 'Transparency and Distressed Sales Under Asymmetric Information' (2016) 11 *Theoretical Economics* 1103.

in disclosure. Disclosure, whether mandatory or voluntary, reduces information asymmetry and facilitates informed decision-making.⁵ More importantly, imposing a disclosure obligation makes up for the need for regulatory authorities to evaluate stakeholder conduct.⁶ There are five main pillars of transparency and disclosure, namely, truthfulness, completeness, the materiality of information, timeliness, and accessibility.⁷ Truthful and complete disclosure of material information has the effect of ensuring market efficiency and assisting stakeholders in making informed investment choices.⁸ What further contributes to transparent decision-making is timely disclosure and the ease of access to the information so disclosed, for all stakeholders.

In the context of standard-setting activities at SSOs, information asymmetry between the SEP holders and implementers finds its existence in the form of a lack of information regarding patents and pending patent applications. The possession of information regarding the status and essentiality of patents is skewed in favour of SEP holders, putting them in a fairly strong position vis-à-vis the negotiation of licenses. Meanwhile, the implementers, with little or no information on the essentiality front, are more often than not, left at the mercy of patent holders, leading to possible over-disclosure or under-disclosure by the latter. While under-disclosure results in some of the essential patents being disclosed post the development of the standard, over-disclosure leads to non-essential patents being disclosed as essential prior to the development of the standard. In both cases, implementers, in the absence of a truthful disclosure, are faced with the prospect of having to pay supra-competitive royalties for SEP licenses.

The relevance of information disclosure, however, is different for different stakeholders. To begin with, disclosure assists the SSO working groups with informed decision-making regarding the inclusion of patented technology in the standard, based on technical superiority, the implementation cost of the standard, and the availability of patent licenses for the use of technology. It is further helpful in facilitating the choice between different technology alternatives, or in designing around a patented technology. From the implementers' perspective, disclosure is fundamental in the identification of patent holders holding essential patents, as well as an assessment of whether the former shall be required to seek licenses from the latter. And in case of a need to seek licenses, it is further helpful in answering the question of whether the implementers would be under an obligation to pay royalties. In other words, disclosure assists implementers in reviewing the disclosed SEPs, their prospective value, and questions regarding their validity and essential nature. Disclosure is equally relevant for SEP holders, as it helps them in assessing their essential patent claims vis-à-vis the claims of others, and in the determination of the appropriate royalty rate, in line with their FRAND commitments.⁹

While it is true that in the context of standard-setting, SEP holders and implementers are the major stakeholders, it cannot at the same time, be denied that the relevance of disclosure isn't just restricted to the stakeholders but extends to regulatory authorities, as well as the courts. With standardization, there is always a risk involving abuse of dominance by SEP holders, owing to which standard-setting processes are closely watched by competition agencies. In case of alleged anti-competitive conduct being brought to their attention, competition agencies often seem to rely on the patent data stored in SSO databases.¹⁰ The said databases contain the relevant patent data disclosed by patent holders in

⁵ Michael D. Guttentag, 'An Argument for Imposing Disclosure Requirements on Public Companies' (2004) 32 Florida State University Law Review 123, page [124].

⁶ Farvaque and Saidane (n 4) 6.

⁷ Benjamin Fung, 'Demand and Need for Transparency and Disclosure in Corporate Governance' (2014) 2(2) Universal Journal of Management 72, pages [75]-[76].

⁸ Fung (n 7) 76.

⁹ Keith Maskus and Stephen A. Merrill (eds), *Patent Challenges for Standard-Setting in the Global Economy: Lessons from Information and Communication Technology*, (The National Academies Press 2013), page [73].

¹⁰ Maskus and Merrill (n 9) 74.

fulfillment of their disclosure obligations and offer assistance to competition agencies in the assessment of anti-competitive conduct. For courts too, information disclosure is extremely useful in assessing claims regarding non-compliance with SSO IPR policies,¹¹ for the SSO members' conduct throughout the standards development process is evaluated against the commitments made by them to the SSOs, ex-ante. Moreover, with a majority of the courts and competition agencies in the United States (U.S.)¹² and European Union (EU)¹³ having stated that FRAND royalties should be based on the economic value of the technology prior to its incorporation in the standard, accurate disclosure of patent information becomes extremely crucial in judicial proceedings.¹⁴

From a jurisprudential point of view, there are several theories in disclosure literature, that emphasize the importance of disclosure and offer an explanation for the reasons behind firms' decisions to voluntarily disclose less or more information.¹⁵ Some of these theories are the agency theory, signaling theory, capital need theory, stakeholder theory, and legitimacy theory. In explaining voluntary information disclosure, these theories take into account the different factors responsible for influencing organizational behavior; the most important of which is information asymmetry. Furthermore, while the agency theory looks at information asymmetry and disclosure from the perspective of a principal and agent, signaling theory assesses the same in the context of a company and its investors. Similar to the signaling theory, the capital need theory holds the need to raise capital as a major determinant in the extent of disclosure, while the stakeholder theory views disclosure as being directly affected by the interests of various stakeholders of a firm. Yet another justification for disclosure is offered by legitimacy theory, according to which the true test of information disclosure is that of societal approval.

It is on account of these diverse perspectives on disclosure that it becomes essential to take an in-depth look at these theories-

2.1 AGENCY THEORY

Having its roots in information economics, agency theory was proposed by Stephen Ross and Barry Mitnick, albeit independently of each other.¹⁶ While Stephen Ross is credited for devising the economic theory of agency, Barry Mitnick is the one responsible for the institutional theory of agency.¹⁷ Under the agency theory, an agency relationship is defined as "a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent."¹⁸ The principal and

¹¹ Ibid.

¹² Koren W. Wong-Ervin, Methodologies for Calculating FRAND Royalty Rates and Damages (*ABA*, 22 October 2014) (accessed 29 October 2019) https://www.ftc.gov/system/files/attachments/key-speeches-presentations/wong-ervin_aba_program_frand_royalty_rates_10-22-14.pdf; Koren W. Wong-Ervin, 'Methodologies for Calculating FRAND Damages: Part 1' (*Law360*, 8 October 2014). (accessed 29 October 2019). https://www.ftc.gov/system/files/attachments/key-speeches-presentations/wong-ervin_-_methodologies_for_calculating_frand_damages.pdf

¹³ Commission, 'Setting out the EU Approach to Standard Essential Patents' (Communication) COM (2017) 712 final.

¹⁴ Maskus and Merrill (n 9) 74.

¹⁵ Francisco Bravo, Cristina Abad and Marco Trombetta, 'Disclosure Theories and Disclosure Measures' (2010) 39(147) *Revista Espanola De Financiacion Y Contabilidad* 393.

¹⁶ Kathleen M. Eisenhardt, 'Agency Theory: An Assessment and Review' (1989) 14(1) *Academy of Management Review* 57.

¹⁷ Barry M. Mitnick, 'Origin of the Theory of Agency: An Account by One of the Theory's Originators' (2006). (accessed 17 December 2019). <http://www.pitt.edu/~mitnick/agencytheory/agencytheoryoriginrev11806r.htm>

¹⁸ Michael C. Jensen and William H. Meckling, 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership

agent might have different interests and as a result, the actions of the agents might not always align with the interests of the principal.¹⁹ In other words, such actions are likely to affect the welfare of the principal.²⁰ Furthermore, the divergence in interests of the two can be linked to agency costs. While the principal incurs monitoring costs to prevent its agent from indulging in aberrant activities, the agent incurs bonding costs to ensure that the principal does not suffer any harm as a result of its decision-making.²¹ A divergence in decision-making results in a reduction of the principal's welfare and is referred to as residual loss.²² Thus, agency cost can be defined as the sum of monitoring cost, bonding cost, and residual loss.²³ Having said so, according to the agency theory, it is information asymmetry between the principal and agent that leads to an increase in agency costs and gives rise to the likelihood of conflicts. It is further argued that the same could be minimized by bringing about an increase in the information disclosed.²⁴ Doing so would not only leave the agent in a position to carry out more informed decision-making but also reduce agency costs. What is worth noting, however, is the bulk of concentration of the Theory on the agent side of the issue, with no real attention being paid to the principal side.²⁵ In other words, the Theory ignores the possibility of information asymmetry arising from the side of the principal, something that finds instant support in standard-setting.

In the context of standard-setting, it may be held that the representatives of patent holders, while participating in the standard-setting process act in the capacity of agents and make all decisions related to the disclosure of essential patent claims. However, despite the agency involved, there have been allegations of over-disclosure, under-disclosure, and lack of disclosure levelled against patent holders.²⁶ One may attribute the same to the unwillingness on the part of principals (the firms holding patents in this case) to make an accurate disclosure to their agents, resulting in the agents making under/over disclosure. Once the standard has been developed and certain essential patent claims end up being claimed by the patent holder ex-post, the representatives (agents) plead ignorance, despite there being a possibility of a deliberate ploy on the part of SEP holders to withhold such information. The major drawback in the case of agency theory, when seen in the context of standard-setting, is the lack of accountability of SEP holders, in case of inaccurate disclosure made by their representatives. Unlike the principal's vicarious liability vis-à-vis the agent's actions, the SSO IPR policies do not hold the SEP holders vicariously liable for the actions of their representatives. As a result, any declarations of essentiality coming from the SEP holders' representatives (agents) if found to be false, would have no effect on the membership or future participation of the SEP holders at the SSO. In such a situation, with there being no accountability on the part of SEP holders for the actions of their representatives, it becomes difficult to apply the agency theory to standard-setting.

Structure' (1976) 3 Journal of Financial Economics 305.

¹⁹ Bravo, Abad and Trombetta (n 15) 396.

²⁰ Nermeen F. Shehata, 'Theories and Determinants of Voluntary Disclosure' (2014) 3(1) Accounting and Finance Research 18.

²¹ Jensen and Meckling (n 18) 308.

²² Shehata (n 20) 19.

²³ Jensen and Meckling (n 18) 308.

²⁴ Bravo, Abad and Trombetta (n 15) 396.

²⁵ Charles Perrow, 'Economic Theories of Organization' (1986) 15 Theory and Society 11.

²⁶ Over-disclosure refers to a situation where patent holders, in order to extract higher royalties, declare more patents as essential than those actually essential. Under-disclosure results from a lack of adequate disclosure owing to third party ownership of patents, with the outcome being the assertion of such patents and demand for royalties accruing post the development of the standard.

2.2 SIGNALING THEORY

The origin of signaling theory can be traced to Michael Spence's seminal work on markets with asymmetric information in 1973.²⁷ Originally developed based on the existence of knowledge gaps between employers and employees, the Theory went on to be applied in other domains, including organizational behavior.²⁸ According to signaling theory, information asymmetry between a company and its potential investors leads to adverse selection.²⁹ To avoid such information asymmetry, it is common practice in the corporate sector for companies to signal certain information to investors. Most companies voluntarily disclose more information than what is mandated under a given law or regulation, to signal their credibility and attract greater investment.³⁰ The Theory further holds that voluntary disclosure is directly proportional to the size and profits of the firm,³¹ meaning thereby that bigger firms are likely to disclose more information. In other words, the more profitable the firm, the higher is likely to be the information disclosure.³² Having said so, the Theory does not account for the financial costs associated with the process of signaling. Furthermore, there is a lack of information on how to perceive alternative signals, and in certain cases, multiple signals at the same time.³³

The other important aspect of the Theory is the assumption that the sellers are more informed than the buyers when it comes to their products (information asymmetry).³⁴ With a lack of information about the products, buyers are likely to value the products based on their perceptions, which in certain cases may end up being based on the average price of goods sold by different sellers (imperfect information).³⁵ This might result in manufacturers of high-quality products incurring losses, for their goods might have been sold at higher prices had there been enough information disclosure. On the other hand, manufacturers of lower-quality products might stand to benefit due to the market average working in their favour, in the absence of adequate disclosure. In other words, in the absence of a signal regarding quality, products of low and high quality might end up being sold for the same price. Therefore, it becomes essential for sellers to signal to prospective buyers, information about their product, which will aid informed decision-making by the latter.³⁶

In standard-setting, it can be said that SSO IPR policies require firms holding patents to disclose all essential patents prior to the development of the standard. However, most firms holding essential patents are big, as a result of which the profits at stake are more and the disclosure is likely to be on the higher side. The basic problem that is likely to arise due to higher information disclosure is over-disclosure. Patents that may not in reality be essential, might end up being disclosed as essential by

²⁷ Michael Spence, 'Job Market Signaling' (1973) 87(3) *The Quarterly Journal of Economics* 355; Victor Nee and Sonja Oppen, 'Sociology and the New Institutionalism' in James D. Wright (ed), *International Encyclopedia of the Social & Behavioral Sciences* (Elsevier 2015); M.E. Page, 'Signaling in the Labor Market' in Penelope Peterson, Eva Baker and Barry McGaw (eds), *International Encyclopedia of Education* (3rd edn, Elsevier 2010).

²⁸ Michael Spence, 'Job Market Signaling' (1973) 87(3) *The Quarterly Journal of Economics* 355.

²⁹ Bravo, Abad and Trombetta (n 15) 397.

³⁰ Shehata (n 20) 20.

³¹ Hamid Birjandi, Bahruz Hakemi and Mohammed Mehdi Molla Sadeghi, 'The Study Effect Agency Theory and Signaling Theory on the Level of Voluntary Disclosure of Listed Companies in Tehran Stock Exchange' (2015) 6(1) *Research journal of Finance and Accounting* 174.

³² Laura Bini, Francesco Dainelli and Francesco Giunta, 'Signalling Theory and Voluntary Disclosure to the Financial Market: Evidence from the Profitability Indicators Published in the Annual Report' (34 EAA Annual Congress 2011), page 2.

³³ Ray Karasek and Phil Bryant, 'Signaling Theory: Past, Present and Future' (2015) 14(12) *Electronic Business Journal* 550.

³⁴ Richard D. Morris, 'Signalling, Agency Theory and Accounting Policy Choice' (1987) 18 *Accounting and Business Research* 69.

³⁵ Abdallah Al-Mahdy M.D. Hawashe, 'An Evaluation of Voluntary Disclosure in the Annual Reports of Commercial Banks: Empirical Evidence from Libya' (Ph.D. Thesis, University of Salford 2014), page 63.

³⁶ Hawashe (n 35) 63.

firms seeking to increase their profits. The implementers in the instant case can be analogized to investors in the corporate set-up. For the implementation of the standard and manufacture of standard-compliant products, it is essential for the implementers to be aware of all the necessary information regarding the essentiality of patents, so that investments can be made to that effect. Moreover, patent holders are the ones that have all the necessary information regarding their patent portfolios and more importantly, the essentiality of patents. It is, therefore, incumbent upon the SEP holders to signal such information about essentiality to the implementers. Although signaling theory states that bigger firms are likely to disclose more information, such over-disclosure when seen in the light of standard-setting, is likely to cause hardships to implementers. This is because the disclosure made by SEP holders is likely to be acted upon by implementers. In case the disclosure is found to be inaccurate post the development of the standard (ex-post), it is highly likely, that implementers would likely suffer losses on account of the investments having already been made to that effect. What further makes it difficult to apply the signaling theory is the lack of checks being placed by SSOs, on the over-disclosure of essential patent claims. All that is required under SSO IPR policies is for patent holders to make an honest disclosure regarding all essential patent claims that they may own. However, the SSOs do not adopt any verification mechanism for checking the actual essentiality of patents, leaving implementers at the mercy of patent holders.

2.3 CAPITAL NEED THEORY

Another theory justifying the need for disclosure is the capital need theory. The capital need theory first found a mention in Fredrick Choi's 1973 paper on financial disclosure in capital markets³⁷ and has since been adopted by several scholars to explain voluntary disclosure.³⁸ Choi stated that it is the prerogative of companies to attract investment and raise their capital at a minimum cost,³⁹ and what helps them in achieving the said objectives is the voluntary disclosure of information.⁴⁰ Capital need theory posits that companies resort to voluntary disclosure of information in an attempt to lower the cost of capital and uncertainty among investors.⁴¹ The cost of capital is inversely proportional to the extent of disclosure; the greater the extent of disclosure, the lower the cost of capital for the company.⁴² In other words, there is a reduction in the cost of capital for the company, when the information so disclosed is enough for the investors to gauge the economic prospects of the company.⁴³ It has been further stated that more disclosure is preferred over less, to reduce the uncertainty surrounding the prospects of a company and attract new investors.⁴⁴ An enhancement in information disclosure not only results in improved decision-making vis-à-vis allocation of capital but also assists

³⁷ Fredrick D.S. Choi, 'Financial Disclosure and Entry to the European Capital Market' (1973) 11(2) *Journal of Accounting Research* 159.

³⁸ Sidney J. Gray, Gary K. Meek and Clare B. Roberts, 'International Capital Market Pressures and Voluntary Annual Report Disclosures by U.S. and U.K. Multinationals' (1995) 6(1) *Journal of International Financial Management and Accounting* 43; Paul M. Healy and Krishna G. Palepu, 'Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature' (2001) 31(1-3) *Journal of Accounting and Economics* 405; Omama A.G. Hassan, Gianluigi Gionni, Peter Romilly and David M. Power, 'Voluntary Disclosure and Risk in an Emerging Market' (2011) 1(1) *Journal of Accounting in Emerging Economies* 33; Peter Schuster and Vincent O'Connell, 'The Trend Toward Voluntary Corporate Disclosures' (2006) 7(2) *Management Accounting Quarterly* 1.

³⁹ Choi (n 37) 160.

⁴⁰ Hawashe (n 35) 68.

⁴¹ Mostafa I. Elfeky, 'The Extent of Voluntary Disclosure and its Determinants in Emerging Markets: Evidence from Egypt' (2017) 3 *The Journal of Finance and Date Science* 45.

⁴² Elfeky (n 41) 47.

⁴³ Shehata (n 20) 20.

