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EDITORIAL NOTE ON VOLUME 12, NUMBER 1, 2023

Editorial Note

Dr. Yii-Der Su

Assistant Professor,

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As the Executive Editor of this issue, we would like to extend our heartfelt appreciation to all the authors, reviewers, editors, and advisors who have played indispensable roles in maintaining the highest academic quality of this prestigious journal.

The carefully curated selection of articles in this issue encompasses a wide spectrum of intellectual property issues, while also addressing substantive law and procedural law. Furthermore, the contributions have been sourced from various Asian countries, boasting an array of rich topics that also delve into comparisons between American and European legal systems.

This comprehensive coverage serves as a warm invitation for submissions from the global legal, managerial, and interdisciplinary communities with a focus on IP matters. We ardently hope that our esteemed readers will find immense satisfaction and reap considerable benefits from the incisive insights presented in this publication.

With the deepest respect and gratitude,

Executive Editor

Dr. Yii-Der Su

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Pharmaceutical Patents, Innovation, and the Right to Health

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Abstract

There have been rapid strides in developing laws related to pharmaceutical patents in recent years at the global level. The scope of patentability of pharmaceutical patents has increased and has been codified under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The adoption of the TRIPS Agreement resulted in significant changes to the laws related to patents for developing countries, which are the members of the World Trade Organization (WTO). The developed nations have contended that patents in the medical field are essential for the promotion of research and innovation. They believe that only a strict patent protection regime catalyzes the development of better medicines and techniques. However, this often results in excessive patenting and monopoly over certain drugs. This drives the prices of the drugs up and makes them inaccessible to a large section of the population, particularly in developing and least-developed countries (LDC's). The scenario regarding vaccine-related patents during the Covid-19 Pandemic was grim since profits were prioritized over people's Health. The pharmaceutical companies were inclined to secure profits and protect their research from being used elsewhere. This amplifies the debate between the protection of Intellectual Property Rights and the Right to the Health of people. The developed countries have contended that the exceptions provided under TRIPS are sufficient to safeguard the health rights of the general populace in developing and LDC's. However, the experiences of the developing countries with the implementation of the exceptions to the TRIPS have yet to be fruitful, with developed countries repeatedly pressuring them into protecting patents at the expense of the Health of their citizens. Geopolitical tensions could further aggravate this. This is evidenced by the sanctions imposed on Russia by the West, which stares at a situation in which Western Pharmaceutical Companies can deny it access to medicines. The unavailability of modern medicine can adversely impact the Human Rights of its citizens in such a scenario. The tensions between different nations can flare over anytime, and the rigid application of TRIPS can be catastrophic to the health rights of the citizens. The article analyses the exceptions under TRIPS and their Effectiveness in protecting the Right to Health. It also suggests modification in the existing Intellectual Property Regime related to pharmaceutical patents to ensure that the Right to Health is not compromised.

Keywords: Right to Health, Pharmaceutical Patents, Covid-19, Pandemic, TRIPS

I. Introduction

Medicines and pharmaceutical innovations have been one of the driving forces for the improvement of life expectancy and the standards of living of the human race. Rapid technological progress has allowed for an improvement in the standard of living. To protect and reward technological innovations, a system for the protection was introduced. It provides for measures that provide the inventor with the benefits associated with the invention for a limited time.

The patenting of drugs grants a negative right to the patent holder, which excludes others from the manufacturing of the particular drug. This was a tool envisioned by the developed nations to ensure their competitive advantage over the other countries which was developed over the past few centuries due to the exploitation of other countries.¹

Significant expenses are incurred in developing new products and processes to relieve suffering and extend human beings' lifespans. This resulted in drug manufacturing becoming a robust industry. The enactment of TRIPS protected both the products and the process of an invention. There was no protection provided to pharmaceutical products by the developing countries before the enactment of the TRIPS since, in that case, the drugs would only be available at an exorbitant price.

However, a consistent regime was demanded with the harmonization of International Law and globalization. The developed nations were initially given certain relaxations to ensure their patent regime complies with the TRIPS provisions about pharmaceutical patents. To safeguard the protection of the Right to Health to their population, there were certain flexibilities incorporated in TRIPS for the application of Intellectual Property Rights.

II. Provisions of TRIPS and flexibility in the application of Intellectual Property Rights

The TRIPS has provisions that allow countries flexibility in applying Intellectual Property Rights when the criteria laid down in such conditions has been fulfilled. In the Doha Declaration of 2001, paragraphs 17-19 provide clarity over the application of TRIPS in matters relating to Public Health. The TRIPS is to be interpreted to ensure excellent public Health. This can be done by providing easy access to medications and developing new and effective medications. TRIPS should aid the efforts of a member state when it is undertaking measures for the protection of the Health of its citizens. The Governments are provided with flexibility under the TRIPS regarding public health measures.²

There were discussions about the provisions related to compulsory licensing failing to benefit the countries needing more infrastructure for manufacturing medical equipment and medicines. The agreement introduced Article 31 bis of TRIPS to rectify this fault. It allows for "*low-cost generic medicines to be produced and exported under a compulsory license exclusively to serve the needs of countries that cannot manufacture those products themselves.*"³ This addition was pivotal as now, even the countries lacking the essential medical infrastructure can benefit from TRIPS provisions. They are allowed to import medicines necessary to suit their needs, built exclusively for their usage.

¹ Carlos Maria Correa, Trade-Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement (Second Edition ed. 2020), <https://global.oup.com/academic/product/trade-related-aspects-of-intellectual-property-rights-9780198707219?cc=in&lang=en&> (accessed on June 29, 2022).

² World Trade Organization, "WTO Doha Declaration Explained" WTO (accessed February 21, 2022) https://www.wto.org/english/tratop_e/dda_e/dohaexplained_e.htm#:~:text=The%20Doha%20Declaration%20mandates%20negotiations.

³ WTO, "WTO | Intellectual Property (TRIPS) - TRIPS and Public Health" (Wto.org 2017) <https://www.wto.org/english/tratop_e/trips_e/pharmpatent_e.htm>.

However, the task of implementing this provision is a tedious one and could be more efficient when it comes to handling a health crisis, as was witnessed during the Covid-19 Pandemic.

1. Article 31 of TRIPS

This article provides for compulsory licensing. The following conditions have been laid down for compulsory licensing *"such use may only be permitted if, before such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period."* It further provides that, *"A Member in the case of a national emergency or other circumstances of extreme urgency or cases of public non-commercial use may waive this requirement. In situations of emergency or extreme urgency, the right holder shall be notified as soon as reasonably practicable. In the case of public non-commercial use, where the Government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the Government, the right holder shall be informed promptly."*

2. The Effectiveness of the TRIPS agreement without a waiver

TRIPS agreement provides certain safeguards in applying provisions related to Intellectual Property Rights when countries deal with health crises. The measures include waiving I.P. rights to protect the general public's Health and facilitate their access to medicines. However, it has been challenging for countries facing health emergencies to exercise these rights. This is primarily due to the geopolitical power exercised by the developed nations like the USA, Japan, and countries of Western Europe who hold the majority of the pharmaceutical patents. They have pressured developing and least developed countries to restrict themselves from using the flexibilities the TRIPS has provided.

The primary motivation behind doing so is the protection of their pharmaceutical industries, which rake in enormous profits by selling medicines at high margins to the rest of the world. They undertook such activities even during the pre-Covid times. Their political and economic influence, which they hold over the developed and the least developed nations, has been exploited so that they cannot appropriately use the flexibilities provided under the TRIPS.

a. The India-USA saga over pharmaceutical patents

The pressure exerted by the USA on India over the years regarding the grant of compulsory licenses is a fine example of the exploitation of influence by developing nations to safeguard their corporations' profits. One instance of such was the excessive pressure applied on India by the USA when a compulsory license for the manufacture of a drug used for treating liver and kidney cancer was granted to an Indian generic manufacturer. As a result of the license, the price of the drug was reduced by 97 percent. It is pertinent to note that the drug was life-saving, and at the cost of \$5200 per month, it was unaffordable for a significant majority of the Indian population. This adversely affected their Right to Health, instead of which the compulsory license was granted. The license grant reduced the price from \$5200 to \$160 per month. The move aligned with the TRIPS provisions, allowing the countries to make decisions keeping in mind the interest of public Health.

The Indian Company NATCO Pharma requested a compulsory license to manufacture the drug under Section 84 of the Indian patent Act. This had been done after requesting Bayer for a voluntary license which had been rejected. The Controller upheld the grant of compulsory license in *NATCO v. Bayer* and granted a 6% royalty to Bayer in line with the UNDP 2001 royalty guidelines.

Therefore, the move made by India was fully compatible with the flexibilities provided under the TRIPS Agreement. Despite this, concerns were raised by U.S. Commerce Secretary John Bryson, who stated that the act by India resulted in a "dilution of the international patent regime."⁴ Moreover, even in the U.S. House of Representatives, it was stated to violate the TRIPS Agreement. India was unfazed by this opposition. It established a committee for identifying drugs that had been exorbitantly priced in India and warranted the issuance of a compulsory license. As per TRIPS, India had just been acting according to the provisions. However, the Global Intellectual Property Centre (GIPC) of the U.S. Chamber of Commerce responded to this move by giving India the lowest rank regarding the strength of their I.P. Right systems. Moreover, it also advised the Indian Government not to use compulsory licenses unless there is an extreme case as such acts violate the rules of WTO.

The other major case was related to the Swiss Company Novartis.' It was refused a patent on the salt form of imatinib, a drug used to treat "chronic myeloid leukemia," by the Indian Supreme Court. This irked the USA even more, and it openly went against India for using compulsory licensing to provide affordable medical facilities to its population. The motivation for the move can be seen as the desire to profit out of people's hardships by U.S. pharmaceutical corporations which funds full support from the State. In the aftermath of the Novartis decision, India was included on the "Priority Watch List" by the USA. Furthermore, its 2013 Special 301 Report stated that the USA would closely monitor the developments concerning "compulsory licensing" in India. This indicates that the USA was getting increasingly apprehensive over the recent developments in India.

The actions of the USA are based on poor comprehension of the legal texts. India's moves were supported under the TRIPS Agreement. However, despite that, it used its influence to coerce India into drafting an IPR policy that favors the patents on pharmaceutical medicines and reduces the issue of compulsory licenses in India. However, the Indian Government attempted to stick to its stance through the 2017 amendment, which enlarges the scope of compulsory licensing.

b. USA and its stance on patents during the Covid-19 Pandemic

As discussed earlier, Covid-19 was a time of misery when the entire world was unsure how to cope with the upcoming pandemic. At this time, the USA released its annual "Special 301 Report" in 2020. The contents of the report were anything but shocking considering the general stance of the U.S. on Patent protection for Pharmaceutical Patents. It stated how developing countries like India, Brazil, China, and more provided a flexible patenting criterion, usage of compulsory licensing, and absence of additional market exclusivities.⁵ The stance adopted during Covid-19 showed the insensitivity toward human life and a drive specifically for profit.

The South Indian Head of Medical Sans Frontiers observed, *"At a time when governments across the globe are struggling to provide adequate healthcare, it is ludicrous that the USTR is continuing to aid pharmaceutical corporations to profit from the abuse of intellectual property. It is a matter of concern that the U.S. government is going after countries in the middle of the COVID-19 pandemic for encouraging generic competition and price-lowering mechanisms to ensure access to medicines."*

In pressing circumstances, it was disheartening to see developed countries advocating that flexibility under TRIPS is sufficient to tackle the Covid-19 Pandemic. Several countries used TRIPS provisions to provide for compulsory drug licensing and ensure quicker and more affordable

⁴ Amiti Sen, *U.S. protests patent issuance to Natco to sell copied versions of Nexavar*, THE ECONOMIC TIMES, March 27, 2012, <https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/us-protests-patent-issuance-to-natco-to-sell-copied-versions-of-nexavar/articleshow/12421445.cms?from=mdr> (last visited June 29, 2022).

⁵ Leena Menghaney, *"MSF Responds to USTR 2020 Special 301 Report"* (Médecins Sans Frontières April 30, 2020) (accessed February 21, 2022) <https://msfaccess.org/msf-responds-ustr-2020-special-301-report>.

medication access. However, historically no stone is left unturned by the developed nations to block these efforts to ensure that their pharmaceutical companies profit from the same. The flexibilities used on a case-to-case basis during the pandemic would drastically slow down the speed of the Covid-19 response, which has been the case. It also inhibited access to vaccines which has been discussed below.

3. Distribution of Vaccines during the Pandemic

To provide fair access to vaccines to all nations across the globe, the COVAX program was started by WHO. It is used as an example by the countries who oppose the TRIPS waiver as evidence of their efforts toward worldwide uniformity and financial support for the countries in need. The COVAX program is currently struggling as it encounters a significant funding problem and inadequate doses to satisfy its target. The program is additionally prejudiced in nature which can be seen by the fact that 700 million dosages are reserved for nearly 3 billion citizens under the program. On the contrary, the European Union had plans to reserve 1.5 billion dosages for a population of 450 million. This shows the twisted mindset of the developed countries who are only concerned about the Right to Health of their people while blocking the supply of vaccines to the rest of the world instead of strict enforcement of I.P. Rights.