⁴⁴ M. Kabir Hassan, Benito Sanchez and Jung-Suk Yu, 'Financial Development and Economic Growth: New Evidence from Panel Data' (2011) 51(1) *The Quarterly Review of Economics and Finance* 88.

investors in the assessment of the expected returns on investment.⁴⁵ The outcome is a reduction in information asymmetry between the management of the company and the prospective investors, thereby increasing the likelihood of increased demand for the company's shares.⁴⁶ At the same time, however, it has been argued that in the absence of a legal obligation to do so, disclosure of unwarranted information might lead to investors and shareholders suspecting or misinterpreting the intentions of the company.⁴⁷ Moreover, unverified disclosure of information regarding the enhanced prospects of the company might leave the company susceptible to legal action, in case the final consequence turns out to be inauspicious.⁴⁸

Seen in the light of standard-setting, it may be argued that disclosure on the part of patent holders is driven by the intention to raise more capital through royalties. The investors in the instant case being implementers need the desired information about the essentiality of patents, to make investments towards that end. To maintain a balance between the interests of the innovators (patent holders) and implementers, SSOs mandate the timely disclosure of information relating to essential patent claims by the patent holders. However, with the inclusion of patented technology in the standard, the licensing revenues likely to accrue to patent holders are significantly more than a non-essential patent license, which is why there is a tendency on the part of SEP holders to over-disclose their patents. The same can be considered analogous to the desire to raise more capital for the firm. The Theory, however, is unable to offer a justification for the possibility of under-disclosure leading to possible gains for SEP holders, as observed in *Dell*⁴⁹ and *Rambus*⁵⁰ cases.⁵¹ In the context of standard-setting, both over-disclosure and under-disclosure are distinct possibilities. There is evidence to account for under-disclosure on the part of SEP holders, therefore, it becomes quite difficult to apply the capital need theory in such a case.

2.4 STAKEHOLDER THEORY

One of the most holistic approaches to disclosure is offered by the stakeholder theory, which takes into account the interests of stakeholders other than mere shareholders of the company. A stakeholder may be defined as "any group or individual who can affect or is affected by the achievement of the firm's objectives".⁵² Applying the said principle, stakeholders range from employees to creditors, as well as include customers, public interest groups, and regulatory and governmental bodies.⁵³ The roots of stakeholder theory can be traced to Milton Friedman's 1970 article, "The Strategic Responsibility of Business is to Increase Profits" in the New York Times, wherein the Nobel Laureate justified the

⁴⁵ Peter Schuster and Vincent O'Connell, 'The Trend Toward Voluntary Corporate Disclosures' (2006) 7(2) Management Accounting Quarterly 1.

⁴⁶ B.M. Craven and C.L. Marston, 'Financial Reporting on the Internet by Leading UK Companies' (1999) 8(2) European Accounting Review 321.

⁴⁷ Omaina A.G. Hassan, Gianluigi Giongioni, Peter Romilly and David M. Power, 'The Value Relevance of Disclosure: Evidence from the Emerging Capital Market of Egypt' (2009) 44(1) The International Journal of Accounting 79.

⁴⁸ S.P. Kothari, 'The Role of Financial Reporting in Reducing Financial Risks in the Market' in Eric Rosengren and J. Jordan (eds), *Federal Reserve Bank of Boston Conference Series No. 44* (Federal Reserve Bank of Boston 2000); Hawashe (n 34) 71.

⁴⁹ *Re Dell Computer Corp* 121 FTC 616 (1996).

⁵⁰ *Re Rambus Inc* 9302, 2007 WL 431522 (FTC Feb 2, 2007).

⁵¹ In both instances, the SEP holders Dell and Rambus were alleged to have indulged in deliberate non-disclosure of SEP(s), with the intention of extracting exorbitant royalties post the inclusion of the said patents in VESA Bus standard and DRAM standards respectively.

⁵² R. Edward Freeman, *Strategic Management* (Cambridge 1984), page 49.

⁵³ Robin W. Roberts, 'Determinants of Corporate Social Responsibility Disclosure: An Application of Stakeholder Theory' (1992) 17(6) Accounting, Organizations and Society 595.

focus of companies on maximizing profits.⁵⁴ Friedman stated companies are artificial persons having no moral responsibilities, with profit as their main motive. Furthermore, in supporting Adam Smith's argument of the "visible hand", Friedman stated that the attainment of social welfare was contingent on each carrying their interest.⁵⁵ According to the stakeholder theory, however, it is the responsibility of a firm to integrate the divergent interests of all stakeholders through transparent reporting of information.⁵⁶ One of the pioneer works on the stakeholder theory happens to be that of Ullmann, according to whom, what drives the behavior of a firm is the pressure exerted on it by the various stakeholders.⁵⁷ In other words, one of the most crucial determinants of organizational behavior happens to be stakeholder power.⁵⁸ What is important is how a firm responds to such pressure. A firm's success is to be seen in the light of its ability to balance the conflicting interests of all stakeholders.⁵⁹ Despite the aforementioned benefits, stakeholder theory has been subjected to considerable scrutiny. While some hold the opinion that it lacks specificity, making it difficult to allow scientific inspection,⁶⁰ others state the Theory to be offering an unrealistic view of the functioning of organizations.⁶¹ It is further argued that stakeholder theory shifts the focus from achieving success in businesses to sharing the fruits of success.⁶² Perhaps the most notable critique of the Theory is that morally responsible corporate behavior is an unrealistic possibility as long as wealth maximization and accountability to shareholders are at the top of corporations' objectives.⁶³ Having said so, it may still assume significant relevance in the context of standard-setting.

In standard-setting, stakeholder theory posits that patent holders are obliged to cater to the interests of all stakeholders, be it their shareholders, the implementers, the SSO, or the competition agencies. That also happens to be the advantage of the stakeholder theory over the earlier theories, since it takes into consideration the interest of SSOs and the competition agencies. Disclosure of information must be such that it not only provides enough information for implementers to make investments but also for the SSO to carry on the process of standards development, with an opportunity to look at technology alternatives in case there is no FRAND commitment. As for the competition agencies, proper and honest disclosure is important so that any risk of anti-competitive harm is averted. Another advantage of the stakeholder theory is the possibility of its applicability to SSOs. Since it is the primary responsibility of an SSO to balance the interests of the innovators and implementers, it must, in achieving the said objective, impose such disclosure obligations that provide for enough disclosure to reconcile the interests of all stakeholders involved. That shall include the innovators, the implementers, and the competition agencies. It may, however, be argued that the primary responsibility of a firm is towards its shareholders, and expecting it to cater to the demands of all stakeholders may make it difficult for the firm to sustain profitability and enjoy the shareholders' confidence. Moreover,

⁵⁴ Toukabri Mohamed, Ben Jemaa Olfa and Jilani Faouzi, 'Corporate Social Disclosure: Explanatory Theories and Conceptual Framework' (2014) 3(2) International Journal of Academic Research in Management 208.

⁵⁵ Mohamed, Olfa and Faouzi (n 54) 214-215.

⁵⁶ Susith Fernando and Stewart Lawrence, 'A Theoretical Framework for CSR Practices: Integrating Legitimacy Theory, Stakeholder Theory and Institutional Theory' [2014] The Journal of Theoretical Accounting 149.

⁵⁷ Arie H. Ullmann, 'Data in Search of a Theory: A Critical Examination of the Relationships Among Social Performance, Social Disclosure, and Economic Performance of U.S. Firms' (1985) 10(3) The Academy of Management Review 540.

⁵⁸ Javier Husillos and Maria J. Alvarez-Gil, 'A Stakeholder-Theory Approach to Environmental Disclosures by Small and Medium Enterprises (SMES)' (2008) 11(1) RC-SAR 125.

⁵⁹ Roberts (n 53) 597.

⁶⁰ Susan Key, 'Towards a New Theory of the Firm: A Critique of Stakeholder "Theory"' (1999) 37(4) Management Decision 317.

⁶¹ Teppo, 'Stakeholder Theory, Again' (*orgtheory*, 2 August 2006). (accessed 18 December 2019). <https://orgtheory.wordpress.com/2006/08/02/stakeholder-theory-again/>

⁶² Tim Ambler and Andrea Wilson, 'The Problems of Stakeholder Theory' (2006) 4(1) Business Ethics A European Review 30.

⁶³ Samuel Mansell, 'A Critique of Stakeholder Theory' (Ph.D. Thesis, University of Essex 2009).

in the absence of any clear guidelines by SSOs as to the extent of disclosure expected of SEP holders, the latter is left with too heavy a burden to meet the aforementioned demands.

2.5 LEGITIMACY THEORY

Legitimacy theory derives its existence from organizational legitimacy, a concept defined by John Dowling and Jeffrey Pfeffer.⁶⁴ The Theory operates on the principle of a social contract existing between an organization and society.⁶⁵ Legitimacy can be defined as “the appraisal of actions in terms of shared or common values in the context of the involvement of the action in the social society.”⁶⁶ According to the Theory, an organization derives legitimacy for its actions by working within the bond and norms of society.⁶⁷ For the said purpose, society is considered as society at large, without considering separate individuals.⁶⁸ The Theory further obligates companies to disclose information that would result in a change in the external users’ views of them.⁶⁹ In other words, organizations are under an expectation to cater to the interests of society at large and not just those of their shareholders (as stated under the agency and signaling theories).⁷⁰ Legitimacy theory posits that an entity will only be allowed to operate if it complies with the terms of the social contract, and such terms may be implicit or explicit.⁷¹ Moreover, legitimacy can be attained through mandatory or voluntary disclosure.⁷² Although the ultimate objective of legitimacy theory, like all the other theories of disclosure, is to reduce information asymmetry, however, what sets it apart from others is the social perspective attached to corporate decision-making. When compared with stakeholder theory, legitimacy theory offers an additional perspective of societal values influencing the decisions of the firm. In other words, according to legitimacy theory, firms are expected to cope with shifts in societal perceptions through their actions, whereas stakeholder theory holds the management of stakeholder issues as the primary objective of firms.⁷³ Having said so, legitimacy theory does have its shortcomings: firstly, the Theory does not explain non-disclosure and selective disclosure by organizations. Secondly, societal expectations change quite frequently, meaning thereby that firms are expected to align their decision-making with the changing social norms and expectations, which may not be feasible owing to shareholder/stakeholder concerns. Such a situation might lead to a legitimacy gap between the two,

⁶⁴ John Dowling and Jeffrey Pfeffer, ‘Organizational Legitimacy: Social Values and Organizational Behavior’ (1975) 18(1) *The Pacific Sociological Review* 122. Organizational legitimacy is defined as “a condition or status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy.” See James Guthrie, Suresh Cuganesan and Leanne Ward, ‘Legitimacy Theory: A Story of Reporting Social and Environmental Matters Within the Australian Food and Beverage Industry’ in Stewart Lawrence and Markus J. Milne (eds), *Proceedings of the Fifth Asia Pacific Interdisciplinary Research in Accounting Conference* (APIRA 2007).

⁶⁵ Shehata (n 20) 20.

⁶⁶ Talcott Parsons, ‘Structure and Process in Modern Societies’ (1960) 66 *American Journal of Sociology* 5.

⁶⁷ Craig Michael Deegan, *Financial Accounting Theory* (Mc-Graw Hill 2009).

⁶⁸ Craig Michael Deegan, ‘The Legitimizing Effect of Social and Environmental Disclosures – A Theoretical Foundation’ (2002) 15(3) *Accounting, Auditing & Accountability Journal* 282.

⁶⁹ Denis Cormier and Irene M. Gordon, ‘An Examination of Social and Environmental Reporting Strategies’ (2001) 14(5) *Accounting, Auditing & Accountability Journal* 587.

⁷⁰ Fernando and Lawrence (n 56) 153.

⁷¹ Yi An, Howard Davey and Ian R. C. Eggleton, ‘Towards a Comprehensive Theoretic Framework for Voluntary IC Disclosure’ (2011) 12(4) *Journal of Intellectual Capital* 571.

⁷² Elfeky (n 41) 47.

⁷³ James Guthrie and Lee D. Parker, ‘Corporate Social Reporting: A Rebuttal of Legitimacy Theory’ (1989) 19(76) *Accounting and Business Research* 343.

and the wider the legitimacy gap, the greater the risk of the firm losing its legitimacy and eventual survival.⁷⁴

Standard-setting in the ICT sector, like other sectors, does have a major societal impact. The very purpose of standards development is the advancement and upgradation of technology. The likes of Wi-Fi, 4G, Bluetooth, and the Internet are a testament to the giant strides having been made by the standardization of technology. On the other hand, society too has become increasingly dependent on technology and possesses certain expectations. When it comes to SEPs, societal expectations would perhaps require the hassle-free licensing of patented technology for the development of standards. Towards that end, SEP holders are required to disclose any essential patents that they may hold, at the earliest. This is followed by the obligation to license, with the first preference being royalty-free licensing, and the second, licensing on FRAND terms. According to legitimacy theory, it could be said that societal expectations align with SEP disclosure being made in an honest and timely manner so that there is no delay in the standards development process. However, firms' conduct amounting to over-disclosure and under-disclosure may well be considered as going against the social norms, for they may affect the ultimate roll-out of standards efficiently. Applying the legitimacy theory to standard-setting might prove difficult, for societal norms and expectations would focus on the greater public good and invoke the moral responsibilities of patent owners. Moreover, patent licensing is done to get returns on investment, and in the case of standards and SEPs, these returns are likely to be multi-fold as opposed to the case of a non-SEP. Licensing of patents is legally permissible for a limited period and imposing moral obligations on SEP holders may result in their pulling out of the SSO and jeopardizing the standard-setting process. In other words, legitimacy theory may end up leaving most firms holding SEPs, in a difficult situation with their very existence being threatened.

Before proceeding to decide as to which of the aforementioned theories is most suitable for standard-setting, it would be worthwhile to take a look at the disclosure practices followed by some of the prominent SSOs operating in the ICT sector.

3. DISCLOSURE PRACTICES AT SSOs

When it comes to standardization, disclosure rules being central to SSO IPR policies, play a pivotal role in bringing about an increased level of transparency to the standards development process.⁷⁵ Having said that, disclosure practices vary substantially across SSOs. While some SSOs have laid down well-defined disclosure rules under their IPR policies, others do not impose an express obligation to disclose,⁷⁶ and obligations, if any, usually get triggered by the member's participation in the standard-setting process.⁷⁷

3.1 DECLARATION OF PATENTS

To begin with, the IPR policy of the American National Standards Institute (ANSI) does not make it mandatory for its members to disclose, rather the ANSI guidelines merely encourage that disclosure is made. The Guidelines further stipulate the subsequent course of conduct in case of a disclosure is

⁷⁴ A. S. Sethi, 'Application of Administrative Theory to Hospital Operations' (1979) 16(1-2) Hospital Administration 38.

⁷⁵ Maskus and Merrill (n 9) 74.

⁷⁶ The members of American National Standards Institute (ANSI) are not mandated to fulfill disclosure obligations, though they are encouraged to do so. See Maskus and Merrill (n 9) 71.

⁷⁷ Maskus and Merrill (n 9) 71.

made.⁷⁸ In contrast, disclosure under the IPR policy of the Institute of Electrical and Electronics Engineers (IEEE) is mandatory, expressed in the following words- “For IEEE’s patent policy to function efficiently, individuals participating in the standards development process: (a) shall inform the IEEE (or cause the IEEE to be informed) of the holder of any potential Essential Patent Claims of which they are personally aware and that are not already the subject of an existing Letter of Assurance, owned or controlled by the participant or the entity the participant is from, employed by, or otherwise represents; and (b) should inform the IEEE (or cause the IEEE to be informed) of any other holders of such potential Essential Patent Claims that are not already the subject of an existing Letter of Assurance.”⁷⁹

Similar to the IEEE IPR policy, the IPR policy of the VMEbus International Trade Association (VITA) also requires mandatory disclosure by its members, and states that “Each working group member (“WG Member”) shall disclose to the working group (“WG”) in writing the existence of all patents and patent applications owned, controlled, or licensed by the VITA member company (“VITA Member Company”) the WG Member represents, which are known by the WG Member and which the WG Member believes contain claims that may become essential to the draft VSO specification (“Draft VSO Specification”) of the WG in existence at the time, after the WG Member has made a good faith and reasonable inquiry into the patents and patent applications the VITA Member Company (or its Affiliates) owns, controls or licenses.”⁸⁰ The disclosure obligation enshrined under the IPR policy of the European Telecommunications Standards Institute (ETSI) is arguably the broadest of all SSOs, with the obligation extending to all members and activities, irrespective of the member’s participation in the standard-setting process.⁸¹

Finally, there is the IPR policy of the Internet Engineering Task Force (IETF), which imposes a mandatory disclosure requirement without making the licensing assurance mandatory.⁸² The fact that disclosure and licensing obligations usually go hand-in-hand makes the said IPR policy different from the rest.

3.2 ESSENTIALITY AND TIMING OF DISCLOSURE

In addition to the requirement of a declaration, the practice of disclosure also involves other key aspects, such as the essentiality of declared patents and the timing of disclosure. One of the foremost objectives of standard-setting is compliance with antitrust or competition law, which is why the scope of SSO IPR policies is limited to patents deemed “essential” to the standard (or in other words, SEPs).⁸³ The determination of essentiality, therefore, becomes extremely important in light of the accompanying disclosure obligation. The said determination, however, is left to the patent holders, without any intervention on the part of the SSO.⁸⁴ For instance, the IEEE IPR policy makes it clear

⁷⁸ ‘Guidelines for Implementation of the ANSI Patent Policy’ (*ANSI*). (accessed 16 October 2022). https://standards.ieee.org/wp-content/uploads/import/governance/audcom/ansi_patent.pdf

⁷⁹ ‘IEEE-SA Standards Board Bylaws’ (*IEEE SA*) (accessed 16 October 2022). <https://standards.ieee.org/about/policies/bylaws/sect6-7/><https://standards.ieee.org/about/policies/bylaws/sect6-7/>

⁸⁰ ‘VITA Standards Organization (VSO) Policies and Procedures’ (*VITA*, July 2022) (accessed 16 October 2022). <https://www.vita.com/resources/Documents/Policies/VITA%20Standards%20Policies%20and%20Procedures%20%20Revision%203.1%20July%202022.pdf>

⁸¹ Rudi Bekkers and Andrew Updegrove, ‘A Study of IPR Policies and Practices of a Representative Group of Standards Setting Organizations Worldwide’ (2012) US National Academies of Science, Board of Science, Technology, and Economic Policy (STEP) Commissioned Paper, page 51.

⁸² Scott Bradner and Jorge L. Contreras, ‘Intellectual Property Rights in IETF Technology (RFC 8179)’ (accessed 16 October 2022). <https://datatracker.ietf.org/doc/html/rfc8179#page-10>

⁸³ Manveen Singh, ‘Disclosure Practices at SSOs’ in *Standard-Setting Organisations’ IPR Policies: Intellectual Property and Competition Issues* (Springer Singapore 2022).

⁸⁴ Singh (n 83) 50.

that the identification of essential patent claims or the determination of essentiality shall not be the responsibility of the SSO.⁸⁵ The said burden instead, is shifted onto IEEE members. Furthermore, members of almost all SSOs are expected to disclose patents essential to the standard, in good faith. But with the lack of involvement on the part of SSOs in scrutinizing the said disclosure, there is a potential risk of over-disclosure and under-disclosure, which can be substantiated through the IPIytics 2017 and CRA 2016 studies.⁸⁶ The said studies revealed that only about 10-50% of the total declared patents were found to be essential.⁸⁷

The other issue requiring deliberation is the timing of disclosure. Whether the disclosure is made early or late, both suffer from their fair share of drawbacks. In case of late disclosure, there is a risk that those involved in the standards development process might find it extremely difficult and time-consuming to switch to alternative technologies.⁸⁸ On the other hand, early disclosure is likely to be inaccurate, since the determination of essentiality is contingent on the specifications of the standard, and till the time work on the final draft standard is ongoing, patent holders might not be able to determine the essentiality of patents with precision.⁸⁹ In other words, patents declared as essential at the initial stage might witness a change in their status by the time the final draft is ready, and might no longer be essential to the standard. Furthermore, if a technology alleged to be reading on the standard is still to be patented and is like a pending patent application, it may so happen that the scope of the issued patent for the said application is narrowed down, so much so that it no longer contains claims essential to the standard.⁹⁰ This has left the SSOs having to grapple with the choice between early and late disclosure.⁹¹

Starting with ANSI, the standards body promotes early disclosure, despite the absence of an obligation to disclose.⁹² The ETSI, on the other hand, requires its members to disclose all essential patents in a timely fashion and treats intentional delay in disclosing such patents as a violation of its IPR policy.⁹³ One of the most detailed guides on disclosure, including the timing of disclosure, is offered by the IPR policy of VITA, with the Policy requiring disclosure to be made within a specified period in various instances.⁹⁴ At the IEEE, members are required to disclose essential patents during

⁸⁵ 'IEEE-SA Standards Board Bylaws' (*IEEE SA*) (accessed 17 October 2022). https://standards.ieee.org/wp-content/uploads/import/documents/other/sb_bylaws.pdf

⁸⁶ Commission, 'Setting out the EU Approach to Standard Essential Patents' (Communication) COM (2017) 712 final.

⁸⁷ EC Communication COM (2017) 712 final (n 86) 5.

⁸⁸ Singh (n 83) 51.

⁸⁹ Singh (n 83) 52.

⁹⁰ R.N.A. Bekkers, L. Birkman, M.S. Canoy, P. De Bas, W. Lemstra, Yann Ménière, I. Sainz, N. Gorp, Van B. Voogt, R. Zeldenrust, Z.O. Nomaler, J. Baron, T. Pohlmann, A. Martinelli, J.M. Smits, A. Verbeek, 'Patents and Standards: A Modern Framework for IPR-Based Standardization' (2014) European Commission, page 115. (accessed 25 October 2022). <https://doi.org/10.2769/90861>

⁹¹ Singh (n 83) 52.

⁹² Bekkers and Updegrove (n 81) 60.

⁹³ Ibid.

⁹⁴ "A VSO member who proposes to VSO a specification for consideration to become a Draft VSO Specification must disclose all patents and patent applications owned, controlled, or licensed by the VSO member that contain claims that may become essential to the Draft VSO Specification prior to the date the study group or WG, as applicable, adopts the proposed specification as a Draft VSO Specification.

Upon formation of a WG, all WG Members must disclose, on behalf of the VITA Member Company he or she represents, all patents and patent applications owned, controlled, or licensed by the VITA Member Company that contain claims that may become essential to the Draft VSO Specification within sixty (60) days after the formation of the WG.

In anticipation of a ballot to adopt the Draft VSO Specification as a VSO or VITA Specification (including an IEC Industry Technical Agreement or an American National Standard), all WG Members must disclose, on behalf of the VITA Member Company he or she represents, all undisclosed patents and patent applications owned, controlled, or licensed by the VITA Member Company that contain claims that may become essential to the Draft VSO Specification no later than fifteen (15) days from the date of publication of a Draft VSO Specification.

In addition, at the commencement of all face-to-face WG meetings, the WG Chairperson shall ask WG Members to disclose,

the working group meetings, as a response to a call for patents.”⁹⁵ The IPR policy of the World Wide Web Consortium (W3C) presents an interesting take on disclosure, with its IPR policy, in holding disclosure to be a continuing obligation, also states that, “*if a participant files for a patent based on W3C work, it must disclose that application earlier than disclosure would otherwise be required. It makes no legal assertions about the validity of such applications.*”⁹⁶ A common thread running through the aforementioned disclosure practices at various SSOs is the lack of clarity concerning the timing of disclosure. For instance, while disclosure might be required to be made in a timely manner, what is to be considered “timely” is not defined and may be interpreted differently by different stakeholders.⁹⁷ Furthermore, very few SSOs impose any kind of sanctions on those making inaccurate or delayed disclosure.

4. SUSTAINED SIGNAL THEORY: A PROPOSED THEORY FOR SEP DISCLOSURE

Having discussed the various academic theories employed to explain the need for information disclosure, as well as the disclosure practices at some of the major SSOs, it may be argued that there is no single theory having universal applicability since each of these theories works on certain assumptions.⁹⁸ The same applies to standard-setting, which is why the present paper proposes a hybridized version of some of the theories discussed above. This hybrid theory, known as the “sustained signal theory” takes into account the various aspects of agency theory, signaling theory, and stakeholder theory to propose a theoretical foundation for the imposition of disclosure obligations in a standard-setting.

The process of standards development takes place under the aegis of SSOs, and the IPR policies of most SSOs require SEP holders to disclose all essential patent claims that may be relevant to the standard being developed. The said disclosure is expected to be made by SEP holders prior to the standards development process (ex-ante). Applying the signaling theory, it may be held that the said disclosure acts as a signal and is necessary since the implementers require this information to make investments toward the implementation of the standard and manufacture of standard-complaint products. The other reason for drawing an analogy with signaling theory is that knowledge regarding essentiality is exclusively within the domain of SEP holders, as a result of which such information cannot be disclosed by anyone other than the SEP holders. Furthermore, signaling such information is important not just from the perspective of the standards development process, but also from the perspective of SEP holders in terms of the royalties expected to be generated through licensing of patents. The signaling theory states that disclosure is directly proportional to the profits of the firm, meaning thereby that if SEP holders expect to generate higher royalties from licensing their patents,

on behalf of the VITA Member Company he or she represents, any undisclosed patents or patent applications owned, controlled, or licensed by the VITA Member Company that contain claims that may become essential to the Draft VSO Specification in accordance with the requirements set forth in this Patent Policy. If any WG Member thereupon discloses such a patent or patent application, the WG Chairperson shall ask the WG Member to submit and the WG Member shall submit, on behalf of the VITA Member Company he or she represents, a Declaration with information regarding that patent or patent application within thirty (30) days of the meeting at which the disclosure is made.” See ‘VITA Standards Organization (VSO) Policies and Procedures,’ s 10.2.3 (*VITA*, July 2022) (last accessed 26 October 2022). <https://www.vita.com/resources/Documents/Policies/vso-pp-r2d8.pdf>

⁹⁵ ‘IEEE-SA Standards Board Bylaws’ (*IEEE SA*). (accessed 17 October 2022.) https://standards.ieee.org/wp-content/uploads/import/documents/other/sb_bylaws.pdf

⁹⁶ ‘W3C Patent Policy’, ss. 6.6-6.8 (*W3C*). (accessed 26 October 2022). <https://www.w3.org/Consortium/Patent-Policy-20170801/#sec-disclosure-timing>

⁹⁷ Singh (n 83) 53.

⁹⁸ Foued Khelifi and Abdelafettah Bouri, ‘Corporate Disclosure and Firm Characteristics: A Puzzling Relationship’ (2010) 17(1) *Journal of Accounting, Business & Management* 62.

they must be prepared to make voluntary and accurate disclosure of information regarding their patent portfolios. Having said so, although signaling theory would require information disclosure to be made prior to the development of standards, there might, however, be situations where disclosure is made of pending patent applications. The status of these applications might be subject to change post the standards development process. In other words, while some of them might be pending at the time of declaration of essentiality ex-ante, they might stand rejected or modified ex-post, leading to a possibility of alleged over-disclosure and subsequent detriment being caused to the implementers. It is, therefore, suggested that the signal regarding essentiality given ex-ante, must be repeated ex-post and the same be expressly stated in SSO IPR policies. Thus, SEP holders must signal the essential patent claims for a second time, post the development of the standard, making it a sustained signal regarding essentiality, and one that will allow implementers to stay informed of the royalties likely to be demanded by SEP holders.

Signaling theory, however, is not sufficient to form the basis of SEP disclosure. While it is important to recognize the importance of timely and accurate disclosure of essential patent claims, it is equally important to fix the accountability in case of inaccurate disclosure. When it comes to participating in the standards development process, firms holding patents appoint certain representatives to act as their agents and carry out the various disclosure and licensing obligations imposed on the firm by virtue of their holding essential patents. Ordinarily, the principal is supposed to be liable for the actions/decisions of the agent, however, in the case of standard-setting, the principal being the SEP holder, does not incur any liability for the calls/declarations made by its representative at the SSO. The representatives, too, have the opportunity to plead innocence on account of a lack of knowledge regarding patent portfolios. Since these declarations pertain to the essentiality of patents, it becomes extremely important to enforce the duty to disclose, in a vicarious manner, holding the SEP holders responsible for essentiality declarations made by their agents. It is proposed that the same can be imposed by applying the agency theory of disclosure, wherein the SEP holders can be held accountable for the disclosure calls made by their representatives. This will reduce the information asymmetry existing between the SEP holder and its representatives, by pushing the SEP holders toward conveying complete information regarding essential patent claims of existing and pending patents. Furthermore, it will also help in introducing transparency in disclosure and reducing the risk of over-disclosure and under-disclosure, something that has been causing a major problem for implementers.

While the agency and signaling theories form the basis of SEP disclosure by patent holders, the stakeholder theory offers a justification for the need to cater to the interests of not just the shareholders but all stakeholders involved in standard-setting. As discussed above, disclosure is relevant not just from the perspective of implementers, but also from SSOs, competition agencies, and the courts of law. While SEP disclosure aids implementers' decision-making regarding investment towards the manufacture of standard-compliant products and the royalties likely to be paid to patent holders, it also helps SSO working groups in making informed choices about the viability of patented technology's inclusion in the standard and the available technology alternatives. Disclosure also aids competition agencies and courts in assessing instances of alleged anti-competitive conduct and licensing disputes, arising out of standard-setting.

The biggest obstacle in the licensing of SEPs is the information asymmetry existing between implementers and innovators, and like buyers in the case of transactions, implementers do not know the status and essentiality of patents. Their knowledge to a large extent is dependent on the disclosure made by SEP holders. If SEP holders reveal all the information regarding patents and pending patent applications, implementers would come to the table better informed and the negotiations too will be conducted smoothly. Furthermore, it is usually argued that patent holders have large patent portfolios and it is not feasible to conduct a thorough examination of each patent. However, if patent holders plead the inability to carry out a patent search and are aware of the status of their patents, how then

can the implementers be expected to possess knowledge regarding the same? Disclosure by patent holders plugs this gap (in the shape of information asymmetry) and helps implementers in making informed decisions regarding licensing of SEPs. More importantly, it may also help in maintaining the required equilibrium between the rights of innovators and implementers.

In light of the aforementioned uses of information disclosure, it becomes important to adopt a holistic approach toward disclosure obligations at SSOs, one that is possible only when the tenets of signaling, agency and stakeholder theories are combined. Furthermore, the applicability of sustained signal theory remains contingent on SSOs bringing about certain amendments to their IPR policies, for it may not be feasible to apply the Theory in its entirety, with SSO IPR policies retaining their present form. Express provisions stating the duty of SEP holders to declare the essentiality of patents ex-post and the accountability of SEP holders for the essentiality calls made by their representatives, must find a place in the SSO IPR policies for the Theory to be effective and achieve its desired result.

5. EXTENT OF DISCLOSURE

While it is clear that having disclosure obligations in place streamlines the standards development process, what does present a challenge is the extent of disclosure. What is the objective test for the determination of essentiality, i.e., whether the disclosure is limited to patents deemed essential by the patent holder making a disclosure, or should it be extended to include all the patents considered to be essential by a reasonable person?⁹⁹ There is also a question of including unpublished patent applications and pending but published patent applications. Moreover, whether the scope is narrow or wide is regarded as a matter of trade-off. While a narrower scope helps cut down the risk of over-disclosure of patents, it does not, however, completely negate the possibility of subsequent assertion of patents by patent holders, post the development of the standard. A broader scope meanwhile, might entail the disclosure of a wide patent set, however, at the same time, it may also result in the likelihood of such patents being disclosed that may subsequently turn out to be non-essential.¹⁰⁰ Against this background, a question that arises is, what must be considered sufficient disclosure?

To explain the necessary extent of disclosure, reference may be held to disclosure requirements under the United States Securities and Exchange Commission (SEC). Just as disclosure is fundamental to the success of any standards development process, disclosure in securities regulation has played the all-important role of safeguarding investors against exploitation and fraud by corporations. Having come into existence in 1934, the SEC advocates full disclosure of material information by publicly traded companies, for the protection of investors,¹⁰¹ much the same way as required under real estate transactions.¹⁰² In the case of the latter, sellers are required to furnish a disclosure form with all material facts, and in case of a deliberate lie or concealment, may end up being imposed penalties. “Full disclosure” in real estate implies that “the real estate agent or broker and the seller disclose any property defects and other information that may cause a party to not enter into the deal.”¹⁰³ The SEC meanwhile, requires public companies to furnish material information to investors and shareholders,

⁹⁹ Gil Ohana and C. Bradford Biddle, ‘The Disclosure of Patents and Licensing Terms in Standards Development’ in Jorge L. Contreras (ed), *The Cambridge Handbook of Technical Standardization Law* (Cambridge 2018).

¹⁰⁰ Ohana and Biddle (n 99) 250.

¹⁰¹ Securities and Exchange Commission, ‘Business and Financial Disclosure Required by Regulation S-K’ (2016) (accessed 18 November 2019). <https://www.sec.gov/rules/concept/2016/33-10064.pdf>

¹⁰² Will Kenton, Full Disclosure (*Investopedia*, 18 April 2018) (accessed 18 November 2019). <https://www.investopedia.com/terms/f/fulldisclosure.asp>

¹⁰³ Kenton (n 102).

on an ongoing basis.¹⁰⁴ In terms of disclosure, public companies are required under the SEC to file three separate forms: 10-K, 10-Q, and 8-K. While 10-K is filed annually, the 10-Q is filed quarterly. The third form: 8-K caters to disclosure during certain specific circumstances and material events.¹⁰⁵

Under both, Forms 10-K and 10-Q, public companies are required to disclose audited financial statements, including information concerning net sales, loss arising out of operations, total assets, and long-term obligations.¹⁰⁶ These disclosure requirements are aimed at furnishing transparent information to potential investors, about the business, financial condition, risk factors, management, and operations of the company.¹⁰⁷ Furthermore, it “provides a common pool of knowledge for all investors to use to judge for themselves whether to buy, sell, or hold a particular security.”¹⁰⁸ On the other hand, Form 8-K performs the function of facilitating disclosure during instances of significant importance, such as acquisitions or dispositions, material impairments, creation of financial obligations, etc.¹⁰⁹ Having said so, what is important from the perspective of disclosure filings is the materiality of information. The Supreme Court of the United States has defined “materiality” as “a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the ‘total mix of information made available.’”¹¹⁰ What is material under the law, however, is subjective and may vary on a case-to-case basis. Perhaps the best explanation for materiality is that information that is important to the investor and helps make a decision.¹¹¹ It is important to view materiality from the perspective of investors, i.e. the consideration should not be limited to whether a particular disclosure will attract a sanction from a regulatory authority, rather it should also consider what might be deemed essential by investors, or is likely to affect the market price.¹¹² In the U.K., a piece of information is held to be material if “its misstatement or omission might reasonably be expected to influence the economic decisions of users of those financial statements.”¹¹³ More importantly, under the Financial Conduct Authority’s (FCA) Disclosure and Transparency Rules, companies are mandated to release relevant information, as soon as it becomes available and all prospective shareholders and investors must have access to the same quality of information at the same time.¹¹⁴

Seen in the context of standard-setting, it is essential for implementers to not just have information but timely and material information regarding SEPs. Similar to the disclosure requirements under SEC, disclosure of essential patent claims holds significant value for implementers, for their decisions are reliant upon the information so disclosed. The appropriate extent of disclosure must, therefore, be

¹⁰⁴ ‘Form 10-K’ (U.S. Securities and Exchange Commission) (accessed 18 November 2019). <https://www.sec.gov/fast-answers/answers-form10k.htm>

¹⁰⁵ Ian D. McClure, ‘Accountability in the Patent Market Part II: Should Public Corporations Disclose More to Shareholders?’ (2016) 26(2) Fordham Intellectual Property, Media and Entertainment Law Journal 417.

¹⁰⁶ ‘SEC Disclosure Laws and Regulations’ (Inc.). (accessed 18 November 2019). <https://www.inc.com/encyclopedia/sec-disclosure-laws-and-regulations.html>

¹⁰⁷ ‘How to Read a 10-K’ (U.S. Securities and Exchange Commission) (accessed 18 November 2019). <https://www.sec.gov/fast-answers/answersreada10k.htm>

¹⁰⁸ ‘What We Do’ (U.S. Securities and Exchange Commission) (accessed 18 November 2019). <https://www.sec.gov/Article/whatwedo.html>

¹⁰⁹ Form 8-K (U.S. Securities and Exchange Commission). (accessed 18 November 2019). <https://www.sec.gov/fast-answers/answersform8k.htm>

¹¹⁰ Basic v. Levinson 485 US 224 (1998), page 232.

¹¹¹ Steven Davidoff Solomon, ‘In Corporate Disclosure, A Murky Definition of Material’ (The New York Times, 5 April 2011) (accessed 18 November 2019). <https://dealbook.nytimes.com/2011/04/05/in-corporate-disclosure-a-murky-definition-of-material/>

¹¹² Solomon (n 111).