They have carried this out through the pre-booking of the supply of vaccines which renders the supply of vaccines available for the COVAX Program insufficient. Moreover, the I.P. Regime was applied stringently, limiting the number of vaccines that could be manufactured and driving up the procurement costs drastically. This indicates that even the COVAX Program was a tool for the developing countries to ensure a reasonable price for the vaccines developed by their companies while also providing themselves with the liberty of selling the vaccines to the developing and under-developed nations at a high price. Had the proposal for TRIPS waiver been accepted, it would have increased the vaccine production capacity and driven down the procurement costs. However, the rigid opposition to it indicates why the provisions under TRIPS are inadequate.

B. Intellectual Property Rights are the obstacle in the fight against the Covid-19 Pandemic.

There were several instances where the owners of Patents of critical medicine and medical equipment threatened to take legal action when the companies used their technology to combat Covid-19. This stunted the growth and manufacturing of diagnostics, medical equipment, treatments, and vaccines in several different spheres hindering the fight against the pandemic. Some of the incidents resulting from a strict stance on I.P. Rights by the owners who thwarted efforts related to Covid-19 recovery have been discussed.

(1) There was a request by the Netherlands to Roche (A pharmaceutical company based in Switzerland) for the release of the method it uses to produce diagnostic kits to increase the speed of the manufacture. There was an initial refusal by the company, and the formula was released only after the European Commission imposed pressure on the corporation.⁶

(2) The Chiara Hospital, located in Italy, used a 3D printer and saved the lives of 10 Covid-19 patients. This was done in an emergency to replace the valve on a broken ventilator as the hospital supply ran out. In such a situation, the original manufacturer could not supply the part. Therefore, Fracassi requested the original manufacturer to share the 3D printer design to save lives during an emergency. However, the manufacturer refused to share the design and threatened legal action if he went ahead and used the 3D printer for reproduction. The patent refusal was because the valves, priced

⁶ Ed Silverman, *Roche backpedals and agrees to provide a solution for Covid-19 tests in the Netherlands*, STAT (2020) (accessed June 29, 2022), <https://www.statnews.com/pharmalot/2020/03/27/roche-covid19-coronavirus-netherlands/>.

at \$11,000, could now be reproduced for only \$ 1.⁷ This incident highlighted the exploitation of monopoly by patent holders over life-saving equipment. It showed that profits took precedence even in a dire situation where people's lives were at risk.

(3) There were widespread claims by the pharmaceutical industry that the I.P. rights did not impede access to Covid-19 Vaccines. However, when a South Korean manufacturer developed an alternative 13-valent pneumococcal conjugate vaccine, its development had to be stopped due to Pfizer's aggressive patenting strategy. Moreover, Medical Sans Frontier (MSF) also discovered that several patents were applied for and granted across the entire vaccine development, production, and delivery process. Such steps can keep the prices at the higher end and beyond the reach of the general population.⁸ It is pertinent to note that such activities were undertaken before the pandemic. Therefore, even when dealing with a similar crisis in the future, I.P. issues, including patents, can be a barrier to cheaper vaccines entering the market.

This highlights that even in precarious circumstances, pharmaceutical corporations sought to pursue profits even if they came at a human cost and limited access to medicines. They sought to maximize prices and make use of the emergency. It is also a move for geo-politics considering that such actions will result in a wealth drain from the developing and the least-developed countries to the multinational corporations, further strengthening their position.

Such a move is appalling since much investment into the research and development of Covid-19 vaccines results from government and public agencies' funding. Much of this money is the taxpayer's money, implying that the general population effectively sponsored the research. This is evidenced by the fact that Moderna received \$1 Billion from the U.S. government, and Astra Zeneca has received over \$1.3 Billion in grants.⁹ In such a circumstance, wanting to commercialize the gains is morally unethical and financially unviable since the public are the investors. Therefore, they should be able to avail the benefits of their investment without having to pay an exorbitant cost. This also settles the debate regarding Intellectual Property Rights as the driving factor for innovation. If an invention cannot be used effectively and made available to those who need it, it will not be useful. In addition, it is essential to note that each provision that allows flexibility under the TRIPS still provides some benefit in the form of royalty for the organization holding the patent. Therefore, the Right to Health should be prioritized over the grant of a patent.

1. The Proposed I.P. Rights Waiver

Keeping in mind the disastrous experience with the application of flexibilities under TRIPS, India and South Africa submitted a proposal to the World Trade Organisation requesting a temporary waiver of certain provisions of the TRIPS Agreement.¹⁰ The World Trade Organisation (WTO) warned that the "*Pandemic represents an unprecedented disruption to the global economy and world trade, as*

⁷ Urian B, *Medical Company Threatens to Sue Life Saving \$1 3D Printed Valves for Copying \$11,000 Valves*, TECH TIMES (2020), <https://www.techtimes.com/articles/248121/20200317/maker-ventilator-valves-threatens-sue-volunteers-using-3d-printed-coronavirus.htm> (accessed June 29, 2022).

⁸ MSF, *A Fair Shot for Vaccine Affordability*, MÉDECINS SANS FRONTIÈRES ACCESS CAMPAIGN (2017), (accessed June 29, 2022) <https://msfaccess.org/fair-shot-vaccine-affordability>.

⁹ Mariana Mazzucato, Henry Li and Els Torelli, "Designing Vaccines for People, Not Profits | by Mariana Mazzucato, Henry Lishi Li and Els Torreele" (*Project Syndicate* December 1, 2020) (accessed February 21, 2022) <https://www.project-syndicate.org/commentary/covid-vaccines-for-profit-not-for-people-by-mariana-mazzucato-et-al-2020-12?barrier=accesspaylog>.

¹⁰ Jackie Dugard and others, "Supporting the TRIPS COVID-19 Waiver Is an Essential Step to Support International Human Rights" (*Open Global Rights* November 29, 2021) <https://www.openglobalrights.org/supporting-the-trips-covid-waiver-is-essential-to-support-international-human-rights/>.

production and consumption are scaled back across the globe."¹¹ A global breakdown in supply chains led to delays in producing and delivering critical medicines essential to tackle the pandemic. In such circumstances, Intellectual Property Rights like *"patents, industrial designs, copyright and protection of undisclosed information mustn't create barriers to the timely access to affordable medical products including vaccines and medicines or to scaling-up of research, development, manufacturing, and supply of medical products essential to combat COVID-19."*¹² The proposal was submitted when no vaccine had been successfully developed to combat Covid-19, and nations worldwide struggled to prevent the pandemic's spread.

The proposal was based on the need for global solidarity in these challenging times. Under the proposal, a request was submitted to the council of TRIPS for recommending to the General Council that *"a waiver from the implementation, application, and enforcement of Sections 1, 4, 5, and 7 of Part II of the TRIPS Agreement about prevention, containment or treatment of COVID-19."* The waiver duration was until vaccines were made available globally and the impact of the virus had been mitigated.

III. Right to Health

It has been provided under Article 12 of the International Covenant on Economic, Social and Cultural Rights that *"The States Parties to the present Covenant recognize the right of everyone to the enjoyment of the highest attainable standard of physical and mental health."* The provisions related to the *"Prevention, treatment, and control of epidemic, endemic, occupational and other diseases"* have been specially provided for under Article 12(c). It is not possible to grant an individual the *"right to be healthy"* but merely the right to the *"highest attainable standard of health."* The Right under the Covenant is to be understood as *"a right to the enjoyment of a variety of facilities, goods, services, and conditions necessary for the realization of the highest attainable standard of health."*

The Right to Health has also been guaranteed in certain domestic Constitutions worldwide and further fortified by the Court's decisions. However, the standards for protecting the Right to Health also vary worldwide. This can also be correlated to the resistance relating to Intellectual Property Rights.

India, one of the forebearers of the waiver, has had the 'Right to Health' included under the 'Right to Life' under Article 21 of its Constitution. It was not originally a part of the Constitution but has been read into Article 21 by the Indian Courts. Article 39(e) of the Indian Constitution, which is not binding but a directive principle, also provides a duty to the states to protect the Health of the citizens.

In the case of *Bandhua Mukti Morcha v. Union of India*,¹³ it was held by the Supreme Court that *"dignity and health fall within the ambit of life and liberty under Article 21."* The ambit of Article 21 was further enlarged in the case of *Paschim Banga Khet Mazdoor Samity v. State of West Bengal*,¹⁴ The Court held that *"It is the responsibility of the Government to provide adequate medical aid to every person and to strive for the welfare of the public at large."* This shows that the Constitution imposes the duty to protect its citizens' Health on the State of India. The State takes up responsibility

¹¹ World Trade Organisation, "COVID-19 and World Trade" (WTO 2022) (accessed February 21, 2022) https://www.wto.org/english/tratop_e/covid19_e/covid19_e.htm.

¹² Council for Trade-Related Aspects of Intellectual Property Rights, *Council for Trade-Related Aspects of Intellectual Property Rights Original: English Waiver From Certain Provisions of the Trips Agreement for the Prevention, Containment and Treatment of Covid-19 Communication from India and South Africa*, (2021), <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/IP/C/W669.pdf&Open=True>.

¹³ *Bandhua Mukti Morcha v. Union of India* AIR 1984 SC 812,

¹⁴ *Paschim Banga Khet Mazdoor Samity v. State of West Bengal* (1996) 4 SCC 37.

for developing healthcare conditions and schemes which ensure that access to medical healthcare is provided to all citizens at an affordable cost. Several welfare schemes are enacted across the country, like the **Ayushman Bharat Yojna**, which ensures access to medical facilities at a minimal cost. Therefore, the health-related measures taken in India are primarily for public welfare. This also explains the vaccine proposal and the initiative to provide access to medicines and vaccines to many people at an affordable price.

China also has provisions where the Government plays a vital role in providing healthcare services and essential medicines. Article 45 of the Chinese Constitution states, "*Citizens of the People's Republic of China have the Right to material assistance from the State and society when they are old, ill or disabled. The State develops social insurance, social relief, and medical and Health services that citizens must enjoy this Right.*" While there have been concerns about the Effectiveness of these provisions in practice, the aim is to provide a better system that caters to the need of the general population.¹⁵ This can also be seen in China's considerable support for the waiver of pharmaceutical patents to ensure greater access to healthcare facilities.

There has been international recognition given to the Right to healthcare. The adoption of the UDHR led to several countries adopting and implementing universal healthcare systems. This ensures that all persons within their borders enjoy the Right to healthcare. However, despite that, a few countries lack a proper right to healthcare. The USA does not provide its citizens with the Right to Health. Even when the USA submitted its report to the UN in 2015, it did not use the word "right" relative to Health.¹⁶ The significant provisions related to healthcare are the Affordable Care Act (ACA) and a health insurance law. The USA has not recognized Health as a Fundamental Right to date. This also explains the consistent efforts to ensure that pharmaceutical patents are rigid and that healthcare is another profitable industry. The situation in most countries opposing the patent waiver is similar, where they do not place healthcare as a Fundamental Right.

IV. Analysis of the Waiver Proposal

The proposal was made by India and South Africa, keeping in mind the difficulties suffered by nations across the globe in controlling the pandemic. It had a visionary approach as it foresaw the socio-economic crisis which would ensue if the pandemic could not be controlled. Therefore, it called for global cooperation, which involved a temporary suspension of Intellectual Property Rights to tackle the pandemic effectively. They also knew that the delay in procurement and availability of life-saving technologies could drastically increase the pandemic's human cost. Despite these merits, the proposal was blocked by the developed nations possessing several pharmaceutical industries poised to benefit from the pandemic. The consequences were harsh, with vaccine unavailability, lack of ventilators, and other essential medicines leading to a significant loss of life. This showed the quest for instant profits and infringed upon the citizens' Right to Health worldwide.

When examining the efforts for Covid-19, it was noted by the CESCR that States and International Organisations across the globe should cooperate to ensure "*universal and equitable access to vaccines and refrain from taking measures that obstruct this goal.*"¹⁷ It further observed the intellectual property

¹⁵ Taylor Brack, *The Greatest Wealth: Health as a Human Right in China, Singapore, South Korea, and the United States*, 20 ASIAN-PACIFIC LAW & POLICY JOURNAL (2019), http://blog.hawaii.edu/aplpj/files/2019/05/APLPJ_-20.2_Brack_.pdf.

¹⁶ Mary Gerisch, *Health Care As a Human Right*, AMERICANBAR.ORG (2018), https://www.americanbar.org/groups/crsj/publications/human_rights_magazine_home/the-state-of-healthcare-in-the-united-states/health-care-as-a-human-right/.