¹¹³ Institute of Chartered Accountants in England and Wales, ‘TECH 03/08 Guidance on Materiality in Financial Reporting by UK Entities’ (Croner-I, June 2008) (accessed 18 November 2019). <https://library.croner.co.uk/tech03-08#Ftech03083>

¹¹⁴ ‘Disclosure Guidance and Transparency Rules Sourcebook’ (FCA, November 2019) (accessed 18 November 2019). <https://www.handbook.fca.org.uk/handbook/DTR.pdf>

synonymous with full disclosure in financial and real estate transactions. Just the way there is a risk of a party backing out of a transaction in the absence of incomplete or selective disclosure, SEP holders by indulging in over-disclosure or under-disclosure, run the risk of pushing implementers away from entering into a license. It is further required that the said disclosure be made promptly and on an ongoing basis. However, the nature of standardization is such that essential patent claims are required to be disclosed ex-ante. And with the process for the grant of a patent stretching over some time, the probability of a change in the status of a pending patent application throughout the standards development process is quite high. In such a scenario, there must be a continuous disclosure of updated information by SEP holders, as envisaged under Form 8-K of SEC, and under the sustained signal theory (as discussed above). Just the way Form 8-K mandates the disclosure of information during circumstances having significant importance to shareholders, disclosure of information regarding changes in the status of pending patent applications is of equal importance to both, the SSO and implementers. While the SSO working groups might want to assess possible technology alternatives, the implementers get the desired information that may help them assess the extent of royalties payable to the SEP holder(s). It is for this very reason that information regarding the essentiality of all patents relevant to the standard, is material as far as implementers are concerned. In other words, such information is relevant from the perspective of a reasonable implementer, enough to facilitate informed decision-making. As for the inability of SEP holders to carry out the patent examination in case of large patent portfolios, seen from the perspective of implementers, it may be argued that in such cases, signaling the patent family to which an allegedly essential patent belongs, may constitute material disclosure.

Against the above backdrop, it is stated that the extent of disclosure in the case of standard-setting should be such that both, the innovators and implementers come to the negotiation table with the same information. Implementers can only be expected to enter into a license if they come forward having received material information regarding the essentiality of patents. In case they do not possess the same information as is within the knowledge domain of SEP holders, it might result in a deadlock or delay in the licensing negotiations, with the undesirable result being a subsequent delay in the roll-out of the standard.

6. CONCLUSION

For an SSO to strike a balance between the interests of innovators and implementers, it is at the very outset, important to ensure the enforceability of disclosure obligations of patent holders. As discussed throughout this paper, several theories have been used in academic literature to justify the imposition and enforcement of disclosure obligations on patent holders, however, each of the theories comes with its fair share of limitations. In other words, neither of the agency, signaling, capital need, stakeholder, and legitimacy theories can alone account for the need to ensure voluntary disclosure of patent information by SEP holders. The sustained signal theory, in taking into consideration the relevant aspects of agency, signaling, and stakeholder theories present a strong basis for ensuring the voluntary disclosure of essential patent claims by SEP holders and seeks to aid the SSOs in striking an equilibrium between the rights of innovators and implementers. A key role in this regard though is likely to be played by SSO IPR policies, for it is these policies that form the very basis of the rights of the parties. However, the IPR policies of most SSOs at present, suffer from ambiguities, often leading to the enforcement of disclosure obligations being sought through the instrumentality of courts and competition agencies. Seen in the light of the same, the sustained signal theory might prove beneficial to SSOs in bringing about modifications to their IPR policies.

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A Study on Anglo-American Equity Law Applied to Litigation and Arbitration in Taiwan's Patent Dispute Solutions

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Abstract

Influenced by globalization trends, legal regulations and dispute resolutions are converging under the influence of WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The formation of transnational law has since developed. Whether the national legal system can be effectively integrated into transnational law and whether the public support of its outputs can remain dynamically balanced are critical issues facing modern countries. Since this paper aims to analyze patent dispute solutions in Taiwan's high tech industry, this research uses the patent equity of Anglo-American law to explore whether it is possible for a Taiwanese arbitration court to cite equitable arbitration in the future, as well as to discuss whether Taiwan's IP court can cite the judge-made laws of US state supreme courts. This approach may lead to the creation of a theory on patent equity for legal proceedings. To investigate the possibility that Taiwanese arbitration courts will be able to quote the applicable laws concerning Anglo-American law in equality law (Amiable Composition), this paper uses document analysis as its research method. In addition, the possibility that the Taiwan Intellectual Property Court will be able to create sub-principles of patent equity in accordance with judge-made laws from the US Federal Supreme Court will be investigated herein.

Keywords: Globalization, Transnational Law, Equality Law, Arbitration, Judge-Made Law

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I. Introduction

With the proliferation of hi-tech industry as part of globalization, and its significance to Taiwan, “Economic Rationality” deserves attention being paid in the current legal order. On the other hand, with the advent of a knowledge-based economy and globalization trends, legal regulation and dispute resolution are converging under the influence of the World Trade Organization’s (WTO) agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Since then, the formation of transnational law has continued to develop. Whether the national legal system can be effectively integrated into transnational law and whether the public supports its outputs, as well as whether these outputs can remain dynamic and balanced, are critical issues facing modern countries. Since this study aims to analyze the patent dispute solutions in Taiwan’s hi-tech industry, this research uses patent equity found in Anglo-American law to explore whether it is possible for the Taiwan Arbitration Court to cite equitable arbitration in the future, as well as to discuss whether it is possible for Taiwan’s intellectual property court to cite the judge-made law of the U.S. state supreme courts. This approach may create a theory of patent equity in legal proceedings. Two major findings have emerged from this research. First, arbitration generates more substantive justice compared to litigation, which merely pursues justice, and that this fits the characteristics of hi-tech industries. Second, Taiwan’s intellectual property court should cross apply judge-made law to moderate the legal justice and social justice under the conditions of complying with judicial principles without threatening social order and morality as well as legal regulation, which will better respond to patent disputes involving transnational law, thereby fostering a rich judicial culture of intellectual property rights. This study provides insights for policy makers about developing methods for achieving proper legal remedies to promote Taiwan’s legal system, judicial system and science and technology laws.

II. The Intersection between Natural Law and Legal Positivism: Equity Law

1. The Theory of Natural Law and Legal Positivism

The so-called natural law is a system of universal morality, which is derived from the idea of ethical principles inherent to human nature.¹ The school of natural law holds the belief that the foundation of justice is exactly the same as the rationality of nature; therefore, when it is applied to law, it is natural law. Thus, if the law is examined and found to be insufficient or unfair under natural law, the law itself is deemed invalid; as a result, people do not have to abide by it.² From the viewpoint of natural law, natural law is the supreme law and whatever is against it, such as positive law, is viewed as invalid without doubt (i.e., draconian law is invalid). In theory, legal positivism is often contrasted with natural law, which is based not on social facts but on moral claims. The study of legal positivism is mainly restricted to logical analysis and logical operation of legal regulations without studying the relations among the legal, economic, political, moral, and psychological factors. Thus, legal regulated matters or behaviors must be completely obeyed even if the law is improper (i.e., when draconian law is valid); as a result, matters and behaviors regulated by the law, whether or not they comply with the legitimacy of natural law, will not affect the effectiveness of the regulation in existence.

¹ See Bron R. Taylor (2005), *Encyclopedia of Religion and Nature*, Volume 1: A – J, London & New York: Thoemmes Continuum, 2005, p.1170. See John Gardner (2007), *Nearly Natural Law*, *The American Journal of Jurisprudence*, Volume 52, Issue 1, 1 January 2007, pp.1–23.

² See Peter Langford, Ian Bryan, John McGarry (2017), *Kelsenian Legal Science and the Nature of Law*, Heidelberg, New York: Springer, 2017, pp.275-302.

According to researchers on natural law theory mentioned above, in order to avoid the inflexibility of the articles, the courts have to take individual cases into account to supplement the interpretation of the abstract law to realize real justice.³ The school of legal positivism holds that the legislature is meant to represent the orders of the sovereign power and that the courts should abide by it absolutely when making any judgments; in fact, the courts should define and explain the law in accordance with the principles of law and public policy purpose when a legal loophole occurs due to the law being unclear. Sometimes when the laws cause legal loopholes, the judges can use judge-made laws to examine the individual cases to compensate for the negative effects of these legal loopholes. Thus, both natural law, which reaches outside of the law for further flexibility, or positivism which sticks to the law, hold the same belief that when laws create legal loopholes, the judges can use judge-made laws to compensate for them in accordance with the principles of law and public policy purpose.⁴ The historical development of common law in equity will now be explored.

2. The Development of Equity Law in the Anglo-American Law System

Equity Law originated in England at the end of the 14th Century. Before that, in the common law system of England, if the parties concerned filed a lawsuit at the common law court, they had to apply to the Lord Chancellor who would issue a writ in the name of the king. The type and scope of the writ had certain restrictions which also limited the power of the judge when making judgments. Thus, many disputes arose because there was no suitable writ to be followed; these usually ended up with a failed lawsuit in the common law court. In the event that a lawsuit was initiated in the common law court, it was unlikely to elicit a fair judgment due to the strict form of the common law and the limited remedies available. As a result, in order to protect their own interests, the parties concerned would immediately submit a petition to the king, who represented the source of justice. After receiving the petition, the king assigned it to the equity chancellor who would make a judgment based on principles of fairness, justice and conscience, citing church law, common law, and some principles and norms of Western European commercial law in the mid-century in order to achieve natural justice. The judgment made by the equity chancellor could order or forbid the exercise of the common law court and restrict the authority of judgment in the common law court.⁵

Afterwards, the basic principles listed in equity law became the principles of the court in rendering judgments. Therefore, in the civil cases of England, a different legal system was gradually formed between common law and equity law, and a dual litigation system between common law and the equity court. Although equity law was only there to supplement common law in form, in reality, the equity court could restrict the authority of the common law court by exercising executive and injunction order, which resulted in confrontation between the two courts.⁶ In light of this quandary, the British Parliament passed the Supreme Court Justice Act in 1873, which officially repealed the differences between the common law court and equity law court in 1875, and established a single court system applicable to both common law and equity law. This act also stipulated that if the events of conflict

³ See Jill Oliphant; Jon Mayled; Anne Tunley (2011)., AQA Religious Ethics for AS and A2, Routledge, 2011, pp.121-135.

⁴ See T. Ian, Mcleod (2010), Legal Theory, 5th Edition, Basingstoke: Palgrave Macmillan Limited, p.160.

⁵ See Tim Vollans, Glenn Asquith (2011), English Legal System Concentrate: Law Revision and Study Guide, Oxford University Press, September, 2011, p.59-63. See Gary Watt (2016)., Trusts and Equity, Oxford University Press, 16th Edition, 2016, pp.4-8.

⁶ See D J. Ibbetson (2014), A House Built Sand: Equity In Early Modern English Law (Chapter three Part 2), in E. Koops and W. J. Zwolve (eds), Law & Equity: Approaches in Roman Law and Common Law, Martinus Nijhoff Publishers, 2014, pp.55-78.

and inconsistency happened between the common law court and the equity law court, equity law would be applied to make the final judgment.⁷

III. The Extension of Equity Law in the Litigation

1. The Development of Patent Equity in the US Federal Courts

The patent law system resulted from industrialization in the U.K. and then was enhanced in the US, a nation with highly developed hi-tech industries. The United States Constitution uses equity law as the top priority legal principle; it states clearly that equity law is within the range of legal validity.⁸ Thus, the US Federal Courts use judge-made law in equity cases to solve cases concerning legal disputes⁹, in order to adapt to changing times and environments. US Federal Courts also acknowledge values, categorizes them by applying judge-made laws and then creates the doctrine of equivalence, the exhaustion doctrine, estoppel, inequitable conduct and patent misuse, which are there to fill the legal loopholes and the gap of social justice¹⁰, and finally put distributive justice into practice.¹¹ For example, equity is required in the patent proceedings and includes the prosecution history estoppel, which stems from equitable estoppel.¹² During the proceedings on patent right inequitable conduct arises, derived from the doctrine of unclean hands¹³, and the prosecution laches from the doctrine of laches.¹⁴ Next, is the patent misuse while conducting patent right, which is derived from doctrine of unclean hands.¹⁵

With regard to the patent litigation cases, the application of equity law used by the U.S. federal courts comprises the equity court and the principles of equity law. As for the legal relief system of common law for countries using the Anglo-American law system, the remedy of same case may differ

⁷ Section 25(11) of the Judicature Act states that: if there were conflict between common law and equity, equity shall prevail. If the common law and doctrines of equity were intended to be fused, such provision would not be inserted as the section foresaw the possibility of conflicts arising between the two separate systems. The section illustrates that the intention of the legislation was not to fuse the systems but to enable both the law and equity to be administered at the same time in the same Court; possible conflict may still arise because they are not of the same ingredients or same foundation. See Michael Bryan, Vicki Vann and Susan Barkehall Thomas (2012), *Equity and Trusts in Australia*, Cambridge University Press, 2nd Revised edition, September 2017, pp.9.

⁸ Article 3 Section 2 of the United States Constitution: "The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority." See Bradley G. Silverman (2016), *Federal Questions and the Domestic-Relations Exception*, Yale Law Journal, Volume 125, Number 5, March 2016, pp.1365 - 1426. 35 USC § 283 - INJUNCTION, US Code: The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable. See Mariana Lopez-Galdos (2016), *Antitrust Policy Tools & IP Rights: U.S., Transatlantic & International Effects*, Chicago-Kent Journal of Intellectual Property, Volume 15, Issue 2, June 2016, pp.441-475.

⁹ See Kristin A. Collins (2010), *A Considerable Surgical Operation: Article III, Equity, and Judge-Made Law in the Federal Courts*, Duke Law Journal, Volume 60, No. 2, November 2010, pp.249-343.

¹⁰ See Daniel S. Kleinberger (2012), *Examples & Explanations: Agency Partnerships & LLC*, Wolters Kluwer, 2012, pp.231-232. See William M. Landes; Richard A. Posner (2003), *The Economic Structure of Intellectual Property Law*, Harvard University Press, November 2003, pp.417.

¹¹ See T. Leigh Anenson (2017), *Statutory Interpretation, Judicial Discretion, and Equitable Defenses*, University of Pittsburgh Law Review, Volume 79, Fall 2017, pp.2-59.

¹² See T. Leigh Anenson, and Mark Gideon (2013), *Inequitable Conduct in Retrospective: Understanding Unclean Hands in Patent Remedies*, American University Law Review, Volume 62, No.6, 2013, pp.1441-1527.

¹³ T. Leigh Anenson (2017), *supra* note 11, at 2-59. T. Leigh Anenson, and Mark Gideon (2013), *supra* note 12, at 1441-1527.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

depending on which court, the general court or the equity court, the party is filing. The general court is only for sentencing the defendant to pay relief in the form of money or to restore damages at the end of the trial. However, the equity court may also issue an injunction order to protect the benefits of the parties concerned. As for the defendant, the equity court may sentence the defendant to pay relief in the form of money to restore damages at the end of the trial or to sentence the defendant to do or not to do something (also known as Specific Performance).

Since the U.S. federal constitution was declared in 1789, governments of each state all have their own equity courts; among them, some states also put general courts in charge of equity litigation cases. Although the U.S. federal government combined the general process and the equity process through its federal civil procedure law established in 1938, when it comes to whether to apply the equity law as a way of legal relief, the U.S. courts still have to make decisions based on the main principles established by the traditional equity courts. For example, article 283 in U.S. patent law states that those courts with the authority to deal with the cases have to issue the injunction order based on the equity principle and the reasonable factors of the courts in order to protect the patent benefits from any kinds of infringement.

As for legal relief for the current American patent infringement cases, the parties concerned have two choices: one is to turn to the Federal Rules for Civil Procedure (FRCP) to file the lawsuit, and the second is to turn to the United States International Trade Commission (USITC) to ask for an investigation into the evidence of infringement. The differences between these two methods are as follows: first, for the subjects, filing a lawsuit in the local federal court belongs to the judicial administration and has its own res judicata and issue preclusion. Moreover, once the case commences, the parties concerned cannot ask for another investigation of the same dispute. If the parties concerned choose the second method, it belongs to the administrative investigation procedure, but without the res judicata or issue preclusion. If the parties concerned are not satisfied with the results, they may still appeal to the high court.¹⁶ Second, in terms of legal relief, filing the patent infringement lawsuit with the local federal court means the judges may make a punitive compensational sentence including the injunction order¹⁷ and compensation for damages.¹⁸ On the other hand, filing a lawsuit with the American international trading committee means that the committee can issue the exclusion cease and desist order but will deal with the civil compensation for damages.

2. The Principle of Equity law in Patent Dispute Cited by US Federal Courts: Judge-Made Law

(1) Doctrine of Equivalence

¹⁶ 28 U.S.C. § 1338(a) US Code: The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases. See Nicholas Dernik (2008), State Sovereign Immunity: States Use the Federal Patent Law System as Both a Shield and a Sword, *The John Marshall Review of Intellectual Property Law*, 2008, pp.134-154.

¹⁷ 35 USC § 283 - INJUNCTION, US Code: The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent on such terms as the court deems reasonable. See Benjamin Petersen (2008), Injunctive Relief in the Post-Ebay World, *Berkeley Technology Journal*, Volume 23, 2008, pp.193-218.

¹⁸ 35 USC § 284 - DAMAGES US Code: Upon finding for the claimant, the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. See Adam Friedman (2016), Damages Control: Returning Royalties To Their Reasonable Roots, *The John Marshall Law Review of Intellectual Property Law*, 2016, pp.827-845.

The case of *Winans v. Denmead* in 1853¹⁹ was based on the equity concept. The theory of equality points out that as long as the technology discussed only has insubstantial difference, it may be considered as an infringement of the patent right. To be more specific, the doctrine of equivalence stipulates that if the content of the object discussed differs from the patented one, and the difference is not the essence of the patent invention, it can serve the same function as the counterpart, i.e., the differences between them do not exist.

Nevertheless, since the range of insubstantial difference is highly uncertain, it is impossible to determine a certain boundary. However, this problem violates the concept of showing clear and specific patent range. In order to balance the spirits of justice and patent, the US Supreme Court established the “Function-Way-Result Tripartite Test Theory” in 1950 in the case of *Graver Tank & Manufacturing Co. v. Linde Air Products Co.* as the judging criteria.²⁰ Here, the court’s determination is that determining whether or not the infringement is acknowledged lies in the comparison between the object discussed and the patent range. After comparison, if the same function can be produced via the same way, it may be considered as an infringement.