¹⁷ United Nations Economic and Social Council, *Statement on Universal Affordable Vaccination against Coronavirus Disease covid-19, International Cooperation and Intellectual Property*, 10 INTERNATIONAL HUMAN RIGHTS LAW

rights regime related to vaccines, where several vaccines required public funding for their expedited development. Moreover, the states must implement the I.P. regime in a manner that fulfills their duty "to protect public health."¹⁸ Moreover, it was further emphasized that intellectual property rights are not human rights. As a result, "*States parties must prevent intellectual property and patent legal regimes from undermining the enjoyment of economic, social, and cultural rights.*"¹⁹ It suggested that states and corporations should refrain from acting in a manner that hinders them from exercising their rights for using flexibilities under TRIPS to provide access to medical aid to their citizens for the treatment of Covid-19. It also observed that inability to pay heed to the proposal of India and South Africa will "*stand in the way of global economic recovery, which is necessary to overcome the negative impact of the pandemic on the enjoyment of all economic, social and cultural rights.*"

A. I.P. Rights and War

War is an unprecedented crisis. It brings many challenges, including economic, Health, death, destruction, illness, and injury. Intellectual Property Rights are considerably less relevant in such pressing times since there are much more pressing issues. There is a provision under Article 73 of TRIPS that provides member countries from taking action to remedy a situation in which the "*essential security interests*" of the country are compromised. The pre-condition for its applicability is an "*emergency in international relations.*"²⁰

1. Jurisprudence of WTO on the issue

There have been a few incidents where WTO Panels have been called upon to determine if a situation constitutes an emergency. One was a dispute between Russia and Ukraine known as the *Russia-Transit*.²¹ Dispute. A similar problem was also posed in the *Saudi Arabia-IPRs*.²² Dispute. The Panel took a similar stance in both conflicts and concluded that a presumption of deference is to be given to the members who determine an emergency in International Relations. In the *Russia-Transit* dispute, it was held by the Panel that "*members have substantial discretion to decide what measures they 'consider necessary' to protect their essential security interests, and that a WTO Panel would not analyze whether the same objectives could be accomplished using alternative measures.*" This means that the states do not need to speculate the "*outer boundaries*" of a claim for security exception. This means that even as per the WTO, when there is a grave security threat, the states should be free to suspend IPR rights.

The applicability of Article 73 in two pressing situations in the current times will now be analyzed.

2. Covid-19

The spread of Covid-19 all over the world was gradual and significantly impacted the Health of the entirety of the global population. The availability and distribution of vaccines, medications, medical equipment, and more created much tension between the states. There were divided opinions on the methods to deal with the pandemic effectively. The impact on global trade, mobility, and migration was also considerable, leading to straining in International Relations. There was a shortage

REVIEW 180–187 (2021).

¹⁸Committee on Economic, Social and Cultural Rights, general comment No. 25 (2020) on science and economic, social and cultural rights, para. 69.

¹⁹Committee on Economic, Social and Cultural Rights, general comment No. 17 (2005).

²⁰ CESCR GC No. 14, para 9.

²¹ DS512: Russia - Measures Concerning Traffic in Transit.

²² DS567: Saudi Arabia — Measures concerning the Protection of Intellectual Property Rights.

of life-saving resources which led to the rise of several conflicts. According to the previous decisions of the WTO Panels and provisions of Article 73, the countries should have been free to take measures to combat the pandemic and should not have faced repercussions for the suspension of Intellectual Property Rights. However, the way the situation related to Intellectual Property Rights played out during the pandemic, it is safe to say the provision is redundant for actual use.

3. Russia-Ukraine War

The Russia-Ukraine war is the second one during the Covid-19 Pandemic after the war between Azerbaijan and Armenia. The war also witnessed attacks on critical medical infrastructure, and medical supplies took a hit. However, this war has had two sides: human and economic costs. Lives were lost due to the attacks and the failure of the intervention in peace talks. In addition to this, the war brought the aspect of reduced medical supplies and the stoppage of existing medical trials. The West imposed a lot of economic sanctions on Russia, which it has retaliated through the suspension of Intellectual Property Rights from hostile countries.²³ While the measure is a retaliation to the economic attacks on Russia by the West, it is essential to note that such suspension would be legal concerning Article 73 of the TRIPS.

Moreover, during the war, the need for medication and life-saving equipment skyrockets while the economy plummets. In such a situation, Intellectual Property Rights should not find any application, and the priority should be saving human lives. This step would also be valid according to the provisions under Article 73 of TRIPS. However, as of now, the actions have been retaliatory from all sides, and I.P. has also been used as a war tool rather than working for the safety of human life.

It shows the need to understand that saving human life must take precedence over the profit motive when it comes to I.P. Rights in times of war. The provisions under Article 73 should be allowed to be invoked by all the parties involved in a war since wartimes bring unprecedented health crises to all sides. In such situations, the availability of medicine and medical infrastructure at affordable prices expediently can be the key to saving lives.

V. Conclusion and Suggestions

The Right to Health is a Constitutional Right guaranteed to citizens in nearly all nations across the globe. To ensure that this Right is adequately protected, it is essential to ensure the availability of medicines and medical procedures at an affordable price. The introduction of patents to the pharmaceutical space was done to promote and reward innovation in this field, leading to the creation of life-saving technologies. This is done by vesting monopoly rights with the inventor, and the patent holder controls the vaccine's production, cost, and distribution. It also ensures the holder of a specific royalty even if the invention needs to be compulsorily licensed to meet a pressing public health need. This is a win-win situation as the public is provided access to life-saving medicine or procedure at an affordable price, and the inventor is compensated for their efforts.

The Covid-19 Pandemic showed how Intellectual Property Rights could be a significant hindrance in times of crisis. They can increase the human cost of an emergency and limit the ability of the nations to discharge their primary function, which is the protection of the life and liberty of their citizens. The quest for profits clouded the vision of several corporations and countries across the globe during the pandemic, who insisted that Intellectual Property Rights be prioritized even during those times. The result was widespread devastation of humanity and a severe impact on the national and global

²³ Alina Trapova & Enrico Bonadio, *How Russia uses the intellectual property as a war tactic*, The Conversation (2022), <https://theconversation.com/how-russia-is-using-intellectual-property-as-a-war-tactic-179260>.

economies. It further slowed the pace of recovery from the pandemic and ensured that it had a more devastating impact.

The lack of cooperation and global solidarity was a significant reason. This is also an important marker for the future as humanity faces different crises. One such incident was the Russia-Ukraine war which is still ongoing and resulted in the loss of life and property. Even in these cases, the aim was to weaponize Intellectual Property Rights and economic sanctions as a bargaining chip for the war instead of ensuring timely access to medicines and medical equipment. It further affected the research and innovation activities related to pharmaceutical patents in the affected countries. In such situations, the goal should be one of coordination and togetherness to wade through the crisis together and provide essential equipment without worrying about Intellectual Property Infringement.

The countries can adopt the following measures for greater access to medication and to ensure the Right to Health even during a strict Intellectual Property Rights regime.

(1) The countries should make attempts at the fulfillment of their international obligations. However, it should not result in a compromise of the essential health rights of their citizens. The flexibilities under TRIPS should be liberally used to ensure that its patent law is in sync with the socio-economic situation of the country and the State's objectives for promoting public Health.

(2) The big pharmaceutical corporations need to realize that a medical formulation will not be beneficial if it is not accessible to the people who need it. To compensate for their efforts, the royalty rates under compulsory licensing can be increased to 10% to ensure better compensation.

(3) The legal regime should be sensitive to the health needs of the general population and should allow the Governments to undertake drastic measures if the requirements are not fulfilled.

(4) In times of crisis and wars, there should be no arguments or negotiations related to Intellectual Property Rights. The affected parties should be allowed to take the necessary steps for the protection of the Health of their population without worrying about I.P. Infringement.

(5) The undue influence exerted by the Governments of developed nations upon the developed and underdeveloped countries over compulsory licensing should be stopped. In the medical industry, human life needs to be prioritized over profits.

(6) When the public funds medical research, as was the case with several Covid-19 Vaccines, the public should be deemed as stakeholders in the invention and should not have to pay exorbitant charges, which are an outcome of the monopoly of the patent holder.

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Digital Platform Responsibility on Administering Royalty for Music Creators from the Perspective of Copyright Law

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Abstract

In line with the rapid development of technology, the music industry is adapting so as not to be disrupted. Through the rise of digital platforms that accommodate information acceleration, the music industry has been growing along with the ease of access offered by technology. However, digital platforms are now bringing new challenges in terms of the management of exclusive rights for music creators i.e., composers and songwriters, especially the rights to royalties. Referring to Law Number 28 of 2014 on Copyright, royalties are included in economic rights that are exclusively protected and owned by the Creators. With regard to the rapid development of technology that has impacted the emergence of digital platforms, everyone can easily access, download, upload and cover a song. Consequently, a potential negative implication for the music creators is the diminishing of the right to royalties that should be obtained from the use of their copyrighted works. In the Copyright Law, protection for Authors and/or Copyright Holders has indeed been accommodated, but in the context of digital platforms, the a quo law has not regulated an agreement between internet service providers and OTT in terms of the distribution of royalties in the music sector. Thus, problems arise regarding how the Copyright Law regulates the responsibility of digital platforms for fulfilling royalties for creators and/or digital copyright holders. Therefore, this study seeks to identify how digital platforms can actually be responsible for the activities of utilizing music as artistic works on their platforms to at least manage the rights to royalties to the music creators. This study applies a normative juridical

method complemented by primary, secondary, and tertiary legal materials. This study aims to identify the digital platforms' responsibilities to music creators from the perspective of Copyright Law as well as several related legal principles and regulations.

Keywords: Music Cover, Copyright, Digital Platform, Royalty

I. Introduction

There is a continual development in the entertainment industry in terms of quality and commercialization due to the emergence of digital platforms that expand market reach not only domestically but internationally. This is also inseparable from the impact of the Covid-19 pandemic that has accelerated the pace of digital transformation in various sectors. With regards to the music industry, this has impacted the artists' income through their work in digital form as they get income from advertisements. The current status quo of digital platforms is a driving force for young talents, especially in Indonesia, to channel their talents such as singing on digital platforms as self-expression, hobbies, as well as commercials to gain profits in the promising digital market.

Currently, there are numerous singers who cover original songs (hereinafter referred to as cover singers) in Indonesia and have gained a lot of fans and popularity through platforms such as Youtube, Spotify, Tik Tok, to Smule. Some of the names of successful cover singers in Indonesia include Brigita Meliala, Felix Irawan, Indah Aqilah, and Hanin Dhiya whose cover videos are always on the top viewed in each of their uploads on digital platforms.¹

From a perspective of a digital economy, the role of digital platforms is essentially a positive modern way for contemporary artists to earn income in a more practical and easy way through the internet. For senior or well-known artists who are already popular, digital platforms are tools to increase market reach so that they are known by more people so as to increase profits and minimize expenses as opposed to be conducted through offline promotions. In practice, South Korea, with its trademark 'Korean Pop' or 'K-Pop' can be an example of a pioneer in the field of digital copyright as it makes digital platforms a channel to earn profits even during the Covid-19 pandemic.² To take a case in point, they host online concerts, or do live broadcasts on Tik Tok and receive Gifts as a commercial form as it is exchangeable for money.³ In Indonesia, similar actions are also carried out mainly by cover singers. However, even though it has a positive impact on the proliferation of Indonesia's digital economy, in terms of intellectual property protection such as copyright, the act of covering songs is highly prone to the issue of copyright infringement as it intersects with the implementation of the economic rights of the song creator and/or copyright holder whose copyrighted works cannot instantly be covered by other people without permission.⁴

In addition to providing monetization as a feature, YouTube also provides a Blocked Worldwide feature, if one or more copyright holders do not allow the use of the music on YouTube. As for

¹ Lintang Tribuana, "4 Cover Lagu Indonesia Terbaik, Tembus Jutaan Penonton di YouTube", accessed from <https://www.inews.id/lifestyle/music/cover-lagu-indonesia-terbaik/2>

² Gloria Theodora Kardinal, "Globalization for South Korea's Cultural Industry: The Future of K-Pop in The Untact Era" Vol. 5 No. 1, *Jurnal Asia Pacific Studies*, 202, 2021

³ Lidya Agustina, "Live Video Streaming Sebagai Bentuk Perkembangan Fitur Media Sosial", Vol. 1, No.1, *DIAKOM: Jurnal Media dan Komunikasi*, pg. 20, 2018.

⁴ In Article 9 paragraph (1) of the Copyright Law, cover singers who make arrangements on an original song are subject to economic rights. The economic rights can be seen more on Rizki Fauzi (*et.al*), "Masa Depan Hak Cipta: Tinjauan Keabsahan Hasil Karya Kecerdasan Artifisial di Indonesia" Vol. 2 No. 1, *CITIZEN: Jurnal Ilmiah Multidisiplin Indonesia*, pg. 122, 2022

YouTube's responsibility, if the music is used, then the video may be muted or made completely unavailable on YouTube. In addition, there are also blocking in several countries or regions. This is implemented when one or more copyright holders restrict the countries/regions where the music is available on YouTube. Consequently, a video cannot be viewed in countries where the music is blocked on YouTube.⁵

Copyright law is reflected as a guard for every copyrighted work that is eternal throughout the ages so that it can be enjoyed not only by the current generation but also intergenerationally. In addition, the copyrighted work can also be an economic supporter of the creator if the regulation on royalties can be complied with by everyone who uses the copyrighted work. Later, the regulation on royalties is complemented by the Collective Management Institute (LMK) as an intermediary between users of copyrighted works and the Creator. Therefore, the renewal of the Copyright Law in 2014 is an effective step to accommodate various copyright protection needs, even in the digital domain.

Currently, in practice, digital platforms such as YouTube already have a feature to monetize royalties for creators and/or copyright holders to accommodate the fulfilment of their economic rights. However, new challenges emerged as it is becoming common that the songs are transformed and modified. The monetization provided by digital platforms has a weakness as it is prone to abuse so it is relatively easy for the creator and/or copyright holder to lose their economic rights. Even though as a provider, digital platforms have a vital role and great responsibility for the content on their platforms so that they remain in accordance with the national and international laws and regulations.

Based on the aforementioned descriptions, there is an urgency to examine provisions on royalty in Indonesian law on song covers that are becoming more common under the Copyright Law as well as accountability for music creators on digital platforms. There are 2 (two) problem identifications, namely:

1. How does the Copyright Law regulate royalties payment for music creators?
2. What is the responsibility that digital platforms should fulfill regarding royalties to music creators?

II. Regulation on Administering Royalties for Music Creators based on the Copyright Law

Entering the era of society 5.0, music has become a complementary aspect of life as a means to communicate and express certain ideas or feelings. Music is also often used as a sign or identity of a particular group. In fact, it has been used as a culture of a particular geographical area.⁶ The uniqueness of the characteristics of music is inseparable from the intellect of a creator who has succeeded in expressing it into a creative work that can be enjoyed by the wider community.

The copyright law is actually issued with the full awareness that Indonesia is in a transition period into digital transformation and has predicted that there will be a change in the pattern of business in music, song, and books that was originally based on physical to digital based, as we are witnessing today. Copyright objects cannot be equated with ordinary objects conservatively, because the copyright law regime is a new legal regime, thus, it cannot necessarily classify copyright objects with other objects based on conservative property law.

Entering the era of digital transformation, we can see how the Copyright legal regime is

⁵ Youtube, "Batasan terkait musik yang diklaim", accessed from <https://support.google.com/youtube/answer/6364458?hl=id>, on 15 August 2022.

⁶ Yunial Laili Mutiari, "Perlindungan Hukum Hak Cipta Salam Bidang Musik Rekaman Suara Di Indonesia" Depok: Universitas Indonesia, 1996.

increasingly adapting to answer digital challenges. Currently, there are many activities utilizing Copyright in the digital domain, such as in the music industry, because the players utilized digital platforms as a promotion and introduce their work to the general public. Therefore, the audience reach becomes wider and works can be conveyed instantly.⁷ As stated by Earnshaw, technology is also a component for artists to collaborate on their ability to create a work.⁸ The most popular uses of digital platforms in Indonesia include Youtube, Spotify, Apple Music, Joox, TikTok, Soundcloud, and Musixmatch.⁹ From the use of the digital platform, it is also possible to create songs and music that can be archived permanently in the digital era. Even today, the songs that have been published a long time ago can still be stored intact on digital platforms and become part of the history of the music industry itself.

In relation to the copyrighted work of a creator, music has an economic value that is beneficial for the creator. The economic value of a music creator is commonly known as royalty. In this context, royalties are economic rights that are absolutely owned by a music creator as a reward for the use of their copyrighted works. Copyright protection actually adheres to declarative principles, where protection comes automatically at the time the work is expressed in a tangible form. It is considered that the form of expression of musical works does not have to be in physical form.¹⁰ Music can be heard, seen, enjoyed or even read by others, hence, it is automatically protected by copyright without having to be based on the registration of the work. Even so, the registration of copyrighted work is also essential to strengthen the protection of copyrighted work.

In the Copyright Law, based on the time of the specified protection system, other parties can use and exploit these rights provided that they have obtained permission from the rights holder. Therefore, this is the basis why Copyright is exclusive because special protection and recognition are given to the party who owns the intellectual property.

The copyright protection system in Indonesia is also based on the Theory of Natural Law (*Lex Naturalis*). According to natural law theory, copyright comes based on natural rights, then the recognition and protection are automatically declared to be protected if the work is completed. This concept is different from other intellectual property products, Patent Rights, Trademark Rights and Industrial Designs whose recognition and protection refer to the constitutive system, which means that they are recognized if they have carried out a registration system (first to file).¹¹

In principle, the Copyright Law recognizes and protects not only the rights of creators but also the rights of producers, musicians, singers, and broadcasters. Every time there is a public performance related to music, users are required to make royalty payments to the creator and/or copyright holder of the song/music. In general, public music performances are performed by karaoke venues, radio, airplanes, or other performing arts and so on. As the royalty obligation regulated in Article 35 paragraph (2) of the Copyright Law, it is stated that:

“In the event that the Works as referred to in paragraph (1) are used commercially, the Author and/or Related Rights Holders will receive compensation in the form of Royalties.”

In copyright protection, the administering of royalties for the music of songs is managed by the

⁷ DJKI, “Strategi Pelindungan Karya Cipta Musik di Era Transformasi Digital”, accessed from <https://dgip.go.id/artikel/detail-artikel/strategi-pelindungan-karya-cipta-musik-di-era-transformasi-digital?kategori=Berita%20Resmi%20Desain%20Industri> on 8 August 2022.

⁸ Earnshaw as cited in Rizki Fauzi (et.al), *Op. Cit.*, pg. 122.

⁹ Fuad Noor Rahardyan, “20+ Aplikasi Streaming Musik Populer di Dunia”, accessed from <https://hookspace.id/aplikasi-streaming-musik-populer/> on 8 August 2022.

¹⁰ Fatimah Nurul Aini dan Indirani Wauran, *Op. Cit.* Pg. 117.

¹¹ Tasya Safranita, “Hak Cipta dalam Media Over The Top” Bandung: PT. Refika Aditama, 2021, pg. 4

National Collective Management Institute (LMKN) which will later act on the representation of the interests of the creators and the interests of related rights as regulated in Article 89 paragraph (1) of the Copyright Law. The number of royalties will be determined according to the principle of common practice based on the sense of justice.¹²

In addition to being regulated in the Copyright Law, another regulation governing royalties is accommodated in Government Regulation Number 56 of 2001 on the Management of Royalties for Song and/or Music Copyrights. The establishment of this regulation fundamentally comes with the aim to provide protection and certainty of economic rights to creators, copyright holders, and owners of related rights to songs and music, as well as people who use the works commercially as it is regulated in Article 3 paragraph (1) of the Government Regulation Number 56 of 2001 on the Management of Royalties for Song and/or Music Copyrights that:

"Everyone can make commercial use of songs and/or music in the form of commercial public services by paying royalties to creators, copyright holders and/or related rights owners through the National Collective Management Institute (LMKN)."

Through the provisions regulated under positive Indonesian law, it can be understood that royalties provisions for music creators are mandatory, because, royalties are economic rights that are exclusively owned by the creator. Therefore, it is absolute for the creator to get royalties for the commercial use of his/her copyrighted work. In the context of the era of society 5.0 where technology coexists with humans, digital transformation is part of technological progress and is correlated with changes related to all aspects of life.¹³ Acceleration of information is a challenge for the copyright regime to be able to maintain the protection of exclusive rights for creators.

The rapid development of information technology has prompted people to use it to obtain benefits and conveniences. In a short time, now copyrighted works can be easily spread through a number of digital platforms as a means of disseminating information in today's digital era. Definitely, this convenience is also a challenge in the copyright regime, especially with regard to how the law can prevent potential violations and crimes that arise as a form of technology abuse.

Basically, the Copyright Law has a number of provisions to accommodate this, in Article 54 of the Law, it is regulated that in preventing copyright infringement, the government has the authority in the form of:

1. supervision of the creation and dissemination of copyright infringing content and Related Rights;
2. cooperation and coordination with various parties, both domestically and internationally in preventing the creation and dissemination of content that violates Copyright and Related Rights; and
3. overseeing the act of recording using any media on the Works and Related Rights products at the art performing venue.

As for then, at the time there is an infringement of copyright works through the electronic system, the public can report it to the Minister for later action by the Minister who administers government affairs in the field of telecommunications and information technology to close part or all of the content that violates Copyright in the electronic system or make services unavailable/inaccessible. The

¹² See Article 89 paragraph (1) of Law on Copyright.

¹³ Tasya Safiranita, et.al, "Prinsip-Prinsip Cyber Law Pada Media Over The Top E-Commerce Berdasarkan Transformasi Digital Di Indonesia" Vol. 16, No. 3, *Jurnal Legislasi*, pg. 396, 2019.

provisions related to this report can be found in Article 55 of the Copyright Law.

It should be noted that the use of a copyrighted work is not absolutely unusable because a copyrighted work can be used by other parties as long as it does not infringe on the copyright of the work. Indicators to avoid copyright infringement are regulated through the principle of fair use. In summary, the principle of fair use is a form of limitation that allows other parties to use a work within certain limits. In Indonesia, this principle is regulated in Articles 43 to 51 of the Copyright Law, which basically contain provisions that the user of a copyrighted work will not be called an infringement as long as his actions are not of a commercial nature and have permission from the creator.

In the field of music, a digital trend that has very little boundaries with copyright infringement is the trend of re-singing other people's songs or covering songs. This is very vulnerable because actors who use copyrighted works will exercise the economic rights of creators and/or copyright holders, such as changing song arrangements, changing lyrics, and transforming them into other musical genres as if they were new music. The risk of copyright infringement occurs because currently many people use platforms such as YouTube, where performers of song covers will get commercial opportunities through viewers, entry of endorsements,¹⁴ and revocation of credit for copyrighted works that they do not include in their music covers.

Therefore, the principle of fair use is indeed the main foundation that needs to be applied by anyone when going to use a copyrighted work so that copyright infringement does not occur afterwards. Article 43 letter d of the Copyright Law states that:

"creating and distributing Copyright content through information and communication technology media that are non-commercial and/or beneficial to the Author or related parties, or the Creator states that he has no objection to the production and distribution."

Based on the article above, it can be seen that someone can cover a song as long as it is non-commercial in nature and the person concerned does not receive objections from the creator of the work. However, considering the small number of activities referred to as violations of the principle of fair use and the unclear criteria in the article in question, several other criteria are needed so that the application of the principle of fair use in digital platforms can be implemented normatively and in practice.

We can see the criteria referred to by comparing the principle of fair use with the American Copyright Law as follows:¹⁵

a. purpose and character, including whether the use of a copyrighted work is of a commercial nature or for non-profit educational purposes.¹⁶

b. the nature of copyrighted works related to creativity or a personal touch attached to a copyrighted work.

¹⁴ In understanding the commercialization of copyrighted works, even if the perpetrators who use copyrighted works do not receive royalties as received by the Creator and/or Copyright Holder through CMOs or digital platforms such as YouTube, the scope of commercialization also includes input from various sources or other fees. See Article 1 (23) of the Copyright Act.

¹⁵ Look at §107 · Limitations on exclusive rights: Fair use Copyright Law of The United States

¹⁶ In the Copyright Law, this provision is also regulated through the definition of Commercial Use in Article 1 (23) as the use of works and/or Related Rights products with the aim of obtaining economic benefits from various sources or for payment.

- c. the amount or substance of the copyrighted work used;¹⁷ And
- d. the impact of use regarding the market potential or value of the copyrighted work used.

A digital platform, as a forum for public activities to exchange information in a virtual world, makes music a creative work that can be easily accessed and enjoyed by the public. However, the tendency for technology to continue to develop will certainly have an impact that must be immediately anticipated and mitigated.¹⁸ It is becoming problematic that regulations related to the use of copyrighted works on digital platforms are not known by the public, hence, it needs special attention to maintain copyright values as it should be.

III. Royalty Responsibility of Digital Platform for Music Creators

The Covid-19 pandemic in various parts of the world has had a multidimensional impact in various fields. Some of the impacts, including in the legal field have a significant impact on the social order. One of the lessons learned from the pandemic is that digital transformation takes place in a relatively short time. Basically, this can be logically reasoned, because, the emergence of laws and/or policies of massive social restrictions in various countries has encouraged humans to be adaptive and fully rely on technology to be able to survive in the midst of the restrictions.

In addition to having a positive impact in the form of digital migration, the use of technology in the pandemic era also has a negative impact in the form of threats to intellectual property protection, especially copyright. The reason is inseparable from the digitalization process that encourages societal behavior to make it easier to do a set of things within the exclusive rights of the creator. For instance, it is easy to duplicate, copy, and distribute without the permission of the Creator and/or Copyright Holder. Referring to the opinion of former US Supreme Court Justice Oliver Wendell Holmes, the law has developed like a plant that continues to grow slowly but steadily. The existence of this pragmatic approach, according to H. Gaon, is a reflection that advances in science have created changes in society, thus, affecting the legal norms within.¹⁹

In simple practice, this happens because the features provided by the digital platform are highly supportive or provide convenience in carrying out these activities. To take a case in point, it is extremely easy to utilize others' musical works without permission for commercial purposes. Thus, the threat of copyright infringement is also easy to occur. Examining the provisions in the Copyright Law, it has substantially provided protection for the moral rights and economic rights of the Author and/or Copyright Holder. The protection is also very futuristic and actually effective because it is based on declarative principles so as to provide clear legal certainty for the Author and/or Copyright Holder.