In the two cases mentioned above, the US Supreme Court also used the “Knowable Interchangeability Theory”²¹ as equal criteria; it means that if the Supreme Court held that the difference is a non-substantive difference and possesses the character of knowable interchangeability, the case should be considered as an infringement. In the cases of *Sage Prods. Inc. v. Devon Indus., Inc.*²² and *Johnson & Johnston Associates Inc. v. R.E. Service Co. Inc. and Mark Frate*²³, Judge Rader

¹⁹ *Ross Winans v. Adam, Edward, and Talbot Denmead*, 56 U.S. 330, 343, (1853), the Supreme Court stated that “The exclusive right to the thing patented is not secured if the public are at liberty to make substantial copies of it, varying its form or proportions.” See Richard T. Holzmann (1995), *Infringement of the United States of Patent Rights. A Guide for Executives and Attorneys*, Westport, CT: Quorum Books, 1995, pp.84. See Janice M. Mueller (2012), *Mueller on Patent Law: Patentability and Validity*, Volume 1, Wolters Kluwer Law & Business (Aspen Publishers), pp.16-6.

²⁰ *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, 339 U.S. 608, (1950) “To temper unsparing logic and prevent an infringer from stealing the benefit of the invention” a patentee may invoke this doctrine to proceed against the producer of a device “if it performs substantially the same function in substantially the same way to obtain the same result.” *Sanitary Refrigerator Co. v. Winters*, 280 U.S. 30, 42. The theory on which it is founded is that “if two devices do the same work in substantially the same way, and accomplish substantially the same result, they are the same, even though they differ in name, form, and shape.” *Union Paper-Bag Machine Co. v. Murphy*, 97 U.S. 120, 125. See Jerome Rosenstock (2013), *The Law of Chemical and Pharmaceutical Invention: Patent and Nonpatent Protection*, 4th Edition, Wolters Kluwer Law & Business, Aspen Publishers, 2013, pp.13-249. See Craig Allen Nard & Michael J. Madison (2006), *Law of Intellectual Property*, Wolters Kluwer Law & Business, Aspen Publishers, 2006. pp.777-782.

²¹ *Graver Tank & Mfg. Co., Inc. v. Linde Air Products Co.*, 339 U.S. 605, 609 (1950) “What constitutes equivalency must be determined against the context of the patent, the prior art, and the particular circumstances of the case. ... Consideration must be given to the purpose for which an ingredient is used in a patent, the qualities it has when combined with the other ingredients, and the function which it is intended to perform. An important factor is whether persons reasonably skilled in the art would have known of the interchangeability of substitutes for an element of a patent is one of the express objective factors noted by Graver Tank as bearing upon whether the accused device is substantially the same as the patented invention.” See Michael L Kiklis (2015), *The Supreme Court on Patent Law*, Wolters Kluwer Law & Business, 2015, pp.4-44.

²² *Sage Prods. Inc. v. Devon Indus., Inc.*, 126 F.3d 1420, 1444 (Fed. Cir.1997) (“as between the patentee who had a clear opportunity to negotiate broader claims but did not do so, and the public at large, it is the patentee who must bear the cost of its failure to seek protection for this foreseeable alteration of its claimed structure.” See Robert C. Kahrl (2001), *Patent Claim Construction*, Aspen Law & Business, Lslf edition, June 2001, pp.1-11.

²³ *Johnson & Johnston Associates Inc. v. R.E. Service Co. Inc and Mark Frate*, 285 F.3d 1046 (Fed. Cir.2002). Judge Rader states: This alternative would also help reconcile the preeminent notice function of patent claims with the protective function of the doctrine of equivalents. This reconciling principle is simple: the doctrine of equivalents does not capture subject matter that the patent drafter reasonably could have foreseen during the application process and included in the claims.” This principle enhances the notice function of claims by making them the sole definition of invention scope in all foreseeable circumstances. This principle also protects patentees against copyists who employ insubstantial variations to expropriate the claimed invention in some unforeseeable circumstances. See United States Court of Appeals, Federal Circuit. *Johnson & Johnson Associates Inc., (Plaintiff) - Appellee, v. R.E. SERVICE CO.,*

pointed out that the part with foreseeability cannot be regarded as part of the range in the legal action. Hence, the theory of knowable interchangeability is also one of the criteria of equity infringement.

In order to balance the spirits among the equity, justice and patent system, the U.S. Supreme Court proposed the theory of “Function-Way-Result” Tripartite Test, “Knowable Interchangeability”, and “Foreseeability” to limit the application of equity theory. However, the judgment of infringement of patent in Taiwan is not taken to refer to the criteria used in other countries. That is to say, while the theory mentioned above is highly accepted in other countries, it is not in Taiwan.

(2) The Exhaustion Doctrine

The exhaustion doctrine was derived from the equity concept²⁴ and can be divided into the domestic and the international parts. The exhaustion doctrine is the principle that after the patented product has been authorized to sell, the patented products used or sold again after the patent period are considered invalid. As mentioned above, there are two parts of the exhaustion doctrine. First, the domestic part only refers to the right within the country. If someone imports the patented products without gaining permission in advance, this will also be viewed as infringement. Secondly, the international part refers to the right of the patent holder, including both the domestic and international markets, which can both be seen as patent exhaustion. If someone imports the patented products without gaining permission in advance, it will not be viewed as infringement.

The theory mentioned above refers to the balance between the free flow of products and the rights of the patent holders. According to article 6 of the TRIPS, in terms of solving patent disputes while under the restriction of articles 3 and 4, the TRIPS cannot be applied to solve depletion issues concerning intellectual property rights. That is to say, TRIPS does not force all WTO members to solve their disputes in the same way. Each member may find its own way out. In the legal case of the European Union (EU), when one patented product is sold after gaining the permission of the right holder, through the doctrine of exhaustion, the patent holder cannot claim the ban on the free flow of the products within the EU.²⁵ However, U.S. courts may have different views regarding this.²⁶

Although it is uncertain as to whether Taiwan adopts the domestic or international part of the doctrine of exhaustion, according to article 57-1(6) of Taiwan Patent Law, Taiwan does adopt the international doctrine of exhaustion. Nevertheless, as part of the law refers to the limited use of international doctrine under article 57-2 of Taiwan Patent Law, whether the import of certain products

INC. and Mark Frater, Defendants - (Appellants). <http://www.ll.georgetown.edu/Fed-Ct/Circuit/fed/opinions/99-1076.html>

²⁴ See Kumiko Kitaoka (2018), Patent Exhaustion Connects Common Law to Equity: *Impression Products, Inc. v. Lexmark International, Inc.*, *Chicago-Kent Journal of Intellectual Property*, Volume 17, Issue 1, 2018, pp.96-136.

²⁵ Case 78/70, *Deutsche Grammophon GmbH v. Metro-SB-Grossmarkte GmbH & Co.*, KG: [1971] E.C.R. 487, [1971] I C.M.L.R. 631., Case 15/74, *Centrafarm BV v. Sterling Drug Inc. and Centrafarm BV v. Winthrop BV*, [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480. See Bill Batchelor & Tom Jenkins (2012), *FA Premier League: The Broader Implications for Copyright Licensing*, *Fourth Annual Chicago Forum on International Antitrust Issues*, Baker & McKenzie, European & Competition Law Practice, Brussels, pp.157-164.

²⁶ The court's judgment regarding the relevance of the exhaustion of domestic as following: *Boesch v. Graff*, 133 U.S. 697 (1890) ; *Daimler Manufacturing Co. v. Conklin*, 170 Fed. 70 (2d. Cir. 1909) cert. Denied 216 U.S. 621 (1910) ; *Griffin v. Keystone Mushroom Farm, Inc.*, 453 F. Supp.1283 (E.D.Pa.1978) See John A. Rothchild (2011), *Exhausting Extraterritoriality*, *Santa Clara Law Review*, Volume 51, Number 4, Article 5, 2011. The court's judgment regarding the relevance of the exhaustion of international as following: *Holiday v. Mattheson*, 24 F. 185, 185-186 (S.D.N.Y.1885) , *Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng'g Corp.*, 266 F.71, 75, 77, 79 (2d Cir. 1920) , *Sanofi, S.A. v. Med. Tech Veterinarian Prod., Inc.*, 565 F.Supp.931 (D.N.J.1983) . See A. Bryan Baer (2001), *Price Controls Through the Back Door: The Parallel Importation of Pharmaceuticals*, *Journal of Intellectual Property Law*, Volume 9, Issue 1, Article 4, University of Georgia School of Law, October 2001, pp.109-135.

should be allowed is still not specifically regulated by the law.

(3) Estoppel

Estoppel refers to the principle that once the patentee submits the application of patent right, the patentee cannot make any claims that oppose it or recapture the part once disposed. In U.S. law, estoppel is often applied as a way to put equitable defense into practice. Once the patent holders violate the principle of estoppel, they will never be able to execute their own patent rights. For example, they cannot lay claim to damage for patent infringement, nor request the court to issue an injunction.²⁷

The principle of estoppel comprises several requirements²⁸: (1) the patent holders file the patent lawsuit very late without any evident reasons, (2) the legal benefit is severely damaged because of the delay, (3) the defendant is mistaken that the plaintiff had already abandoned the lawsuit owing to the plaintiff's behavior, and (4) the defendant misbelieves the plaintiff's misleading behavior. The estoppel is often regarded as a means of plea and is the duty of the defendant. The Taiwan Intellectual Property Office issued the Guidelines for Patent Infringement Verification (GPIV) in 2004, which concurs.²⁹ In the case of *General Instrument Corp. v. Hughes Aircraft Co.* in 1968³⁰, the deleted or refuted patent claims could not be retrieved during the litigation since litigation involves both parties concerned and the public, which means the Court should be active when examining the facts of estoppel.³¹

Interestingly, on March 21, 2017, the U.S. Supreme Court issued its opinion in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*, 580 U.S., No. 15-927, slip op. (Mar. 21, 2017); the Court stated that laches is no longer available as a defense to patent damages for patent infringement; however, equitable estoppel is closely related to laches and is a potential defense to claims of patent infringement. The Court in *SCA Hygiene* expressly noted that equitable estoppel, unlike laches, remains a defense that also protects against the problem of patentees inducing accused infringers to invest in arguably infringing products.³²

(4) Inequitable Conduct

The doctrine of inequitable conduct is derived from the principle underlying the doctrine of unclean hands³³ and elaborated clearly in article 1.56 in Title 37 - Code of Federal Regulations (37-CFR).³⁴ According to article 1.56 in 37-CFR, all patentees should have the duty of expressing candor, good faith and honesty on the patents in applying to the United States Patent and Trademark Office (PTO). Furthermore, it also advises revision of the related information to the PTO, called duty of disclosure. If the applicant violates this principle, the process of acquiring this patent right is defective and will indirectly affect the effectiveness of the patent right. Moreover, the opposing party can claim

²⁷ See J. Gregory Sidak (2015), *The Meaning of FRAND, Part II: Injunctions*, *Journal of Competition Law & Economics*, Volume 11, Issue 1, 1 March 2015, pp.201–269.

²⁸ *A.C. Aukerman Co. v. R.L. Chades Const. Co.*, 960 F.2d 1020, 1041-42 (Fed. Cir. 1992). See Janice M. Mueller (2012), *supra* note 19, at 19-27~19-29.

²⁹ See Chei-Cheng Yean (2006), *Patent-Infringement Judgment for Invention Patent and New Utility Model Patent (Part II)*, *Intellectual Property Rights Journal*. Volume 89, Taipei: Intellectual Property Office, Ministry of Economic Affairs R.O.C, pp.51.

³⁰ *General Instrument Cop. V. Hughes Aircraft Co.* 226 U.S.P.Q 289 (1968). See Kurt F. James (1988), *Patent Claims and Prosecution History Estoppel in the Federal Circuit*, *University of Missouri School of Law Review*, Volume 53, Issue 3, Summer 1988, pp.497-518.

³¹ See Chei-Cheng Yean (2006), *supra* note 29, at 51.

³² See Kumiko Kitaoka (2018), *supra* note 24, at 96-136.

³³ See T. Leigh Anenson & Gideon Mark (2013), *supra* note 12, at 1441-1527.

³⁴ See T. Leigh Anenson & Gideon Mark (2013), *supra* note 12, at 1441-1527.

the unenforceable trait of the right if the lawsuit against the principle happens in the future.³⁵

In general, the abovementioned includes³⁶: (1) affirmative misrepresentations of material fact, (2) submission of sale material, (3) failure to disclose known material information during the prosecution of a patent and (4), coupled with the intent to deceive the PTO. According to the doctrine of inequitable conduct, its requirements consist of three parts: (1) the event is quite essential, (2) intentional deception and (3) the aforementioned should include clean and convincing evidence.³⁷

(5) Doctrine of Laches

The doctrine of laches stems from the doctrine of laches of the equity principles, which refers to the claim that the legal right has resulted in an unreasonable and unexplained delay in prosecution and that the delay has caused some damage to the opposing party. The court may reject the claim of the right holder. According to article 286 of U.S. patent law³⁸, the right holder is aware of the damage and has not filed any lawsuits in the past 6 years and cannot provide a concrete reason for the delay. This is called laches and the right holder is thus deprived of the right to claim compensation for the damages, and vice versa.

Laches was set up to fight against submarine patent, which refers to the patent being issued after a long period of inspection. In this kind of situation, the patent technique has become the basic technique that is widely used or has formed the standard type. This submarine patent is not known to the public and in this period, some may mistake it as public domain and thus make some improvements based on this patent. Once it is issued with the patent, this will have a negative influence on the industry. Thus, laches of an applicant is one part of the plea against the submarine patent. If the patent applicant shows some unreasonable or unexplained behaviors during the process of application, this will be applied to the laches of their application.

The US Federal Supreme Court established the doctrine of laches in the case of *Woodbridge v. United States* in 1923, and stated that its main functions are: (1) to prevent the patent applicant from postponing the application process just to acquire more profits and (2) to prevent the public from using the patent for free just because of the delay.³⁹ In 2002, the US Court of Appeals for the Federal Circuit (CAFC) reconfirmed the validity of this principle in the case of *Symbol Technologies Inc. v. Lemelson Medical, Education & Research Foundation*.⁴⁰ Once again the situation that the laches on the part of the applicant is just based on the equitable doctrine was emphasized; if there are any unreasonable and unexplained delays, this will prevent the patent holder from claiming this right.⁴¹ It

³⁵ See T. Leigh Anenson & Gideon Mark (2013), *supra* note 12, at 1441-1527.

³⁶ *Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1178, 33 U.S.P.Q.2d 1823, 1826 (Fed. Cir.1995). See Jerome Rosenstock (1998), *Priority of Invention and The AIA* (formerly titled *Patent Interference Practice Handbook*), Wolters Kluwer Law & Business, February 2018, pp.2-94, pp.3-36.2.

³⁷ ***Union Pacific Resources Co v. Chesapeake Energy Corp.*, 236 F 3d 1369, 1375 (Fed. Cir.2001).** See Jaseph Ferraro (2002). 2001 Patent Law Decisions of the Federal Circuit, *American University Law Review*, Vol ume.51, No.4, April, 2002, pp.738.

³⁸ 35. U.S.C § 286: “Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the compliant or counterclaim for infringement in the action”. See Richard T. Holzmann (1995), *supra* note 23, at 214.

³⁹ *Woodbridge v. United States* 263, US 50, 68L. Ed. 159 (1923), two policies served by the doctrine of prosecution laches: (1) preventing a patent application from deliberately delaying the issuance of a patent the applicant “always intended to secure” solely to increase the commercial value of the patent, (2) preventing a patent applicant from unreasonably postponing “the time when the public could enjoy the free use of invention” that would otherwise have been made available to the public at a much earlier date. See Michael L. Kiklis (2015), *supra* note 21, at 7-150, 7-151.

⁴⁰ *Symbol Tech. Inc., v. Lemelson Med., Educ. & Research Fund.* 277 F. 3d 1361(Fed. Cir.2002). See Janice M. Mueller (2012), *supra* note 19, at 11-30.

⁴¹ *Symbol v. Lemelson* (Fed. Cir 2002) “As a matter of law, the equitable doctrine of laches may be applied to bar

is worth noting that laches are still a defense to patent infringement claim, an opinion sizably changed by the U.S. Supreme Court. On March 21, 2017, the U.S. Supreme Court issued a 7-1 decision in *SCA Hygiene Products Aktiebolag v. First Quality Baby Products, LLC*. The U.S. Supreme Court rejected the equitable defense of laches in some patent cases. The court issued an opinion that the equitable doctrine of laches defense for unreasonable delay in suing for patent infringement may not be used in cases filed within the six-year statute of limitations period for recovering damages. The Court considered that the equitable doctrine of laches did not apply when Congress set forth a statute of limitations for a claim, and that laches is a "gap-filling doctrine" applicable only where there is no statute of limitations.⁴²

VI. The shortcomings of Taiwan's intellectual property court

1. The court judgments of the technical expert do not meet the professional needs in the hi-tech industries

The application, expositions, objection, and withdrawal of the patent case are highly professional but the characteristics of hi-tech industries are not only concerned with the development of the techniques, but also with the business management used as the criteria for judgment in the intellectual property court. As for the patent dispute cases, the US federal courts derive its technical judgment from an expert jury (blue ribbon jury), while Germany's Intellectual Property Court is based on a system comprising several technical inspection officials as an aid for the few judges.

On the contrary, under article 4 of Taiwan (ROC) Intellectual Property Case Adjudication Act, the performance and duties of a technical examination officer are only limited to explanations of the parties' queries or the questioning of the parties: the witnesses and the appraisers.⁴³ However, if the technical examination officers are neither witnesses nor appraisers, then how is it possible that the technical examination officers are questioned by the parties? Moreover, if the opinions of the judges differ from those of the technical examination officers, and if the judges insist on their own opinions, this will go against the purpose of the Intellectual Property Case Adjudication Act for establishing the intellectual property court.

Some scholars hold the belief that as the intellectual property right cases are now increasingly professional, profession is not the only exclusive trait of the right.⁴⁴ The duty and performance of the judge is to listen to the statements beneficial to both parties and to see if the judgments are correct or not. Hence, both parties should try hard to convince the judge. I hold the point that the courts aim to discover the truth to win the trust of the public. Thus, the design of the litigation procedure for the Intellectual Property Court should copy the expert juries of the US or Germany, which may decrease the patent dispute cases that may arise in the future. Actually, with regard to the correct patent infringement judgment, the jury expert or technical examination officer is better than the general judge

enforcement of patent claims issued after an unreasonably and unexplained delay in prosecution even though the applicant complied with pertinent statutes and rules." See Janice M. Mueller (2012), *supra* note 19, at 11-30.

⁴² See Kumiko Kitaoka (2018), *supra* note 24, at 96-136.

⁴³ Article 4, Intellectual Property Case Adjudication Act (Taiwan), The court may, whenever necessary, request a Technical Examination Officer to perform the following duties: 1. Ask or explain to the parties factual and legal questions based on his/her professional knowledge, in order to clarify the disputes in action; 2. ask questions directly to witnesses or verification experts; 3. state opinions on the case to the judge; and 4. assist in evidence-taking in the event of preservation of evidence.

⁴⁴ Chung-Hsin Chang (2007), *The Progress Toward the Establishment and Operation of Taiwan Intellectual Property Court*, Taiwan Bar Journal, Volume 11, Issue 4, Taipei: Taiwan Bar Association, pp.61-76.

who lacks any technique background. Without doubt, if the jury expert or technical examination officer has the legal right to vote in a patent court, this court's judgment can not only be trusted by the people, but also meet the requirement of the Hi-tech industry.

2. The lengthy proceedings of the lawsuit do not fit the requirements of the time to market in the hi-tech industries

The product life cycle has been shortened and is brought to the market quite quickly. Most of the time, the 'own brand' manufacturers use lengthy litigation as a business strategy in the competitive market, thereby hindering competitors from entering the market and gaining a dominant role in the market. However, the legal system in Taiwan places much emphasis on procedural justice, and the period of the legal proceedings is time consuming, which is against the trait of promptness and may be an obstacle to acquiring substantive justice. Hence, determining how to conduct lawsuits in a more efficient manner is an issue worth discussing.

In terms of the cases of patent dispute in Taiwan, since the litigation system is divided into the dual legal system between public law and private law, the jurisdiction of the court is also divided into the general court and the administrative court, responsible for civil criminal case and administrative case, respectively. Thus, the parties may use the dual legal system to claim their own rights at the same time; however, this may lead to a contradiction of judgments when it comes to different courts. Therefore, the claim proceeding will always go back and forth to the Intellectual Property Office, general court and the administrative court, and may be time consuming for the different authorities in charge of the cases. In addition, dealing with the levels of administrative relief includes application, expositions, objection, withdrawal, and so on. First of all, it is necessary to apply the case to the Taiwan Intellectual Property Office. If the judgment is inappropriate, the parties should appeal to the Ministry of the Economy, and if it is still inappropriate, the parties can then file a lawsuit to the administrative court.⁴⁵

In terms of the hi-tech industry, it takes time to bring the products to the market and the periods of legal proceedings are quite long and time consuming. As such, it would be regretful to wait for the judgments of the courts which lead to "justice delayed is justice denied" after all. In view of the aforementioned problems, the dual legal system between public law and private law has been amended by articles 2 and 3 of the Intellectual Property Court Organization Act of ROC (Taiwan).⁴⁶ As a result, the patent litigation has changed from a "dual system" to a "one-tier system". This change is mainly to avoid different judgments arising from different courts so that judicial resources between the parties could be spared.

With regard to patent disputes, the intellectual property courts adopted the exclusive jurisdiction under the Anglo-American law system.⁴⁷ However, the two newly announced laws do not have this exclusive jurisdiction, although they do have priority jurisdiction, which may lead to a situation where

⁴⁵ Article 32, Intellectual Property Court Organization Act (Taiwan): Unless otherwise prescribed by law, an appeal may be filed with the final administrative court against a judgment of the Intellectual Property Court.

⁴⁶ Articles 2 and 3, Intellectual Property Court Organization Act (Taiwan)

⁴⁷ 28 USC § 1338 (a) of the Federal Rules of Civil Procedure: The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. No State court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection, or copyrights. For purposes of this subsection, the term "State" includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands. See Sarah Hasford (2017), *America Invents Act Primer*, Elsevier Science Publishing Co Inc, 2017, pp.356.

they are dependent on the plaintiff filing a lawsuit to the court. Thus, it increases the controversies between the courts and the judgments; therefore, the two laws mentioned above should be modified as exclusive jurisdiction to avoid the option of filing a lawsuit to the court, thereby leading to further controversies.⁴⁸

In legal practice, although the "Intellectual Property Case Trial Law" and the "Intellectual Property Court Constitution Law" have been implemented; even though the legal system has been changed from a dual system to a one-tier system, the argument regarding patent disputes has not been changed at all. As a result, different judgments cannot be avoided between civil litigation in patent dispute and administrative litigation in patent dispute. According to the Civil Judgment No.407, in 2004, the Supreme Court reasserted that the judgment of the administrative court is better than the judgment of the civil court.⁴⁹ In light of the foregoing analysis, it is obvious that saving trial time in patent litigation cannot be expected even though the "Intellectual Property Case Trial Law" and the "Intellectual Property Court Constitution Law" have been implemented.

3. The public trials in patent litigation do not match the requirements of trade secrets in the hi-tech industries

Given the character of hi-tech industries, the information related to R&D technology and business strategies is not only the creation of profit, but also the key point of success in competitive markets. Thus, in the case of patent dispute, the means to prevent outsiders using litigation to disclose trade secrets and the means to protect the litigation right of the parties have become important issues.

In the case of *Playskool, Inc. et al. v. Famous Corp.* in 1981 in the U.S. Federal Court, the judgment of the court considered the pleas and statements about the evidence as the balancing point of business secrets and the protection of the legal rights of proceedings.⁵⁰ First of all, in terms of the limitation of business secrets, the American federal court will take several factors into consideration when it issues the command of protection of business secrets: (1) the extent to which the information is known outside of his business, (2) the extent to which it is known by employees and others involved in his business, (3) the extent of measures taken by him to guard the secrecy of the information, (4) the amount of effort or money expended by him in developing the information, and (5) the ease or difficulty of others properly acquiring the information.⁵¹

Furthermore, when dealing with trade secrets, the U.S. Federal Court also cites article 26(c) of the FRCP as applicable to the concerned cases, and includes the following points: 1. Do not conduct the process of exposing the evidence and discovery. 2. Only under certain conditions can discovered evidence and truth be revealed. 3. Only obey certain methods to discover the truth. 4. Do not inquire into certain details or limits to the true discovery to a certain range. 5. People not appointed by the courts should not take part in this procedure. 6. The testimonial statement which is sealed can only be opened under the instructions of the court. 7. Do not expose the business secrets or other confidential information. 8. The sealed confidential information provided can only be opened under the instructions

⁴⁸ Chung-Hsin Chang (2007), *supra* note 44, at 61-76.

⁴⁹ Su-Hua Lee (2016), The myth regarding the judgment of patent validity by Civil Court and accelerating the patent dispute resolution - From the Civil Judgment No.407, the Supreme Court of Taiwan in 2004, *Court Case Time*, No.43, January 2016, pp.31-43.

⁵⁰ See Eric M. Dobrusin & Katherine E. White (2017), *Intellectual Property Litigation: Pretrial Practice*, Third Edition, Wolters Kluwer/Aspen Publisher, 2017, pp.8-37.

⁵¹ Restatement (First) of Torts §757, comment b. See Brian T. Yeh (2016), *Protection of Trade Secrets: Overview of Current Law and Legislation*, Congressional Research Service, April 22, 2016, pp.2.

of the courts. Besides, the context of the operational secrets is no longer limited to the statements made by the concerned parties.⁵²

On the contrary, under article 11-1 of ROC (Taiwan) Intellectual Property Case Adjudication Act, the regulations and clauses mentioned above in the U.S. Federal Rules of Civil Procedure are not included. Moreover, article 13-1 of ROC (Taiwan) Intellectual Property Case Adjudication Act is not as flexible and as definite as the U.S. Federal Rules of Civil Procedure, which balances the profits of both concerned parties. Obviously, article 26(c) of the FRCP is a suitable response to the environmental change to balance the profits of both parties in comparison to the ROC (Taiwan) Intellectual Property Case Adjudication Act.

V. The new niches for Taiwan's Intellectual Property Court: Judge-Made Law According to the Principle of Equity Law

1. The relationship between equity law and judge-made law

In the historical development of equity law, natural law scholars think that in order to avoid the inflexibility of legal interpretation, it is possible for the courts to supplement laws in individual cases to execute substantive justice. Nevertheless, the school of legal positivism holds the belief that the legislature should represent the orders of the sovereign powers, and the courts should abide by them absolutely when making any judgments. The courts should define and explain the law in accordance with the principle of law and public policy purpose⁵³ when the laws result in legal loopholes and are not clear or specific enough. If this happens, the judges can use judge-made laws to examine individual cases to compensate for legal loopholes. Thus, whether natural law moves beyond the law or out of the positivism which remains within the law, both hold the same belief that when the laws result in legal loopholes and are not clear or specific enough, the judges can use judge-made laws to compensate for legal loopholes in accordance with the principle of law and public policy purpose.⁵⁴

The traditional civil law system emphasizes the legal interpretation with logic and semantics, and lacks data analysis. Currently, with the trend of a knowledge-based economy and globalization, transnational law relating to the patent law, and unfair competition law has been approaching harmonization under the regulation of WTO and other international law organizations. As a result, the difference between the Anglo-American Common law and the Dutch-Rome Civil Law has become more harmonious and unified through empirical research, such as the economic analysis of law, political analysis of law and social analysis of law that can be cited as examples. For a long time, Taiwan has been dependent on the laws made by the legislature to make judgments but with the rapidly changing times, this may not suit the current situation very well as it may cause legal loopholes to occur. Thus, the courts have been inspecting legal loopholes not only with the traditional civil law system, but also with the judge-made laws recognized in equity law. If possible, the judges may use the Anglo-American equity law as the top criterion to fill in legal loopholes and reduce the gap between

⁵² See Adam M. Josephst (2013), *The Availability of Discovery Sanctions for Violations of Protective Orders*, *The University of Chicago Law Review*, Volume 80, Issue 3, 2013, pp.1355-1389.

⁵³ See William J. Woodward Jr. (2014), *Legal Uncertainty and Aberrant Contracts: The Choice of Law Clause*, *Santa Clara Law Digital Commons*, 2014, pp.197-228. See Henry Cohen (2017), *Kelsen's Pure Theory of Law*, *The Catholic Lawyer*: Volume 26, No. 2, Article 4, September 2017, pp.147-157.

⁵⁴ See T. Leigh Anenson (2017), *supra* note 11, at 1-59. See Michael Grynberg (2010), *Property is a Two-Way Street: Personal Copyright Use and Implied Authorization*, *Fordham Law Review* Volume 79, No. 2, December 2010, pp.435-498.

judicial justice and social justice.

2. The application scope of the judge-made law in the civil law system

Under the civil law system, the courts intend to inspect the facts and apply the laws. The truth inspection depends on the statements made by the discussed parties, and the application of laws belongs to the rights of the courts, including: 1. judges providing evaluations of laws where the laws themselves cannot offer any standards as proposed by Hans Kelson. 2. The evaluations of needed laws can be found in morals which already exist in this society. 3. The evaluations of the laws are based on natural law. 4. The evaluations of needed laws are dependent on the legal order within the system.⁵⁵

The key to applying the law is the stage when the case is applied; this includes the following points: 1. It is based on real facts. 2. It is also based on moral evaluations.⁵⁶ If the case is based on real facts, this means that the rule of thumb is correct and still valid. If there are any changes to this, the judges must make new judgments based on the new real facts.⁵⁷ Moral evaluations include the practice of regulation goals, the balance of benefits contradictions and the standard of social values.⁵⁸ When the laws are not specific enough, it is possible to compensate for them based on possible meanings, which can be divided into legal interpretation and legal supplement.⁵⁹ The legal interpretation can be limited to the literal meanings, and legal supplement can be external loopholes. Regarding internal loopholes, this belongs to the instances where interpretation and supplement overlap.⁶⁰ Thus, when the law is not specific enough, the court can make judgments based on the real facts or discovered truth.⁶¹

In general, the legal supplement under judge-made laws can involve the words' meanings, history, system, legal purpose, and constitutionality⁶², and should avoid going against the constitution or any other rules of law.⁶³ However, judge-made laws should be based on the following three factors⁶⁴: 1. the legal supplement becomes a model for future laws. 2. The legal supplement composed of the elements and the effects should aim to reach the law principle. 3. The legal supplement should be consistent with the legal system value.

3. The application arguments of the judge-made law in the civil law system

The courts establish certain legal principles based on the past cases and therefore become the basis for legal judgments in the common law system. With the changing when the law is not specific

⁵⁵ See Henry Cohen (2017), *supra* note 53, at 147-157.

⁵⁶ See Philip S. Gorski (2013), *Beyond the Fact/Value Distinction: Ethical Naturalism and the Social Sciences*, Society. Volume 50, Issue 6, October 2013, pp.543–553

⁵⁷ *Ibid*

⁵⁸ *Ibid*

⁵⁹ See Panos Merkouris (2017), *Interpreting the Customary Rules on Interpretation*, *International Community Law Review*, Volume 9, 2017, pp.126–155.

⁶⁰ See Juraj Kotrusz (2009), *Gap-Filling of the CISG by the UNIDROIT Principles of International Commercial Contracts*, *Uniform Law Review*, Volume 14, Iss.1-2, 2009, pp.119-163.

⁶¹ See Philip S. Gorski (2013), *supra* note 56, at 543-553.

⁶² See LTC Harms (2012), *The Enforcement of Intellectual Property Rights: A Case Book*, World Intellectual Property Organization, 3rd Edition, 2012, pp.13.

⁶³ See Kristin A. Collins (2010), *supra* note 9, at 249-343.

⁶⁴ See Mark Leeming (2015), *Equity: Ageless in the Age of Statutes*, *Journal of Equity*, Volume 9, 2, 2015, pp.108-129.

enough, the courts may use judge-made laws to compensate for legal loopholes. The Anglo-American law system has used equity law to balance the strict trait of common law, as derived from the dual legal system of common law and equity law; thus, the equity court has become one means of right of relief besides the general courts.⁶⁵

The civil law system has always been based on laws made by the legislative authorities, and sometimes there are legal loopholes between the legal facts and the legal components. However, several ways, such as application of analogy, extension of purpose, and restrictions of purpose, can compensate for loopholes.⁶⁶ Thus, the equity law is only an interpretation principle in the civil law system.⁶⁷ Whether equity law in the common law system can be applied leads to two different opinions.

A. The equity principle is not applicable to the civil law.

According to Article 1 of the civil law of Taiwan⁶⁸, former Lord Chancellor Justice Ze-Jian Wang thinks that the judgments based on jurisprudence aim to compensate for loopholes when the law is not specific or clear enough, and also that they have the functions of judge-made laws. The application of equity principles includes the judgments made by the judges according to the specific cases and thus cannot be used as the basis of the application of jurisprudence. Undoubtedly, it is not possible to use the judge-made laws to compensate for loopholes in the civil law system as the common law does.⁶⁹ Thus, although we allow the judge-made laws to compensate for legal loopholes, it is still possible to maintain the stability or predictability of the law questioned because of the trial-level system.⁷⁰

B. The equity principle is applicable to civil law

(1) Equity law is the basis for legal interpretation

The court once held the belief that according to Article 1 of Taiwanese civil law, jurisprudence is the stipulation of equity law in the Anglo-American legal system⁷¹; thus, it can be used to compensate for legal loopholes. Furthermore, it includes the civil precedent of ROC (Taiwan) Supreme Court No. 1994-Tai-Shang-Tze-2701⁷², the civil decision of ROC (Taiwan) Supreme Court No. 2004-Tai-Shang-Tze-1899⁷³ and the civil ruling of ROC (Taiwan) Supreme Court No. 2006-Tai-Kang-Tze-231⁷⁴, that all applied the equity principle to make judgments. Some scholars claim that the law is comprised of legal provisions and jurisprudence. Provision is the body of the law, while jurisprudence is based on

⁶⁵ See Kristin A. Collins (2010), *supra* note 9, at 249-343.

⁶⁶ See Roberto Mancilla (2017), *A Theory of Judicial Constitutional Design*, *International Journal of Political Theory*, Volume 2, No. 1, 2017, pp.1-23. See Aharon Barak (2005), *Purposive Interpretation in Law*, Princeton University Press, 2005, pp.69-72.

⁶⁷ See Aharon Barak (2005), *supra* note 66, at 69-72.

⁶⁸ Article 1, Civil Law of Taiwan (ROC): If there is no applicable act for a civil case, the case shall be decided according to customs. If there is no such custom, the case shall be decided according to the jurisprudence.

⁶⁹ Jiun-Yi Lin (2000), *A Legal Study on Amiable Composition*, Unpublished Doctoral Dissertation, College of Law, National Cheng Chi University, Taipei, Taiwan R.O.C, pp.356 (in Mandarin).

⁷⁰ Tai-Chang Lee, Hai-Nan Wang, Zhi-Bing Fa, Lian-Sun Chen, Chueh-An Yen (2003), *An Introduction to Legal Science*, Taipei: Angle publishing Co. Ltd., pp.171.

⁷¹ Chung-Su-Tze No. 20, Civil Judgment of Taipei District Court of Taiwan (2001) Tai-Shang-Tzu No723, Civil Decision of Taiwan Supreme Court (2017).

⁷² Tai-Shang-Tzu No83, Civil Decision of Taiwan Supreme Court (1994).

⁷³ Tai-Shang-Tzu No1899, Civil Decision of Taiwan Supreme Court (2004).