In its development, copyrighted object protection has been accommodated in Article 40 paragraph (1) of the Copyright Law, both conventional works and works that have been transformed or changed in digital form. The existence of digitalization of creation can be understood as a process to change a creation using technology so that the created object is adaptive to technological changes over time.

¹⁷ The author observes that in the use of copyrighted works, the size of the use of a copyrighted work cannot only be assessed in terms of quantity. That is, even though it looks small, the changes or taking made are very substantial (fundamental, fundamental) to a copyrighted work, so what is produced still has the potential to infringe on copyright (see its relation to point d).

¹⁸ Ahmad M Ramli, "Dinamika Konvergensi Hukum Telematika Dalam Sistem Hukum Nasional", Vol. 5, No. 4, *Jurnal Legislasi*, 2008, pg. 2, 2008

¹⁹ Rizki Fauzi (*et.al*), *Op.Cit.*, pg. 119.

With the digitization of the work, the distribution of a work in digital form will later be spread and/or disseminated on the internet including through digital platforms such as Over the Top (hereinafter referred to as OTT). Dissemination of creations through OTT has made it easy for the public to obtain content from the creators.²⁰

Therefore, if examined, basically there are matters that justify the reason for the need for a digital platform to share the earned profits to users, in this case, the Creator and/or Copyright Holder as the owner and/or party who has the right to economic rights and moral rights on his own creation. This is inseparable from the characteristics of digital platforms as providers that do not create content but become a means of distributing content digitally.

In its development, we can see the digital distribution of content with the change from tools for listening to music such as cassettes, radio, and CD/DVD, because, nowadays people tend to listen to songs or music online through music streaming services such as YouTube, Spotify, TikTok, and so on.

The application is in great demand by the world community, especially in Indonesia because it provides various types of songs and is more practical to listen to through devices. For music lovers, music streaming services is an advantage. However, for the Creators and/or Copyright Holders, this can cause losses if it is done without permission for commercial purposes and they as the owners do not get any economic benefits.

Basically, there are aspects that justify the reason for the need for a digital platform to share its profits with users. This is due to the characteristics of digital platforms as providers that do not create content. Meanwhile, in practice, platforms such as YouTube provide fulfillment for the use of these economic benefits through income from incoming advertisements. At the time a channel owner uploads and receives advertisements on the content he/she uploads, YouTube monetizes it to allocate the results of economic utilization, which in this case is the Creator and/or Copyright Holder, as referred to in Article 1 number 21 of the Copyright Law.

In order to gain monetization and protection of their economic rights, Creators must register for monetization and meet the standard requirements of the YouTube Partner Program.²¹ This provision is a form of protection of economic rights because YouTube also has partnerships with publishers or labels and the LMKN that regulates copyright. The combination of the two is an optimal effort because the digital platform has a direction to cooperate with official non-profit legal entities that have been authorized by the Creator, Copyright Holder, and/or related rights owners to manage economic rights in the form of collecting and distributing royalties.²²

As for the song cover, based on YouTube's provisions on copyright, it is prohibited for channel owners to create content that violates the copyright. In this case, digital platforms have fulfilled their responsibilities in the use of economic rights, also, there are sanctions against violators in the forms of repressive efforts on digital platforms. For instance, Youtube will take down videos that are allegedly infringing and if the channel owner continuously violates copyright three times within 90 days, then YouTube has the authority to terminate the account and related channels.²³ Based on this policy, it

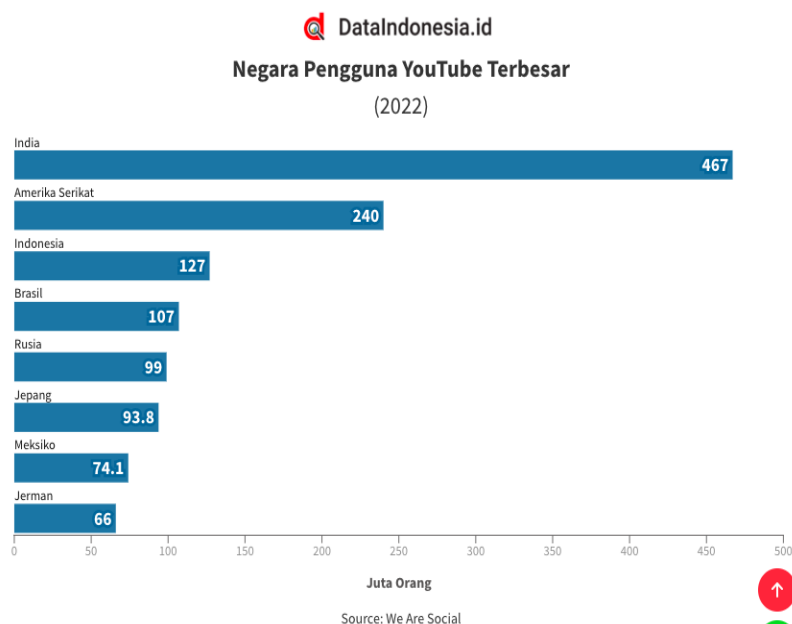
²⁰ Abel Nicholas L (*et.al*), "Tindakan Hukum atas Pelanggaran Hak Cipta pada Digitalisasi Ciptaan melalui Media Over the Top", Vol 5 No. 1, *Jurnal Sains Sosio Humaniora*, 567, 2021.

²¹ Susanne Kopf, "Rewarding Good Creators": Corporate Social Media Discourse on Monetization Schemes for Content Creators", Vol. 6, No. 4, *Social Media + Society*, , pg. 1, 2020

²² See Article 1 number 22 of Copyright Law

²³ YouTube, YouTube Copyright & Fair Use Policies–How YouTube Works,

appears that digital platforms have a major responsibility in fulfilling the royalty rights of music creators, including all efforts to protect other economic rights on the platform.



In Indonesia, based on the data from *We Are Social* in 2022 above, YouTube is one of the most widely used platforms both for seeking entertainment and for those who want to upload copyrighted works on digital platforms. This is inseparable from the data showing the amount of revenue that will be obtained by related parties if they meet YouTube's requirements to obtain economic benefits. As a new giant platform, YouTube is an application-content service in the form of uploaded videos that can be commented on and made into trending videos. The existence of a video feature that can be uploaded certainly results in a copyright for the uploader, especially now that there are many cover activities for songs/music being uploaded on the platform. Technically, YouTube has prepared to manage its commercial advantages as it already has features as a source of benefits earned. These features include:²⁴

- a. *Advertising revenue*: Users can earn advertising revenue from the display, overlay, and video ads. To be eligible for this feature, the channel owner must be at least 18 years old or have a guardian older than 18 years of age and be able to handle the payment through AdSense. In terms of content, channel owners are also expected to see YouTube's Advertiser-Friendly Content guide.
- b. *Channel memberships*: Channel owners earn revenue from the monthly payments offered. The Requirements: the channel owner must be at least 18 years old and have more than 1,000 subscribers.
- c. *Merch shelf*: Fans can browse and buy original products featured on the channel owner's page. The requirements: at least 18 years old and have more than 10,000 subscribers.

<https://www.youtube.com/howyoutubeworks/policies/copyright/>

²⁴ Google, How to earn money on YouTube, <https://support.google.com/youtube/answer/72857?hl=en>

- d. *Super Chat & Super Stickers*: Fans pay for messages sent on chat stream services to get the spotlight. The Requirements: at least 18 years old and live in a country or region that provides the Super Chat feature.
- e. YouTube Premium Revenue: earn revenue only when YouTube Premium subscribers watch the channel owner's content.

Looking at the practice, apart from the readiness made by Youtube in the context of fulfilling copyrights for music creators, in Indonesia, cases of violations of music royalties by YouTube still occur frequently. Based on a statement issued by Freddy Harris, Director General of Indonesian Intellectual Property, it was stated that Youtube still owes royalties to Indonesian musicians.²⁵ Based on information from the Head of YouTube Copyright (Head of Music Publishing Asia Pacific), only 5 percent (Indonesian Music metadata) has collected from the total existing collection. Thus, there is still 95 percent that has not been collected. This resulted in a lot of music in Indonesia that is on the YouTube platform but still does not get the royalties as it should. Thus, it is very important to develop and supervise the fulfillment of music copyright royalties on digital platforms to minimize all forms of losses.

In carrying out royalty distribution, the implementation is currently experiencing a bit of disruption in order to be adjusted to the latest line of technological developments as described in the discussion regarding the trend of digital cover songs which are currently rife. In practice, Japan, through CMOs, has entered into agreements with internet service providers and Over-The-Top regarding the distribution of royalties in the music sector. This is done through a license agreement between the CMO and OTT for all uses. The said agreement will also make it easier to withdraw royalties collected on digital platforms such as YouTube,²⁶ because everything will be centralized in one door and distribution can be carried out properly to creators and/or copyright holders. This can be carried out by CMOs in Indonesia by making a similar agreement regarding the percentage of distribution of royalties that will be distributed so that a fair distribution can be obtained between the parties involved and copyright infringement can be minimized.

In Government Regulation Number 56 of 2021 on Management of Song and/or Music Copyright Royalties, the obligation to fulfil the royalty rights for music creators has been given easy access, as stated in Article 12, the collection of royalties is not only given to music or songs registered in the LMK, but applies to non-members of the LMK. However, the form of public services in Article 3 paragraph (2) does not mention digital platforms as one of its forms and instead only mentions some forms of conventional public services, such as seminars, music concerts, and so on.

However, with the transformation of conventional public services into digital forms such as online seminars, online concerts, and others held through digital platforms, the researcher interprets that a quo provisions also apply *mutatis mutandis* with royalty responsibilities that should be fulfilled by digital platforms to music creators. This has been justified in Article 2 and Article 3 paragraph (1) which emphasizes that the use of commercial public services, both analog and digital, may be used commercially by paying royalties to the Creator, Copyright Holder, and/or related rights through LMK.

In collecting royalties, the digital platform must provide a Song and/or Music Information System (SILM) as referred to in Article 1 number 13 as an information and data system for the purpose of

²⁵ Dicky Ardian, "Duh! Royalti Musisi Indonesia Tertahan di Youtube hingga Triliunan Rupiah" diakses dari <https://hot.detik.com/music/d-4995205/duh-royalti-musisi-indonesia-tertahan-di-youtube-hingga-triliunan-rupiah>

²⁶ In Lewinski & Slike, 2017 research, it was stated that the agreement applies to the use of copyrighted songs in public services provided by YouTube. See Von Lewinski and Slike, *Remuneration for the Use of Works: Exclusivity vs. Other Approache*, 2017, Germany: De Gruyter, p 112.

distributing song and/or music royalties. Meanwhile, reports on the utilization of songs and/or music collected in SILM will be used by LMK at the time of distributing royalties as referred to in Article 14 paragraph (3). LMK has an important role in collecting royalty income for music creators because several platforms such as Spotify have 2 (two) types of royalties, namely recording royalties and publishing royalties. Specifically for publishing royalties, it is submitted to the institution that collects royalties, namely LMK that will distribute it to the artists according to their respective agreements.

As a content service platform, Spotify is a form of digital music streaming, video, and podcast service that provides access to many songs and content around the world. Spotify plays a role in providing digital copyright for uploaded music, hence, ensuring that the songs are official songs for users to enjoy. Digital platforms such as Spotify do not know the contents of the agreement and the amount of royalties received is based on the way the music is streamed or the agreement made by both parties with the record label or distributor. Another media, namely TikTok, has had obsessed users, as reported by Data Indonesia, it is stated that Indonesia is in second place with 99.1 million active users.²⁷ The estimated time spent by TikTok users in Indonesia is an average of 23.1 hours per month.

The hype of TikTok has prompted the app to launch an independent music marketing platform called SoundOn. The platform allows artists and creators to upload their music directly to TikTok and to music streaming services belonging to parent company ByteDance, Resso, Apple Music, Spotify, Pandora, Deezer, and Joox.²⁸

In practice, this platform has also been tested in several countries such as Brazil, Indonesia, the United States and the United Kingdom. The platform has been utilized by its users, such as by Muni Long, Games We Play, Abby Roberts and Chloe Adams in the UK.²⁹ SoundOn is paying 100 percent royalties to songwriters/music makers for an indefinite period. This is a great advantage for the Creators and/or Copyright Holders because their intellectual efforts are guaranteed fulfilment of economic rights in the digital market.

As referring to TechCrunch, profits made from music platforms that ByteDance does not own, such as Spotify, Joox, and others, will receive a royalty of 100 percent in the first year. However, that number will decrease to 90 percent in the second year onwards.