⁷⁴ Tai- Kang- Tzu No231, Civil Decision of Taiwan Supreme Court (2006).

the equity principle as the basis for law interpretation.⁷⁵

(2) Equity law is the basis for judge-made laws

With the changing social environment and personal values, the functions of modern judges are not limited to traditional interpretations of law, but also change justice into legal justice if there is any gap arising between the social justice and the legal justice.⁷⁶ Based on the principle of pursuing justice, the courts are using judge-made laws to compensate for legal loopholes to achieve substantive justice.⁷⁷ However, the judge-made laws should be in great accordance with the rule of law, and the filling of legal loopholes should be consistent with the valuation recognized by the constitution, which may include the constitutional principle and the equity principle (such as public order, good morality and good faith).⁷⁸

As we know, U.S. Supreme Federal Court applies equitable principles of judgment, often considering the "equitable doctrine" as the upper level concept of law, and then creating the sequence, which derives from equitable principles, to fill in legal loopholes. What follows is a concrete example. The full requirements are not only inclusive of the principle of equal theory, estoppel, and exhaustion of rights, but also of the principles of patent misuse, improper behavior and patent rights slack, as well as other equitable principles of judgment. The aforementioned are all derived from the US Supreme Court and the Federal Circuit Court rulings on patent disputes, which are also in response to changes in the social and economic environment concerning the "equitable doctrine." Finally, the second derivative of the creation of the first principles of law thus leads to the fact that it conforms much more to contemporary social justice.

Currently, with the changing social environment and personal values, the practical case of Taiwan's intellectual property court has used Anglo-American equity law as part of the legal basis⁷⁹, but the process of acknowledging judge-made law is only about abstract explanations and fails to apply the principles to produce other principles as the Anglo-American courts do. Thus, the newly established Intellectual Property Court has adopted the principles of analogy, extension, and restriction of purposes to avoid the occurrence of legal loopholes. The Court also adopted the equity principles and the judge-made laws to turn social justice into legal justice, to keep up with widely acknowledged social values, which may help improve the competence of Taiwan's hi-tech industries in the global market.

4. The limitations of judge-made laws in the civil law system

Regardless of whether judge-made law was prompted by negligent legislative inaction, legislators' intentional silence or rapid changes related to the social environment, which leads to the

⁷⁵ See Suzanne Corcoran, Stephen Bottomley (2005), *Interpreting Statutes*, Federation Press, 2005, pp.11. See Joseph W. Bellacosa (2017), *A Shared Spirit of Justice - The Union of Law and Equity*, *Justice's Body and Soul: Canon and Common Law's*, "Common Ground", *The Catholic Lawyer*, Volume 37. No.4, Article 2, 2017, pp.269-294. See Rafael Domingo (2018), *Soul, and Spirit of the Law. Towards a Holistic Legal Paradigm*, *Oxford Journal of Law and Religion* 7, 2018, pp.1-25.

⁷⁶ See Marika Linntam (2002), *Building a Just Society: The Role of the Constitutional Judge. Idea of Justice in the Contemporary Value Jurisprudence and the Process of Argumentation.*, *Juridical International*, Volume VII, 2002, pp.49-57. See Waldron, Jeremy. *The Rule of Law*, *The Stanford Encyclopedia of Philosophy*, Fall 2016. Available at: <https://plato.stanford.edu/entries/rule-of-law/>

⁷⁷ See Jeffrey A. Pojanowski (2015), *Reading Statutes in the Common Law Tradition*, *Virginia Law Review*, Sep 2015, Volume 101 Issue 5, Sep 2015, pp.1125-1424.

⁷⁸ See Jeffrey A. Pojanowski (2015), *supra* note 77, at 1125-1424.

⁷⁹ Precedent T.S.T. No. 2701, Taiwan Supreme Court (Sup.Ct.,1994); Civil Decision Tai-Shang-Zi No.1899, Taiwan High Court (2004); Civil Decision Tai-Shang-Zi No.710, Taiwan High Court (2004).

inability to apply legal facts to the constitutive elements of law, legal loopholes must be filled by way of judge-made law, and it is essentially legal cases that can supplement legal loopholes. Nevertheless, the function of judge-made law as supplementary to legal loopholes is not unlimited or there would be the possibility of violating the principle of the rule of law. That is to say, the sphere of a judge-made law must follow the following principles: 1. Must be based on "equitable doctrine" as the upper level concept of law and then create the associated sequence derived from the equitable principles.⁸⁰ 2. Should not be against the principle of legal reservation, which refers to basic human rights. 3. Should not conflict with statutory laws passed by the legislation. 4. Should not violate public order and good morality.⁸¹

A. Based on the equitable doctrine and the others derived from it.

The purpose of judge-made law is to respond to the rapid changes in the social environment and personal values. The statutory laws are not specific and clear enough; therefore, it is possible to use judge-made laws to compensate for legal loopholes. According to the Anglo-American equity law and the others derived from it, judge-made laws are adapted to the rapid changes of the law and environment, and thus are adapted to compensate for legal loopholes.⁸²

B. Comply with the fundamental human rights under the constitution: the principle of legal reservation.

The principle of legal reservation is general, based on fundamental human rights and the constitution. In this way, judge-made laws cannot cross the line of legal reservation. However, if the situation is beneficial to the general public, exceptions may be allowed to fill legal loopholes by the judge-made laws.⁸³

C. Do not oppose the laws passed by the law-making authorities.

Judge-made laws are meant to compensate for legal loopholes, are only applied to specific cases and should be of supplementary adaptation. On the contrary, the laws passed by the legislative authorities are applied to the general case and should be of priority adaptation. Thus, judge-made laws cannot oppose legislative authorities.

D. Do not violate public order and good morality.

Judge-made laws are meant to compensate for the gap between social justice and legal justice because of the changes in the social environment and personal values; this is the reason why the judge-

⁸⁰ The basic principles of equity law based on cases, such as: 1. Equity regards done what ought to be done. 2. Equity will not suffer a wrong to be without a remedy. 3. Equity delights in equality. 4. One who seeks equity must provide equity. 5. Equity aids the vigilant, not those who slumber on their rights. 6. Equity imputes intent to fulfill an obligation. 7. Equity acts in personam. 8. Equity abhors forfeiture. 9. Equity does not require an idle gesture. 10. One who comes into equity must come with clean hands. 11. Equity delights to do justice and not by halves. 12. Equity will take jurisdiction to avoid a multiplicity of suits. 13. Equity follows the law. 14. Equity will not aid a volunteer. 15. Where equities are equal, the law will prevail. 16. Between equal equities the first in order of time shall prevail. 18. Equity will not allow a statute to be used as a cloak for fraud. 19. Equity will not allow a trust to fail for want of a trustee. See Richard Edwards, Nigel Stockwell (2005). *Trusts and Equity*, 5th Edition, London: Pearson Education, pp.34-48. See John McGhee (2005), *Snell's Equity*, 31st Edition, London: Sweet & Maxwell, pp.27. See Alastair Hudson (2005), *Equity & Trusts*, 4th Edition, London: Cavendish Publishing Limited, pp.24. See Gary Watt (2016), *Trusts and Equity*, Oxford University Press, 16th Edition, 2016, pp.529-565.

⁸¹ See Jeffrey A. Pojanowski (2015), *supra* note 77, at 1125-1424.

⁸² See Daniel S. Kleinberger (2012), *Examples & Explanations: Agency Partnerships & LLC*, Wolters Kluwer, 2012, pp.231-232. See William M. Landes; Richard A. Posner (2003), *supra* note 10, at 417.

⁸³ *Ibid.*

made laws cannot oppose the social order and morality.⁸⁴

VI. The remedies mechanism of patent disputes solution other than litigation

1. Alternative Dispute Resolution: Arbitration

With regard to the methods of patent dispute resolution, the parties may apply for arbitration except in a litigation process. The relationship between litigation and arbitration is alternative rather than one of priority.⁸⁵ Thus, both parties may reach a conclusion in commercial agreement about the parties' application to the governing law, jurisdiction court, litigation, or arbitration if any patent disputes may arise in the future under the rule of autonomy of private law and the freedom of contracts. However, the management of the hi-tech enterprise puts great emphasis on pursuing maximum profits. Thus, based on the principle of economic rationality, their foremost concern is determining how to settle business disputes. In order to avoid being affected by the time-consuming litigation process, most enterprises may turn to arbitration rather than legal litigation. Besides, in order to sustain the confidentiality of business secrets, the management will also turn to arbitration to solve the problems; thus, amiable composition is the core issue worth discussing.⁸⁶ Under the trend of globalization, trading activities have become more intensive. Therefore, business ethics, practices, and cultures of different nations are integrating, thereby causing laws to become the main reference for legal economic analysis, excluding fairness and justice. Nevertheless, taking factors such as business reputation into consideration, in order to avoid public attention or the punishment of being abandoned by society⁸⁷, enterprises will abide by the demands made by the court, thereby forming the industrial self-regulation of commercial culture.⁸⁸ According to the aforementioned, this section of this paper will analyze legal remedies in arbitration with the equity law principle, and explore their differences. In addition to exploring the Taiwan arbitration court and the cases related to the patent disputes, we will also analyze the feasibility of Taiwan's courts in applying the equitable arbitration as a means of adapting to different situations, and in so doing, make the technological law field in Taiwan far more competent.

2. The Extension of Equity Law in the Arbitration System

According to the Laws or Rules Applicable for the Arbitration of Substance Disputes of the R.O.C., the arbitrators have to make judgments according to the "rule of law" or "legal arbitration". Generally, the arbitrator uses the "rule of law" as judgment if the authorization does not come from either of the two parties. In other words, the arbitrator will be able to use "legal arbitration" with the principles of equity, fairness and integrity when making judgments on arbitration in the equity system, based on the consensus and permission between both parties. As we know, the so-called "arbitration in equity" refers to judgments outside the law, called amiable composition in the civil law system, and

⁸⁴ See Jeffrey A. Pojanowski (2015), *supra* note 77, at 1125-1424.

⁸⁵ See Anika Gill, Jason Gray, Martin Skitmore, & Stephen Callaghan (2015), Comparison of the effects of litigation and ADR in South-East Queensland, *The International Journal of Construction Management*, Volume 15, Issue 3, 2015, pp.254-263.

⁸⁶ See Jiun-Yi Lin (2000), *supra* note 69, at 43.

⁸⁷ See Wei-Ming Liao (2003), Legal Economical Analysis of Arbitration, *The Arbitration Quarterly*, Volume 68, Taipei: The Chinese Arbitration Association, pp.48.

⁸⁸ See Wei-Ming Liao (2003), *supra* note 87, at 39-52.

ex aequo et bono in the common law system. Therefore, they are two absolutely different concepts. The amiable composition refers to reaching a settlement, whereas the arbitrator uses the principle of justice as judgment, which means the arbitrator may not use the strict principle of regulations if the outcome of applicable law results in unfairness or inequity. On the contrary, the ex aequo et bono comes from Roman law, and can be interpreted as the law of justice, which means the arbitrator may not use the strict regulations if the law expressly provides that the authorization is based on both parties' agreement. Thus, the arbitrator makes the judgments based on the ex aequo et bono within a bigger space compared to an amiable composition, even though, in some cases reaching the result of equity law, it is sometimes possible to violate the regulations. However, the two theories mentioned above are based on justice and are conscious of making judgments outside the law.

In general, arbitration in equity is quite different from equity law. Equity law in common law refers to the prevention of the inflexibility of the law system, which leads to extreme injury via extreme law (sumum jus summa injuria)⁸⁹; the judge can make judgments according to the equity principle in order to compensate for the deficiency in common law. Thus, Anglo-American equity law refers to the equitable concept within the legal system, which includes the rule of law and legal remedies. In contrast, the equity of arbitration refers to the equitable concept outside the legal system.⁹⁰

As for the contents and functions of equity principle, it can be divided into abstract equity and concrete equity. The former is based on the equity concepts and is applied to help achieve real justice, as found in article 148-1 in Taiwan civil law (the principle of public policy and good morals; the principle of prohibition of abuse of rights), article 148-2 in the Taiwan civil law (the principle of good faith) and article 379 (the principle of change of circumstances). Since the equity principle has become part of the law, the court no longer has the margins of appreciation to make judgments⁹¹; thus, it is not part of equity judgments.⁹² As for concrete equity, it is used to authorize the court with the legal composing elements and legal consequence. The judge has the margins of appreciation to make the judgment in order to achieve real justice, such as the articles 187-3, 188-2 and 252 Civil Law Taiwan (ROC). The function of amiable composition is meant to avoid applying laws which fail to achieve justice. Thus, the arbitrator may not use the normal regulations to make the judgments but rather the real justice principle called concrete equity.⁹³

VIII. The Feasibility of Equity Arbitration for Patent Dispute Cases

The international intellectual property rights treaties, such as the Patent Harmonization Treaty in TRIPS and World Intellectual Property Organization (WIPO), do not clearly recognize the admissibility of amiable composition for the patent dispute cases or impose certain responsibility on the member countries.⁹⁴ However, the WIPO has its own arbitration center, and the practical application to patent cases just uses the rule as the governing law hoping to make the most out of the advantages, such as timeliness, confidentiality and specialization. According to article 31 Arbitration Law Taiwan (ROC), the arbitrator may use amiable composition under the clear instructions of the parties concerned. There are various opinions as to whether the arbitrators can make judgments

⁸⁹ See Jiun-Yi Lin (2000), *supra* note 69, at 67.

⁹⁰ See Jiun-Yi Lin (2000), *supra* note 69, at 64-66.

⁹¹ See Jiun-Yi Lin (2000), *supra* note 69, at 344-346.

⁹² Tai-Shang-Zi No.1690, Civil Decision, Taiwan Supreme Court (2004).

⁹³ See Jiun-Yi Lin (2000), *supra* note 69, at 344-346.

⁹⁴ See Hsian-Gao Hsu (2005), *The Possibility of Applying Arbitration to the Intellectual Property Rights*, Issue 2, *Intellectual Property Rights Journal*. Volume 59, Taipei: Intellectual Property Office, Ministry of Economic Affairs R.O.C, pp.22-64.

spanning the scope of the law. The academic and practical opinions are as follows.

1. Agreeing with an opinion

Some scholars who agree with the feasibility of equity arbitration claim that as for the law, since the law in the arbitration system lies in the balance point, truth, between substantive benefit and procedural benefit, it doesn't necessarily have to be the substantive law.⁹⁵ From the perspective of the essence of arbitration, fairness lies in the objective judgments of the professionals, which is very different from discovering the truth based on the law. In other words, the arbitration system doesn't mean denying the possibility of achieving just verdicts according to law, but rather gives the arbitrators more space to make judgments to prevent the arbitrators from overlooking the objective considerations when they are limited to the meanings of the law.⁹⁶ In Taiwan's legal practice, case no. 1690, the judgment of the Taiwan Supreme Court (2004) states that equity is part of the legal principles and is therefore also part of the law sources. If the arbitrators make judgments without considering substantive law, it cannot be a reason to withdraw it.⁹⁷ In Taiwan's legal practice, case no.437, the judgment of the Taiwan Supreme Court (2003) also held the same legal opinions.⁹⁸

2. Disagreeing with an opinion

Some scholars who object to the feasibility of equity arbitration argue that if the arbitrators are not limited to law regulations while making judgments, the arbitrators will be allowed too much scope to make judgments, which means the arbitration judgment may lose consistency and predictability if compared to the law. In view of this, case no.1106, the judgment of the Taiwan Supreme (2002) states that the arbitrators may take part in the arbitration process, which is based on the arbitration contract between the parties concerned; if the arbitrators make judgments ignoring the regulations of the responsibilities, then the arbitration contract can thus be withdrawn.⁹⁹ In view of this, both case no.88, the judgment of the Taiwan Supreme Court (1997) and case no.2289, the judgment of the Taiwan Supreme Court (1996) also held the same legal opinions.¹⁰⁰

3. The new trend of international arbitration

As for the current trend of international arbitration, article 7-2 in The European Convention on International Commercial Arbitration¹⁰¹, article 33-2 in UNCITRAL Arbitration Rules 1976, article

⁹⁵ Lian-Gong Chiou (2001), *The Right to Choice of Proceedings in Civil Procedure*, National Taiwan University Law Journal, Volume126, Taipei: National Taiwan University, pp.223.

⁹⁶ Ying-Fang Lan, (1988), *Amiable Composition in Business Arbitration*, Commercial Arbitration Treatises, A compilation of industry-Commercial Arbitration (I), Taipei: Chinese Arbitration Association, pp.408.

⁹⁷ Tai-Shang-Zi No.1690, Decision, Taiwan Supreme Court (2004)

⁹⁸ Tai-Shang-Zi No.437, Decision, Taiwan Supreme Court (2003); Tai-Shang-Zi No.234, Decision, Taiwan Supreme Court (2003).

⁹⁹ Tai-Shang-Zi No.1106, Civil Decision, Taiwan Supreme Court (2002).

¹⁰⁰ Tai-Shang-Zi No.2289, Decision, Taiwan Supreme Court (1996).

¹⁰¹ Dominique T. Hascher (2011), *European Convention on International Commercial Arbitration of 1961*, Yearbook Comm. ARB'N XXXVI, 2011. Available at: http://www.arbitration-icca.org/media/4/49305067580462/media_113534204360520hascher_commentary_on_the_european_convention_1961.pdf

28-3 in UNCITRAL Model Law on International Commercial Arbitration and article 59-1 in WIPO all acknowledge the system of equity arbitration. Next, the changes refer to the instances of foreign legal legislation for the cases of making laws in different countries; the U.S. Federal Arbitration Act (FAA) and U.S. Uniform Arbitration Act (UAA) both allow the principle of amiable composition. Canada's Commercial Arbitration Act sets out the principle of amiable composition according to the UNCITRAL Model Law on International Commercial Arbitration (1986). Article 46 Section 1 (B) of the United Kingdom Arbitration Act 1996 adopted the principle of amiable composition. In addition, Germany also adopted the principle of amiable composition as part of the civil remedy in 1997.¹⁰² Without a doubt, the principle of amiable composition is currently being widely used by different countries.

VIII. The Limitation of Equity Law in the Resolution of Patent Dispute

Without doubt, the principle of amiable composition and arbitration *ex aequo et bono* are widely used mechanisms for resolving international commercial disputes in different countries, especially in developed countries. However, in order to avoid the disadvantages derived from amiable composition, such as the lack of legal stability and predictability, and willful judgment by arbitrator which may be questioned, we have to regulate based on the points listed below. Thus, it is possible that amiable composition can function well and reduce the causes of lawsuits.

1. There should be agreement on the arbitral contract

The arbitration system involves the actions that the concerned party make with the autonomy of the will based on the principles of the autonomy of private law and contract freedom. If no agreement is reached, both parties should not be forced to accept any form of settlement to the dispute.¹⁰³ However, the function of the arbitration system is likely being questioned for the disadvantages that may arise, such as the deficiency of law predictability. Thus, the agreement of both parties to settle the disputes with arbitration may prevent controversies from happening in the future. Article 28-3 in model law established in 1958 states that the court should depend on the *aequo et bono* or amiable composition if there is concrete authorization from the parties involved. Article 31 in Taiwanese arbitration law can be interpreted as the cause of rebutting the ruling claimant; thus, another party concerned may file a lawsuit against the other party according to article 40-1 in Taiwanese arbitration law. In general, if an arbitral tribunal decides *ex aequo et bono* or amicable composition, it shall be authorized by the parties, although it is not required to clearly express.¹⁰⁴ In addition, Taiwan Supreme Court believes that consent in arbitration also includes silent consent and deemed consent, and is not limited to amiable composition or *ex aequo et bono*.¹⁰⁵

¹⁰² See Jack Graves (2011), Arbitration as Contract: The Need for a Fully Developed and Comprehensive Set of Statutory Default Legal Rules, William & Mary Business Law Review, Volume. 2, Nov. 24, 2011, pp.225-287. See Jiun-Yi Lin (2000), *supra* note 69, at 413-419.

¹⁰³ See Masoudreza Ranjbar & Mehdi Dehshiri (2017), General and Specific Conditions of Arbitration Agreement, Journal of Politics and Law, Volume10, No. 5; 2017, pp.95-104. See CA Daouda (2016), The Validity of International Commercial Arbitration Agreement, Global Journal of Politics and Law Research Volume 4, No.5, September 2016, pp.10-50.

¹⁰⁴ Tai-Shang-Tzu No104, Civil Decision of Taiwan Supreme Court (2017).

¹⁰⁵ Tai-Shang-Tzu No723, Civil Decision of Taiwan Supreme Court (2017).

2. The arbitrators must obey the due process of law

Although the arbitration system was established based on the concept of the free will of both parties and freedom of contracts, the fairness of procedure of arbitration system is related to the recognition and enforcement of the judgment; therefore, it should be limited by the due process of law.¹⁰⁶ Accordingly, in order to protect the procedural interests of both parties, the law needs to include the three principles: Audi Alteram Partem, contradiction and equal treated opportunity of party.¹⁰⁷

Article 23(1) of the Arbitration Law of the Republic of China (ROC) (Taiwan) states¹⁰⁸: “The arbitral tribunal shall ensure that each party has a full opportunity to present its case and the arbitral tribunal shall conduct the necessary investigations of the claims by the parties.” Regulation on Article 24 of the Arbitration Law of the ROC (Taiwan) states¹⁰⁹: “Either party may, in writing, appoint a representative to appear before the arbitral tribunal to make statements for and on its behalf.” Regulation on article 40 of Arbitration Law of ROC (Taiwan) states¹¹⁰: “A party may apply to the court to set aside the arbitral award in any of the following circumstances: The existence of any circumstances; all of them are concrete regulations on the due process of the law.” Besides, scholars also hold the belief that¹¹¹ in the arbitration procedure, the arbitrators should obey the following concepts: (1) all parties must be treated equally, (2) during each stage of the arbitration the parties should be given enough opportunities to state the cases involved, (3) the parties have the right to understand the documents provided, (4) the parties should have the right to demand judgments, (5) the courts have the right to accept any evidence provided and thus evaluate the credibility, (6) the parties have the right to choose the arbitral procedures and (7) the court has the autonomy and freedom to determine the procedural rules. Based on the above-mentioned, if the arbitrators do not follow the legal regulations, the parties may ask to withdraw according to article 40-3-1 in the ROC (Taiwan)

¹⁰⁶ See Mohammed Zaheeruddin (2016), Due Process of Law in International Commercial Arbitration with Special Reference to Production of Documents, *Journal of Law and Criminal Justice*, Volume. 4(1), June 2016, pp.90-96. See Tiffany Ng (2014), Choice of Procedural Law in International Commercial Arbitration: Providing "Proper Notice" to a Foreign Party to Ensure That the Arbitral Award Can Be Enforced, *Hastings Business Law Journal*, Volume 10, No.2, Summer 2014, pp.491-512. See Fabricio Fortese and Lotta Hemmi (2015), Procedural Fairness and Efficiency in International Arbitration, *Groningen Journal of International Law*, Volume 3, No. 1, May 2015, pp.111-124.

¹⁰⁷ Articles 15, 18, 19 and 27 of UNCITRAL Arbitration Rules.

¹⁰⁸ Article 23(1) of Taiwan (ROC) Arbitration Law: The arbitral tribunal shall ensure that each party has a full opportunity to present its case and the arbitral tribunal shall conduct the necessary investigations of the claims by the parties.

¹⁰⁹ Article 24 of Taiwan (ROC) Arbitration Law: Either party may, in writing, appoint a representative to appear before the arbitral tribunal to make statements for and on its behalf.

¹¹⁰ A party may apply to a court to set aside the arbitral award in any of the following circumstances: 1. The existence of any circumstances stated in Article 38. 2. The arbitration agreement is nullified, invalid or has yet to come into effect or has become invalid prior to the conclusion of the arbitral proceedings. 3. The arbitral tribunal fails to give any party an opportunity to present its case prior to the conclusion of the arbitral proceedings, or if any party is not lawfully represented in the arbitral proceedings. 4. The composition of the arbitral tribunal or the arbitral proceedings is contrary to the arbitration agreement or the law. 5. An arbitrator fails to fulfill the duty of disclosure prescribed in paragraph 2 of Article 15 herein and appears to be partial or has been requested to withdraw but continues to participate, provided that the request for withdrawal has not been dismissed by the court. 6. An arbitrator violates any duty in the entrusted arbitration and such violation carries criminal liability. 7. A party or any representative has committed a criminal offense in relation to the arbitration. 8. If any evidence or content of any translation upon which the arbitration award relies, has been forged or fraudulently altered or contains any other misrepresentations. 9. If a judgment of a criminal or civil matter, or an administrative ruling upon which the arbitration award relies, has been reversed or materially altered by a subsequent judgment or administrative ruling. The foregoing items 6 to 8 are limited to instances where final conviction has been rendered or the criminal proceeding may not be commenced or continue for reasons other than insufficient evidence. The foregoing item 4 concerning circumstances contravening the arbitration agreement and items 5 to 9 referred to in paragraph 1 of this Article are limited to the extent sufficient to affect the arbitral award.

¹¹¹ Kwang-Ming Wu (2014), *Arbitration in Business Disputes*, Taipei: Wu Nan Book Co. Ltd., pp.44.)

arbitration law.¹¹² In legal practice, Taiwan's courts have repeatedly disclosed that the legislative intent of paragraph 1 of article 23 and paragraph 1 (3) of article 40 of arbitration law are meant to ensure that the arbitral proceedings match the due process of law.¹¹³

3. The amiable composition (ex aequo et bono equity) cannot violate the mandatory provisions, provision prohibiting, public order and good morals

It is true that equitable arbitration is based on the parties' clear and direct opinions, and is thus applied by the arbitration court. However, there is no difference for either the equitable arbitration or general arbitration on the principle that both shall comply with articles 71 & 72 Civil Code of ROC (Taiwan).¹¹⁴ If the judgments of equitable arbitration violate either the mandatory order, prohibition order¹¹⁵, public order or good morals¹¹⁶, this action may give the judge power to dismiss the claims of parties in accordance with article 38 I (3) Arbitration Law ROC (Taiwan), which states that "The arbitral award directs a party to act contrary to the law." The parties then have the right to petition the court to revoke the judgment of arbitration according to article 40 I (1) Arbitration Law ROC (Taiwan).¹¹⁷ In legal practice, Taiwan's courts have also repeatedly expressed that if the parties require revoking the arbitration judgment in accordance with paragraph 1 (1) (2) (3) of article 40 of the arbitration law, and the arbitration judgments must not violate the mandatory provision¹¹⁸, prohibitive provision¹¹⁹, or comply with the public order, good moral.¹²⁰

IX. Concluding Remarks

Without doubt, every design mechanism for legal remedy cannot deal with all situations absolutely; rather, it can deal with situations relatively. Currently, Taiwan's legal system faces rapid changes in the transnational environment under the trend of globalization. As for litigation, since Taiwan's legal system was derived from the civil law system (also called continental or Romano-Germanic legal systems), the court's judgment is based on the statutory law of the civil law system. Nevertheless, since statutory law cannot keep up with the rapidly changing environment, legal loopholes are on the rise. In view of this, judges have to apply judge-made laws based on equity laws as the supreme principles, and move on to create sub-principles. Therefore, it can not only fill legal

¹¹² Verdict NO: 102 in 1999, Taiwan High Court, Kaohsiung Branch, cited by Jiun-Yi Lin (2000), *supra* note 69, at 383.

¹¹³ Tai-Shang-Tzu No248, Civil Decision of Taiwan Supreme Court (2012). Tai-Shang-Tzu No1007, Civil Decision of Taiwan Supreme Court (2010). Shang-Tzu No1130, Civil Decision of Taiwan High Court (2011). Chung-Su-Tze No 13, Civil Decision of Taiwan Taipei District Court (2008).

¹¹⁴ Article 71 Civil Code of Taiwan (ROC): A juridical act which violates an imperative or prohibitive provision of the act is void except when voidance is not implied in the provision. Article 72 Civil Code of Taiwan (ROC): A juridical act which is against public policy or morals is void.

¹¹⁵ See Seyoum Yohannes Tesfay (2016), *The Normative Basis for Decision on the Merits in Commercial Arbitration: The Extent of Party Autonomy*, Mizan Law Review, Volume 10, No.2, December 2016, pp.341-365.

¹¹⁶ See Res. Asst. Arzu (SEN) Kalyon (2017), *Arbitrators Acting As An Amiable Compositeur Under International Commercial Law*, Law & Justice Review, Issue 14, June 2017, pp.95-104.

¹¹⁷ Jiun-Yi Lin (2000), *supra* note 69, pp.43.

¹¹⁸ See Stefan Vogenauer and. Jan Kleinheisterkamp (2015), *Commentary on the UNIDROIT Principles of International Commercial Contracts (PICC)*, Oxford, United Kingdom: Oxford University Press, 2015, pp.81-110. See Taida Begic (2005), *Applicable Law in International Investment Disputes*, Eleven International Publishing, pp.98-101.

¹¹⁹ Tai-Shang-Tzu No758, Civil Decision of Taiwan Supreme Court (2005).

¹²⁰ Tai-Shang-Tzu No758, Civil Decision of Taiwan Supreme Court (2005). Tai- Zai -Tzu No26, Civil Decision of Taiwan Supreme Court (2005).

loopholes, but also keep up with the rapidly changing environment, and achieve a dynamic equilibrium throughout the legal system. In view of the above discussions, this paper considers that: (1) The judges have to apply judge-made laws based on equity laws as the supreme principles, and move on to create sub-principles in patent litigation. (2) The parties may require amiable composition (*ex aequo et bono* equity) to resolve patent disputes in adapting to a multinational commercial environment.

1. The extensive application of patent dispute-solving: judge-made laws based on equity law

Currently, with the rise of the knowledge-based economy and globalization, domains such as politics, economy, society, culture, education, science and technology, fundamental human rights, international trade, and intellectual property have been approaching harmonization and unity under the regulations of the WTO, thereby forming transnational laws¹²¹ such as intellectual property law, competition law or marine law. Taiwan has long been dependent on the laws made by the legislature to make judgments but due to the rapidly changing times, this may not suit the current situation very well, and may cause legal loopholes to occur. Hence, the courts have been inspecting legal loopholes with not only the traditional civil law system in mind, but also with judge-made laws recognized by Anglo-American equity law and others derived from it.¹²² The judges use Anglo-American equity law as the top criterion to fill in legal loopholes and may also maintain the situation in a dynamic equilibrium.

With regard to the rapid changes in innovation in hi-tech industries, the statutory law has always failed to harmonize with the development of hi-tech industries; therefore, the US Federal Court uses Anglo-American equity law to solve the cases concerning patent law¹²³, a clear trait of transnational law because of the changing times. It also acknowledges values and then categorizes them in processing judge-made laws. Next, it not only creates the doctrine of equivalence, but also the exhaustion doctrine, estoppel, inequitable conduct and patent misuse, which are all applied to fill in legal loopholes. Thus, Anglo-American equity law may harmonize with the rapid changes in innovation in hi-tech industries, and the judicial culture of the intellectual property rights will hence be enhanced. However, the related regulations of validity and the executable trait of the patent are quite vague, hence hindering the development and improvement of intellectual property rights in Taiwan.¹²⁴

With the changing social environment and personal values, the practice cases of Taiwan's Intellectual Property Court have used the Anglo-American equity law as part of the law basis¹²⁵, but the process of acknowledging the judge-made laws is only about abstract explanations and fails to use the Anglo-American equity law to produce further principles as the Anglo-American courts do. Thus, the newly established Intellectual Property Court has adopted the principles of analogy, extension and

¹²¹ See Oxford Dictionary defines globalization as, "extending beyond national boundaries", quote in Thompson, *The Concise Oxford Dictionary of current English*, 9th ed., Oxford University press 1995, pp.1483. In addition, Harold J. Berman asserts that "world law" underpinning global civil society along the lines of common law; it also includes Judge Philip's concept of "transnational law", cited by Harold J. Berman (1995), *The Role of International Law in the Twenty-first Century: World Law*, 18 *Fordham Int'l L.J.*, 1995, pp.1617, pp.1621. In this article, either "world law" or "global law" is collectively known as "transnational law" to avoid confusion.

¹²² See Mao-Zong Huang (2009), *Legal Method and Modern Civil Law*, NTU Legal Science Collection, 6th Edition, Taipei: National Taiwan University, pp.668-673.

¹²³ Ch-Sen Yang (2007), *Patent law: Theories & Practice*, Taipei: San Min Book Co., Ltd., pp.337-338.

¹²⁴ See Yen-Pong Jou (2006), *Beyond IP – Intelligence Resources Planning*, Taipei: Commonwealth Publishing Co. Ltd., pp.24-26.

¹²⁵ Tai-Shang-Zi No. 2701, Civil Decision, Taiwan Supreme Court (1994). Tai-Shang-Zi No.1899, Civil Decision, Taiwan Supreme Court (2004). Tai-Shang-Zi No.710, Civil Decision, Taiwan Supreme Court (2004).

restrictions of purposes to avoid legal loopholes from occurring; it has also adopted equity principles and judge-made laws to turn social justice into legal justice to keep up with the social values that are widely acknowledged, which may help to improve the competence of Taiwan hi-tech industries in the global market.

Judge-made laws are there to compensate for legal loopholes that result from the rapid changes of the social environment and personal values; they are mainly applied to specific cases¹²⁶, meaning they are not unlimited. The principles of judge-made laws are based on the following factors: (1) the use of the Anglo-American equity law and the production of other principles related to them.¹²⁷ (2) They cannot oppose the regulations of legal reservation.¹²⁸ 3. They cannot oppose the laws passed by the law-making authorities.¹²⁹ 4. They cannot oppose the social order and morality. Thus, under rapid environmental changes, the national legal systems will integrate the transaction law, and may also maintain the situation in dynamic equilibrium if it can keep up with the demand, support the people and output substantive justice in time.

2. The parties apply for arbitration proceedings to require amiable composition (ex aequo et bono equity) in arbitration proceeding

In comparison with litigation, arbitration has more advantages, such as promptness, economic, and expert judgment, which all make arbitration highly valued in the current hi-tech industry. Arbitration law was founded on the principle of autonomy of private laws and the principle of freedom of contract, allowing the arbitrators to make the amiable composition under the clear instructions of the parties concerned.¹³⁰ Amiable composition makes the arbitral judgments more flexible under judge-made laws.¹³¹ The disputes can be settled in a relatively fair way and can thus adapt to multifaceted international trade at present. However, it is undeniable that amiable composition has both advantages and disadvantages. The disadvantages include: (1) deficiency of legal stability, (2) deficiency of legal predictability, and (3) arbitrators may reach their own arbitrary conclusions.¹³² Based on the disadvantages mentioned above, the function of amiable composition is being questioned. It is obvious that no single legal system is perfect, so it may only pursue relative perfection. As a result, when both parties are signing a commercial contract, the disadvantages and business risks mentioned above are all taken into consideration with a delicate and specific calculation, so the procedure not

¹²⁶ See Mao-Zong Huang (2009), *supra* note 122, at 635-653.

¹²⁷ The basic principles of equity law based on cases, such as: 1. Equity regards done what ought to be done. 2. Equity will not suffer a wrong to be without a remedy. 3. Equity delights in equality. 4. One who seeks equity must do equity. 5. Equity aids the vigilant, not those who slumber on their rights. 6. Equity imputes intent to fulfill an obligation. 7. Equity acts in personam. 8. Equity abhors forfeiture. 9. Equity does not require an idle gesture. 10. One who comes into equity must come with clean hands. 11. Equity delights to do justice and not by halves. 12. Equity will take jurisdiction to avoid a multiplicity of suits. 13. Equity follows the law. 14. Equity will not aid a volunteer. 15. Where equities are equal, the law will prevail. 16. Between equal equities the first in order of time shall prevail. 17. Equity will not complete an imperfect gift. 18. Equity will not allow a statute to be used as a cloak for fraud. 19. Equity will not allow a trust to fail for want of a trustee. See Richard Edwards, Nigel Stockwell (2005). *Trusts and Equity*, 5th Edition, London: Pearson Education, pp.34-48. See John McGhee (2005), *Snell's Equity*, 31st Edition, London: Sweet & Maxwell, pp.27. See Alastair Hudson (2005), *Equity & Trusts*, 4th Edition, London: Cavendish Publishing Limited, pp.24. See Gary Watt (2016), *Trusts and Equity*, Oxford University Press, 16th Edition, 2016, pp.529-565.

¹²⁸ See Mao-Zong Huang (2009), *supra* note 122, at 674-691.

¹²⁹ See Mao-Zong Huang (2009), *supra* note 122, at 674-691.

¹³⁰ See Jiun-Yi Lin (2000), *supra* note 69, at 7-8.

¹³¹ See Wei-Ming Liao (2001), *Amiable Composition on International Business Arbitration*, *Arbitration, The Arbitration Quarterly* Volume 61, Taipei: The Chinese Arbitration Association, pp.69-91.

¹³² See Jiun-Yi Lin (2000), *supra* note 69, at 43.

only include the function of judge-made laws but can also avoid long-term legal proceedings which waste time and resources.

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