One country that can be a pilot at this time in the protection of copyright in the digital realm is the European Union. Through the Reform of the European Union's Copyright Act, the European Union has now decided on the Copyright Act to guarantee artists and news publishers their rights in the digital world. The renewal of the Copyright Law sparked widespread criticism from various groups who were worried that there would be restrictions on freedom on the internet, especially in terms of exchanging information and creativity. However, the existence of this law basically ensures a fairer distribution of results for content producers and online facility providers.³⁰

The reforms that were successfully carried out by the European Union received a positive response from creators, especially publishers and artists. Given the practice, these circles often lose

²⁷ Data Indonesia, "Pengguna TikTok Indonesia terbesar Kedua di Dunia", accessed from "https://dataindonesia.id/digital/detail/pengguna-tiktok-indonesia-terbesar-kedua-di-dunia#:~:text=Indonesia%20berada%20di%20urutan%20kedua,23%2C1%20jam%20per%20bulan. on 16 August 2022.

²⁸ VOI, "TikTok Resmi Luncurkan SoundOn di Indonesia Berikan 100% Royalti ke Pembuat Musik, accessed from "https://voi.id/teknologi/143826/tiktok-resmi-luncurkan-soundon-di-indonesia-dan-akan-berikan-100-royalti-ke-pembuat-musik on 16 August 2022.

²⁹ *Ibid.*

³⁰ European Commission, "Copyright Reforms: Question and Answer" <https://digital-strategy.ec.europa.eu/en/faqs/copyright-reform-questions-and-answers#ecl-inpage-copyright-refo>

revenue from royalty payments, as a result of their works being distributed free on the internet. Now, through the European Union's reform of the Copyright Act, online companies require licensing agreements with copyright holders such as musicians, performers and writers to use their content.³¹ The progressive step taken by the European Union is a successful step forward in the copyright law regime, adjusting to the current digital era, copyright basically requires reforms that can adapt to the times. This is necessary, in order to maintain the exclusive rights of the creators so that they are not eroded by the times in the digital era.

IV. Conclusions

1. Referring to the arrangements contained in the Indonesian positive law, royalties must be given to music creators by those who use a commercial work of song and/or music. As it is regulated in Article 35 paragraph (2) of the Copyright Law and Article 3 paragraph (1) of the Government Regulation on the Management of Royalties for Song and/or Music Copyrights. Royalty is essentially an economic right that is exclusively owned by the creators. Hence, it is mandatory that the right is protected. Even though the information acceleration correlates with the emergence of digital platforms that has the potential to erode the fulfillment of rights to the use of a copyrighted work. In order for a fair distribution of royalties to be realized, it is necessary to uphold the principle of fair use in a normative and practical manner, as well as an agreement between the CMO and digital platforms regarding its distribution in order to obtain a fair portion.

2. The rapid development of information technology has created challenges to digital copyrights. One of them is the emergence of cover music singers in Indonesia. On the one hand, the cover singers on digital platforms have a positive impact as it is a way to support the digital economy, but on the other hand, the commercialization poses a challenge to the issue of copyright infringement on fulfilling the economic rights of royalties on digital platforms. However, currently, the digital platform for Music Creators and/or Copyright Holders already has a monetization system and regulates related sanctions. The mechanism includes several ways of fulfillment royalties through the provision of digital features for advertising or streaming services in order to continue to obtain commercial benefits and exclusive rights, especially economic rights protected on digital platforms.

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This journal is an output that we can produce through the research we have done to be able to make a positive contribution to society and stakeholders, as well as to participate in scientific development related to copyright in the digital era.

³¹ *Ibid.*

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Compulsory Licenses of Patented Inventions in Iranian Law

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Abstract

Compulsory licenses of patented inventions are recognized in Iranian law. The issuance of such licenses is subject to the occurrence of exceptional cases of preserving national security, public health or development of other vital-economic sectors of the country. Additionally, they are a remedy for anticompetitive practices and where the exploitation of an invention depends on another prior invention, a compulsory license may be issued in favor of the second inventor. An examination of the conditions of granting compulsory licenses indicates the Iranian legislator's attempt to deal with extraordinary circumstances at the national level while respecting the innovators' rights and that such licenses are a means to make a balance between the society's right to be safe, stable and secure and the patent holders' rights to exploit their inventions. The results of this descriptive-analytical study show that, as far as compulsory licenses of inventions are concerned, the Iranian law is in accordance with the provisions of the Paris Convention and the TRIPS Agreement.

Keywords: Compulsory Licenses, Patent Rights, Public interests, Balance of Interests, Iranian Law

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I. Introduction

Compulsory licenses of patented inventions have been foreseen in the Iranian legal system. Article 17 of the Act on the Registration of Inventions, Industrial Designs and Trademarks of 2008 (the 2008 Act) and chapter 4 (articles 36-46) of its by-law of 2009 (the By-Law) titled “the issuance of a compulsory license” concern compulsory licenses of patents. Patent rights are enumerated in article 15 of the 2008 Act. Under that article, the rights derived from a patent are as follows:

Exploiting an invention registered in Iran by anyone other than the owner is subject to the owner’s consent. Exploitation of the registered invention would be as follows:

In case the invention concerns a product:

First, manufacture, exports and imports, offer for sale, sale and use of the product.

Second, storing with the purpose of offering for sale, sale or using the product.

In case a process is registered as an invention:

First, using the process

Second, doing any of the acts mentioned in part one of paragraph “a” of this article with regard to the goods produced directly as a result of this process.

According to article 15(b): “The owner may, subject to paragraph “c” of this article and article 17, sue anyone who, without his authorization, performs the exploitations mentioned in paragraph “a” and violates the inventor's rights or exercises an act likely to violate the inventor's rights”.

By referring to article 17 (discussed below) article 15(b) is obvious in stating that infringement action may not be brought against a licensee who has been given a compulsory license. In fact, while the owner has not authorized the licensee to exploit his patent rights, the latter is allowed to do that without the fear or risk of being sued. This is because the will of the government has replaced the owner's will in granting a license.

The Iranian legislator has attempted to harmonize the Iranian laws with the requirements of the Paris Convention¹ and the TRIPS Agreement. The reason is clear: Iran is trying to become a member of WTO² and consequently, it must prepare its legal infrastructure for this purpose. Therefore, IPRs should be guaranteed and the cases where the government may interfere with them should be limited and clearly stated. The TRIPS Agreement has provided for certain flexibilities such as compulsory licenses to be used to protect public interests.³ Similarly, the Iranian legislator has enacted some provisions to deal with cases of national security, public health, economic crises etc. through compulsory licenses. Such licenses are also a remedy for anti-competitive practices. Compulsory licenses are granted in exceptional cases. This is an indication of the Iranian legislator’s commitment to protect patent rights in the best way. With the outbreak of the COVID-19 Pandemic, the issue of compulsory licenses became central to the discussions about combatting it. Despite the fact that such a crisis may be considered a case of national emergency justifying the issuance of compulsory licenses

¹ Iran has been a member to the Paris Convention since 1959. See. <https://wipolex.wipo.int/en/treaties/parties/remarks/IR/2> (accessed on July 19 2022).

² Currently Iran is an observing member to WTO: https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (accessed on July 10 2022).

³ Carlos Maria Correa, Guide for the Granting of Compulsory Licenses and Government Use of Pharmaceutical Patents, Research Paper, No. 107, 7 (South Center, 2020). URL: <https://www.southcentre.int/wp-content/uploads/2020/04/RP-107.pdf>

in Iranian law, the Iranian scientists preferred to invent national vaccines and avoided to resort to compulsory licenses.

The basic rules on Iranian property law are stated in the Iranian Civil Code. Due to this fact, where an issue has not been addressed in a specific law, reference should be made to the Iranian Civil Code. Therefore, compulsory licenses may be examined from two perspectives of traditional property law and intellectual property law.

In this paper, after defining the term compulsory license, arguments in favor and against the grant of compulsory licenses are analyzed. Then, the legal nature of such licenses in Iranian law will be discussed. Finally, the process of granting a compulsory license will be studied.

II. Definition of Compulsory License

A compulsory license has been defined as “a government- or court-issued order for a patentee to grant a license to another party (which allows that party to exploit the patented invention)”.⁴ This definition concentrates on the act of the government or court in ordering the patent owner to grant a license. According to another definition, a compulsory license “is an authorization given by a national authority to a natural or legal person for the exploitation, without the consent of the title-holder of the subject matter protected by a patent in order to attain certain public policy objectives”.⁵ Another definition is as follows: “[A] permit granted by the government to allow alternative production or importation of a generic version of a patented medical product without the prior consent of the patent holder”.⁶ Under another definition, compulsory licensing for patents is “when the authorities license companies or individuals other than the patent owner to use the rights of the patent ... without the permission of the patent owner”.⁷ The act of granting a compulsory license is defined as “the practice by a government to authorize itself or third parties to use the subject matter of a patent without the authorization of the right holder for reasons of public policy”.⁸ “The term “compulsory licensing” does not appear in the TRIPS Agreement. Instead, the phrase “other use without authorization of the right holder” is applied in the title of Article 31”.⁹ Therefore, the main characteristic of such licenses i.e. the absence of the right holder's consent is emphasized on. Many years before the TRIPS Agreement, the Paris Convention provided for compulsory licenses as a remedy for abuse of patent rights¹⁰ including underutilization.¹¹

The Iranian legislator has used the adjective non-voluntary¹² for such licenses which denotes the same meaning.¹³ There is no definition of compulsory licenses in Iranian laws. Rather, it has been

⁴ Productivity Commission, *Compulsory Licensing of Patents*, Inquiry Report No. 61, xiv, (Productivity Commission, 2013). URL: <https://www.pc.gov.au/inquiries/completed/patents/report/patents.pdf>

⁵ Carlos Maria Correa, *supra* note 3, p.13.

⁶ MSF, *Compulsory Licenses, the TRIPS Waiver and Access to COVID 19 Medical Technologies*, MSF Briefing Document 2 (MSF 2021). URL: https://msfaccess.org/sites/default/files/2021-05/COVID_TechBrief_MSF_AC_IP_CompulsoryLicensesTRIPSWaiver_ENG_21May2021_0.pdf

⁷ https://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm (accessed on December 14 2021).

⁸ Jerome H Reichman & Cathy Hazenzahl, *Non-voluntary Licensing of Patented Inventions 1* (ICTSD, UNCTAD 2003). URL: https://unctad.org/system/files/official-document/ictsd2003ipd5_en.pdf

⁹ https://www.wto.org/english/tratop_e/trips_e/factsheet_pharm02_e.htm (accessed on September 16 2021).

¹⁰ Article 5(A) 2.

¹¹ Sara M. Ford, *Compulsory Licensing Provisions Under the TRIPs Agreement: Balancing Pills and Patents*, 15(4) *American University International Law Review*, 941, 958 (2000). URL: <https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1278&context=auilr>

¹² Article 17(d)(3) of the 2008 Act.

¹³ It is used in some sources. For example, see: Jerome H Reichman & Cathy Hazenzahl, *supra* note 8 at v; WHO, *Remuneration Guidelines for Non-voluntary Use of a Patent of Medical Inventions 14* (WHO 2005). URL: https://apps.who.int/iris/bitstream/handle/10665/69199/WHO_TCM_2005.1_eng.pdf?sequence=1&isAllowed=y

defined by doctrine as a “license granted by a competent authority in favor of a governmental authority or a third party authorized by government to exploit the patent without the consent of its owner”.¹⁴

A compulsory license differs from expropriation which is “a governmental taking or modification of an individual's property rights, esp. by eminent domain”.¹⁵ Clearly, in both cases the government plays a role, public interests are concerned and a reasonable compensation is paid. However, in case of expropriation, either no property rights remain for the owner or his rights are modified while in case of a compulsory license, no rights are taken or modified. All that happens is the issuance of a non-exclusive license by the government; this means that the patent owner is still a real owner. Another term which may be compared to the term compulsory license is forfeiture i.e. the “loss of a right, privilege or property because of a crime, breach of obligation or neglect of duty”¹⁶ or “loss of property or a right as a consequence of an offence or of the breach of an undertaking”.¹⁷ Compulsory licenses are a remedy for anti-competitive practices. Nevertheless, in most cases, they are not a remedy as such. Moreover, no rights are lost. In addition, only where the grant of a compulsory license is not effective, the Paris Convention allows forfeiture of the patent.¹⁸

III. Arguments against compulsory licensing

As was observed, a compulsory license is granted without the owner's consent. Therefore, this sort of license may be seen as breaking the exclusive rights of the IPRs holder;¹⁹ and may be compared to an expropriation of IP rights.²⁰ However, it was explained above that the grant of a compulsory license may not be considered as expropriation. Another argument in this regard is that compulsory licenses decrease the value and importance of patents because everyone can use the invention.²¹ This argument is not acceptable in Iranian law; since, according to article 17 of the 2008 Act, only certain entities may apply for and acquire a compulsory license. In order to refuse compulsory licenses of patents, it has been claimed that although royalties are set by governments when granting compulsory licenses, they cannot be regarded as an incentive to further research; the amount is no way comparable to the potential benefits which could be earned by the owner in a normal situation.²² Particularly in the pharmaceutical sector, it has been asserted that as the income of pharmaceutical companies is decreased, the amount of funds available for reinvestment is reduced as well.²³ Thus, many developed countries have opposed to compulsory licensing and even “during the negotiations for the TRIPs agreement, most developed nations argued for harsh restrictions on compulsory licenses to safeguard their domestic industries”.²⁴ Nevertheless, no reliable statistics have been presented in this regard. In

¹⁴ Mostafa Bakhtiarvand, Jurisprudential-legal Study of Compulsory Licenses of Patents, 110 *Journal of Jurisprudence and Principles of Islamic Law*, 79, 81 (2017). URL:

https://jfiqh.um.ac.ir/article_31864_e0e370a9c1401ae00d9fba2401896047.pdf

¹⁵ Brian A Garner, *Black's Law Dictionary* 662 (West, 9th ed 2009). emphasis in the original text.

¹⁶ Id at 722.

¹⁷ Elizabeth A Martin (editor), *Oxford Dictionary of Law* 209 (Oxford University Press, 5th ed 2003).

¹⁸ Article 5(A)3.

¹⁹ Muhammad Zaheer Abbass & Shamreeza Riaz, Evolution of the Concept of Compulsory Licensing: A Critical Analysis of Key Developments before and after TRIPS, 4(2) *Academic Research International* 482, 484 (2013). URL: <https://ssrn.com/abstract=2368129>

²⁰ Padmanabha Ramanujam & Yugank Goyal One View of Compulsory Licensing: Comparative Perspectives from India and Canada, 18(2) *Marq. Intellectual Property L. Rev.* 369, 398 (2014). URL: <https://scholarship.law.marquette.edu/cgi/viewcontent.cgi?article=1262&context=iplr>

²¹ Kristopher Lancial, Compulsory Patent Licensing: The Next Step in Adapting Patents to the Technological Age, 18(1) *INTELL. PROP. L. BULL.* 59,79 (2013).

²² Muhammad Zaheer Abbass, Pros and Cons of Compulsory Licensing: An Analysis of Arguments, 3(3) *International Journal of Social Science and Humanity*, 254, 255 (2013). URL: <https://ssrn.com/abstract=2368116>

²³ Rojina Thapa, Waiver Solution in Public Health and Pharmaceutical Domain Under TRIPS Agreement, 16 *Journal of Intellectual Property Rights*, 470, 479 (2011). URL: <https://ssrn.com/abstract=2088705>

²⁴ Sara M Ford, *supra* note 11 at 946.

addition, according to article 17(b) of the 2008 Act, an appropriate amount will be paid to the patent owner, taking into account the economic value of the invention.

Another argument is that such a mechanism may be abused by developing countries and thus establishing a culture of disrespect for intellectual property.²⁵ In reaction to compulsory licenses granted by the Thai government, the United States has referred to the compulsory licenses as “indications of a weakening respect of patents”.²⁶ However, the fact that in the majority of cases, granting a compulsory license is subject to the failure of prior negotiations, as is the case with article 36 of the By-Law, shows that patent rights are strongly respected in Iran.

Another concern is over consumers’ safety regarding compulsory licensing of pharmaceutical inventions. The opponents believe that such licenses can create situations in which unapproved generics become widely available.²⁷ This concern is reasonable, but at the same time, it is not justified in all cases; even if a company is authorized to manufacture generic pharmaceuticals, it must obey the standards set forth by competent authorities.

Another argument relates to the diversity and differences between intellectual property systems of countries depending on which investment incentives can be different as well.²⁸ Uncertainty as to patent protection may deter research on new drugs to which developing countries are in urgent need. The absence of favorable business environment will prevent patent owner companies from any new activities in countries which resort to compulsory licensing provisions.²⁹ Similarly, the use of compulsory licensing may constitute an impediment to the extension of trade between countries which produce patented drugs with those which have enacted compulsory licensing provisions in their national legal system. Even if the actual issuance of compulsory licenses is not needed, sometimes the threat of such practice would have adverse impact on trade relations between countries.³⁰

In response, it may be said that compulsory licenses do not contradict strong intellectual property systems; they are not granted without reasonable grounds and the applicant should prove that absent a compulsory license, serious losses would incur upon the society. A compulsory license is usually the last resort and it is clear that unusual circumstances are an exception and do not arise regularly. Subsequently, patent owners are sure that their rights are guaranteed and only in exceptional cases and after enough examination and subject to adequate remuneration and their failure to fulfill their social duty i.e. cooperation with the government to deal with difficult situations, compulsory licenses are granted.

IV. Justifications in Favor of Compulsory Licensing

Advocates of compulsory licensing have, in turn, raised justifications. The first argument relates to intellectual property rights as such which inherently make monopoly. The exclusivity resulting from

²⁵ Rojina Thapa, supra note 23 at 472.

²⁶ Cynthia M Ho, Patent Breaking or Balancing? Separating Strands of Fact from Fiction under TRIPS, 34 *North Carolina Journal of International Law and Commercial Regulation*, 371, 451 (2009). URL: <https://ssrn.com/abstract=1218944>

²⁷ Lmb, E, Compulsory Licensing: A Necessary Evil?, available at: <https://www.pharmacytimes.com/view/2007-06-6564> (accessed on December. 2, 2021).

²⁸ Robert C. Bird, R, Daniel R. Cahoy, The Impact of Compulsory Licensing on Foreign Direct Investment: A Collective Bargaining Approach, 5(2) *American Business Law Journal*, 1, 4 (2008). URL: <https://ssrn.com/abstract=1092577>

²⁹ Jorn Sonderholm, *Intellectual property rights and the TRIPS agreement: An overview of ethical problems and some proposed solutions*, 9 (The World Bank 2010). URL: <https://ssrn.com/abstract=1565989>

³⁰ Dora Cripapuri, Reasoned Compulsory Licensing: Applying U.S. Antitrust’s “Rule of Reason” to TRIP’s Compulsory Licensing Provision, 36(3) *New England Law Review*, 669, 697 (2002). URL: <https://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1278&context=auilr>

intellectual property, especially patents, may impede economic growth and public access to necessities. As some authors have asserted, developing countries fear multinational companies will exploit local consumers “by charging high prices for goods made in foreign countries, resulting in a populace that comes to depend upon goods for which there is no local production. This argument seems to have particular legitimacy where the product is essential to the wellbeing of the populace”.³¹ Obviously, the mere exclusivity conferred upon a patent owner is no way devil; instead, abusing such exclusivity is problematic and must be prevented. Compulsory licensing is an effective means to combat abuse of exclusive patent rights. In fact, in cases such as pharmaceutical patents, especially in cases like the COVID-19 Pandemic, where most countries of the world were engaged, the grant of compulsory licenses is unavoidable to save lives of the populace by ensuring accessibility of drugs at affordable prices.³² For this reason, some authors consider compulsory licensing as an important tool to balance public use and the exclusive rights of an IP owner.³³ If compulsory licenses are seen as a means to achieve a balance between public interests and monopoly given to the patent owner, the argument that such licenses violate patent rights would be immediately rejected.

The Holy Quran has ordered Muslims to cooperate in righteousness and evil.³⁴ As a result of this duty, Muslims are obliged to assist each other in doing good deeds. Certainly, helping the government with resolving the society’s problems is an example of such a duty.

The second argument is that resistance to this kind of license by developed countries may raise thoughts of neocolonialism, given the larger number of patents in developed countries in comparison to small number of patents in developing countries which makes one conclude that patent protection disproportionately favors the interests of developed countries.³⁵ However, the existence of large numbers of patents in developed countries is not in itself a good reason to believe that a new type of colonialism may appear. Since, it is presumed that normally, those patents have been acquired after enough investment and research and development by companies and individuals. Indeed, if patent rights are abused, one may think of a danger threatening developing countries. Yet, such an abuse should be committed by a lot of patent owners for justified fears of neocolonialism to exist.

Third, there are cases where an improved version of an invention has been patented which may not be worked efficiently without using the original invention. On the other hand, the original owner may be reluctant to license its invention to the improver and as a result, the new invention may not be used without infringing the original patent and therefore becomes useless.³⁶ This, indeed, constitutes an impediment to the development of technology and compulsory licensing pushes the original owner to license its patent which is a proper way to accelerate the technical growth.³⁷ Moreover, an author gives an example of patent suppression where an American company which had patented a way to remove the majority of carcinogens from cigarette during the 1960s and suppressed it until 2001. He argues that when the rights holders suppress the beneficial patents or neglect to exploit them during

³¹ Gianna Gulian-Arnold, International Compulsory Licensing: The Rationales and The Reality, *The Journal of Law and Technology*, 349, 353 (1993). URL: https://ipmall.law.unh.edu/sites/default/files/hosted_resources/IDEA/p349.Arnold.pdf

³² Muhammad Zaheer Abbass, *supra* note 22 at 255.

³³ Iljasovic Jasmila, Compulsory Licensing of Pharmaceutical Patents in Developing Countries, LL.M. Short Thesis, Central European University, 8 (Central European University 2013); Yang, D, Compulsory Licensing: For Better or for Worse, the Done Deal Lies in the Balance, 17 *Journal of Intellectual Property Rights* 76, 78 (2012). URL: https://www.researchgate.net/publication/267986487_Compulsory_Licensing_For_Better_or_For_Worse_the_Done_Deal_Lies_in_the_Balance

³⁴ Al-Ma'idah Chapter, verse 2.

³⁵ Muhammad Zaheer Abbass, *supra* note 22 at 255.

³⁶ Joseph A. Yosick, Compulsory Patent Licensing for Efficient Use of Inventions, 2001 *University of Illinois Law Review*, 1257, 1294 (2001). URL: <https://illinoislawreview.org/wp-content/uploads/2001/08/Yosick.pdf>

³⁷ Gianna Gulian-Arnold, *supra* note 31 at 350.

their terms, this would delay or even preclude the public's enjoyment of new technologies and progressive inventions.³⁸

The fourth reason is that only in those systems which grant it very liberally such a license would prevent further innovation and diminish the incentive to research and development. In case of compulsory licenses granted as a result of non-use, patentees are given a period of time to exploit the invention before granting a compulsory license. Even where a compulsory license is granted for other reasons, the patentee "would still have the advantage of a head start over his competitors in bringing the product to market, and would still be entitled to reasonable royalties from the licensee".³⁹ Therefore, compulsory licensing may not be considered as an impediment to investment in the innovations field in all cases.

The fifth reason is that if applied properly, compulsory licensing would have positive results in addressing emergencies or in removing specific technology supply bottlenecks. "They can be used to root the production or adaptation of appropriate technologies in qualified local facilities and to prod particular foreign companies into negotiated transactions involving IPRs that adequately respect local needs and conditions".⁴⁰

According to the sixth reason, "under a normal compulsory licensing scheme, licenses would be granted so infrequently that a party would generally be better off trying to develop a better product than relying on obtaining a compulsory license".⁴¹ The authors agree with this argument. In fact, if companies and individuals are aware of the rareness of granting compulsory licenses, they would attempt to invent new products or processes that, finally, improve the society's welfare.

V. Legal Nature of Compulsory Licenses in Iranian Law

As was explained above, a compulsory license is granted without the owner's consent. Therefore, it is reasonable to ask whether the government is entitled to interfere with those rights. Absoluteness is a frequently-stated feature of property in Iranian law and Imami jurisprudence.⁴² Consequently, an owner may treat what he owns in any way he desires. Article 30 of the Iranian Civil Code declares that: "Every owner is entitled to exploit his property in all conceivable ways, except those excluded by law". This article is the codification of a very important principle in Imami jurisprudence called Asle Talist which may be described as the absolute legal power of the owner to exercise dominion or control over property. Accordingly, people are free to do whatever they wish with their property and no one, even public authorities, may prevent them from doing those acts; in other words, ownership is an absolute right. This is an implication of the basic principle of the autonomy of will that is well-established in Iranian law and Imami jurisprudence.⁴³ Yet, such an absolute freedom is not acceptable. People live in the society and their behavior affects the others. Therefore, their freedom to treat their property should be subject to respecting the rights of other members and the society as a whole. For instance, the owner of a car may not drive it in a way that disturbs others. Due to this fact, the last part

³⁸ Neil S Tyler, Patent Nonuse and Technology Suppression: The Use of Compulsory Licensing to Promote Progress, 162 *University of Pennsylvania Law Review*, 451, 459 (2014). URL: https://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1548&context=penn_law_review

³⁹ Joseph A. Yosick, *supra* note 36 at 1292.

⁴⁰ Jerome H Reichman & Cathy Hazenzahl, *supra* note 8 at 6.

⁴¹ Joseph A. Yosick, *supra* note 36 at 1292.

⁴² Naser Katouzian, Properties and Ownership 101 (Dadgostar Publications first ed, 1998); Alireza Bariklou, *Property Law*, 123 et seq, (Samt Publications, first ed., 2011).

⁴³ Jalil Ghanavati, Sayyed Hassan Vahdati Shobeiri, Ibrahim Abdipour fard, under supervision of Sayyed Mostafa Mohaghegh Damad, *Contract Law in Imamia Jurisprudence*, 200 (Samt Publications, 2000); Sayyed Hossein Safaei, *General Rules of Contract Law*, 45 et seq (Mizan, 4th ed. 2007).

of article 30 of the Iranian Civil Code has limited the owner's ability and has narrowed the scope of absoluteness of property. The same is true for a patentee: his freedom is not absolute.

Moreover, principle 40 of the Iranian Constitution declares that: “No one is entitled to exercise his rights in a way prejudicial to others or violating public interests”. This principle is an expression of a rule in Imami jurisprudence called La-Zarar whose literal meaning is no-harm and from a terminological aspect it means that no one can harm others.⁴⁴ This rule applies even where a person is exercising his legitimate rights: the mere reason that someone has a right is no justification to harm others. In other words, La-Zarar rule is a means to prevent people from abusing their rights. The nature of abused rights is not important; neither is the type of rights or interests being violated. The rule applies equally to traditional rights and intellectual property rights and the rights of individuals and the society are equally protected against violation by right holders. Accordingly, if a patent owner attempts to exercise his patent rights or even abstains from exercising his rights and such an act or omission is considered to be a violation of public interests, the government may intervene and stop the violation. It is obvious that demanding extraordinarily high royalties or conditions for concluding a license agreement or selling the products at high prices or refraining from the exercise of one's patent rights while the society is in urgent need of the subject matter of a patent, for example a drug or a machine for detection of a disease, may be instances of abuse of rights and lead to the application of La-Zarar rule in order to preserve public interests and order. Therefore, compulsory licenses may be considered as a consequence of applying La-Zarar rule where the patent owner demonstrates an unusual behavior and is abusing his rights. In other cases, the principle of the precedence of public interests over private rights applies.⁴⁵

A question arises in the field of contract law. According to the freedom of contract principle, people are free to decide on making contracts or avoiding from making contracts with others.⁴⁶ Suppose, for example, the owner of a patent whose subject matter is a medicine. In normal situations, he is entitled to exercise his patent rights personally or license them to another person or decide not to exercise them at all. However, in extraordinary circumstances where the society needs the patent while no substitute is available, the patent owner's freedom of contract becomes limited and he is obliged by the authorities to license the rights. Therefore, compulsory licenses are an exception to the principle of freedom of contract. In case the patent owner refuses to make a license agreement or insists on a high consideration or conditions which are not reasonable, the contract would be made without his consent. In other words, the consent of the Islamic ruler replaces the owner's consent. This is based on a rule called: Al-hakem vali al momtane⁴⁷ which means that the Islamic ruler is the substitute for the person who refrains from performing his obligations. In case a patent owner is reluctant to exercise his rights or license them, while such acts are considered to be a social obligation, the government's intention replaces his will and a compulsory license would be granted.

Under principle 47 of the Iranian Constitution “private legitimate property is respected and the law determines its standards”. Therefore, the law should set forth the criteria for respecting the property. In other words, in modern Iranian law, property is not as absolute and exclusive as past and as expressly

⁴⁴ Sayyed Mostafa Mohaghegh Damad, the Rules of Islamic Jurisprudence, v.1, 131 (Center of Publication of Islamic Sciences, 12th ed. 1986); Mohammad Jafar Jafari Langroudi, , Alfaregh, General Encyclopedia of Law, v.4, 316 et seq. (Ganje Danesh, 2nd ed. 2013); Mahmoud Shahabi Khorasani, Rules of Islamic Jurisprudence, 91 et seq. (University of Tehran Press, 5th ed, 2011).

⁴⁵ Davoud Ghasemi & Kiumars Kamary, Jurisprudential Foundations and Legal Sources of Precedence of Public Interests over Proprietary Rights with a Look at Quran, 11(44) *Quranic Studies Quarterly*, 119, 120 (2020). URL: https://qsf.jiroft.iau.ir/article_678082_0769c6e096e96e2f9667832fd7fa81fd.pdf

⁴⁶ Naser Katouzian, Juristic Acts, 44 et seq. (Sherkate Sahamiye Enteshar, 11th ed. 1992).

⁴⁷ Sayyed Mostafa Mohaghegh Damad, supra note 44 at 201 et seq. Mohammad Hassan Najafi, Javaher al Kalam, v.40, 136 (Dar ihya al Toras al Arabi, 7th ed. 1982); Mohammad Javad Moghnia, Fiqh al Imam al Sadeqh, v.3, 144-145 (Ansarian, 2nd ed.1999).

stated by principle 47, it is subject to the restrictions and limitations foreseen by law.⁴⁸ This is the case for patent rights conferred on a patentee and compulsory licenses in which his consent plays no role. To be more precise, the legislator, as the authority who gives private rights, is allowed and even obliged to give priority to public interests through limitations and restrictions considered to be necessary to protect the society's interests. In case of patent rights which are granted as a result of the registration of an invention, the legislator gives such rights subject to preserving public interests. Subsequently, patent rights are born with a limitation: if the maintenance of public interests is dependent on the exploitation of such rights and the patent owner refrains from doing so or demands an unreasonable consideration, his consent becomes irrelative and the sovereign authority intervenes and decides instead of him; i.e. grants a license to use the invention.

Moreover, according to principle 44 of the Iranian Constitution, "property ..., as far as consistent with other principles ... and if it does not go beyond the limits of Islamic laws and leads to the country's economic growth and development and does not harm the society, is protected by the law of the Islamic republic". Taking into account the restrictions mentioned in that principle, it has been asserted that "property has not remained as a natural right which belongs to the man's personality; rather, it is a means to preserve public interests and would be protected only if the methods of its acquisition and application are in line with the legislator's goals".⁴⁹ This idea may be supported by a statement made by The Indian Controller of Patents in the first compulsory license granted in India: "from its very nature, a right cannot be absolute. Whenever conferred upon a patentee, the right also carries accompanying obligations towards the public at large. These rights and obligations, if religiously enjoyed and discharged, will balance each other. A slight imbalance may fetch highly undesirable results".⁵⁰

A. Persons Entitled to Apply for a Compulsory License

According to article 17 of the 2008 Act, exploitation under a compulsory license is made by the government or a person authorized by it. Therefore, those persons are authorized to apply for such a license. In addition, the owner of a dependent patent may apply for a compulsory license (see below).

B. Grounds for Granting a Compulsory License

The circumstances leading to the grant of compulsory licenses are mentioned in articles 17(a) and 17(h) of the 2008 Act. Under article 17(a) compulsory licenses are granted if the preservation of public interests including national security, nutrition, health or development of other vital-economic sectors of the country necessitates the exploitation of the invention by government or a third party or where exploitation by the owner or a person authorized by him contradicts free competition and the exploitation of the invention resolves the problem.

Non-working has not been expressly mentioned as a ground for granting compulsory licenses. However, since article 17(a) allows compulsory licensing where the preservation of public interests or development of other vital-economic sectors depend on the exploitation of the invention, non-working has, indeed, been contemplated by the legislator.

The exploitation of the invention by a patent owner or a party authorized by him is occasionally in a way that disrupts free competition. A look at article 31(k) of the TRIPS Agreement, concerning anticompetitive practices, shows that article 17(a) of the 2008 Act has been enacted in accordance with

⁴⁸ Nasser Katouzian, *supra* note 42 at 129 et seq.

⁴⁹ *Id.*, at 102.

⁵⁰ <http://www.gnaipr.com/CaseLaws/Controller%20Order%20-%2012032012.pdf> (accessed on July. 19, 2022).

it. In Iranian law, in order to identify practices that disrupt free competition, one should refer to the Act on the Implementation of the General Policies of Principle 44 of the Constitution (the Implementation Act). According to article 11(1) of that Act, competition is a situation in the market “where a number of independent producers, customers and sellers act to produce, buy or sell goods or services in a way that none of the producers, customers and sellers have the power to fix market price or there is no restriction for businesses to enter or exit the market”. Under article 11(20) of the same Act, disruption of competition includes cases which cause “monopoly, hoarding, corruption in the economy, damage to public interests, concentration and circulation of wealth in the hands of certain individuals and groups, the decrease in skills and creativity in the society or the dominance of foreigners in the country”. In addition, articles 44 and 45 of this Act declare the examples of practices which *may lead to* the disruption of competition (article 44 is similar to the rule of reason in the United States law) and the acts which *disrupt* competition (article 45 is similar to the per se illegality in the United States law). On the other hand, under article 51 of the above said Act,

"The exclusive rights and privileges resulting from intellectual property shall not violate articles 44 to 48 of this Act".

The above said article is of a general scope and includes abusive exploitation and non-exploitation of intellectual property rights at the same time and in both cases the remedies provided for in the Implementation Act shall apply. In fact, article 45(a) considers hoarding and refusal to deal as disruptive of competition and prohibits them expressly. According to article 17(a) of the 2008 Act if the exploitation disrupts free competition, the Commission (see below) intervenes and it may grant a compulsory license. What if non-exploitation (non-working) disrupts competition? As it was earlier mentioned, non-exploitation has not been expressly mentioned in that article as a ground for granting compulsory licenses, but it can be inferred from the same article. However, where the patent owner refrains from its exploitation and refuses to license it in a way that disrupts competition, article 17 of the 2008 Act is not applicable.

Article 51 of the Implementation Act has stated the remedies for the violation of articles 44 to 48 thereof by intellectual property owners which the Iranian Competition Council may determine at its discretion. The first remedy is to stop the activities of the intellectual property owner or non-application of the exclusive rights including the limitation of their duration. Here, a question arises: what happens if a patent owner disrupts competition by his activities (or as stated in the 2008 Act, exploitation by the owner or a person authorized by him disrupts free competition)? In such a case the Competition Council may rely on article 51(a) and limit the duration of patent rights from 20 to 5 years for example or a shorter period while the Commission mentioned in article 17 of the 2008 Act may grant a compulsory license whose term may be longer than the period determined by the Council. Therefore, the Iranian legislator is recommended to revise the texts of the two articles in order to avoid any contradiction.

Another ground for granting compulsory licenses is stated in article 17(h) of the 2008 Act concerning dependent inventions. Under that article, if the owner of a patented invention claims that the exploitation of his invention is not possible without using a prior invention and his invention involves an important advance and is of a considerable economic significance over the first invention, the license to exploit the first invention will be granted without the first owner's consent. Part 2 of article 17(h) allows the owner of the first invention, in case a compulsory license is issued, to request the Industrial Property Office to grant him a license of the second invention which will be granted by the Office without its owner's consent.

The licenses granted under article 17(h) are not assignable without the inventions on which they have been issued.⁵¹

C. The Authority Dealing with Applications

Under article 17(a) of the 2008 Act if a minister or the highest authority of the governmental body concerned, believes that the above said grounds are present, the issue would be referred to a commission (the Commission) consisted of the head of the Organization for the Registration of Deeds and Property, a judge of the Supreme Court designated by the Head of Judiciary, the country's Prosecutor General, the President's representative and the minister or the highest authority of the governmental body concerned. According to article 17(b) if the patent owner or any other stakeholders raise any claims, the Commission would make a decision on the case after hearing their claims and taking into account the exploitation in non-competitive activities. The Commission may, at the request of the patent owner or the governmental body or the third person authorized to exploit the invention, make a new decision after hearing the statements of both or one of the parties to the extent that is necessary.

Under article 17(i), the Commission's decisions may be appealed before the General Court of Tehran. Such an appeal should be made within 60 days from the date the decision is served on the person concerned or from the date he is informed of it.⁵²

D. Scope, Type and Effects of Compulsory Licenses

According to article 17(b) of the 2008 Act, in case a compulsory license is granted, patent exploitation shall be restricted to the purpose declared in the license and an appropriate royalty will be paid to the owner, taking into account the economic value of the subject of license. Therefore, the Commission should specify the purpose for which a compulsory license is granted and the patent owner is entitled to receive an appropriate remuneration. The above said article has a general scope and even involves the cases where a compulsory license is granted as a remedy to anti-competitive practices. It is not clear why an owner whose exploitation contradicts free competition is entitled to be compensated for the grant of a compulsory license. Hence, the need to except such a case from the above said provision.

Under article 39 of the By-Law, other elements such as duration and geographical scope should be clearly mentioned. The 2008 Act is silent on whether the license is exclusive or non-exclusive, but article 17(d) implies that the legislator has intended the compulsory license to be non-exclusive; since it states that the grant of a compulsory license does not prevent the owner from entering into license agreements or exploiting the rights granted under the compulsory license. According to the second part of article 17(c), the compulsory license issued for a third (non-governmental) party may be assigned "only with the company or business of the person determined by the Commission or that part of the company or business within which the invention is exploited". This provision indicates that, except in the case mentioned, compulsory licenses are not assignable. The Iranian legislator has not dealt with compulsory licenses granted to governmental bodies. It seems that given the importance of compulsory licenses, it would be better to declare this license non-assignable as well. Article 17(f) permits exploitation of the invention for supply in the Iranian market and in fact has attempted to address the needs of the domestic market.

⁵¹ Article 17 (h) 4 of the 2008 Act.

⁵² Article 44 of the By-law.

Compulsory licenses in the field of semi-conductors technology are permitted only in case of public non-commercial use or when the minister or the highest authority of the relevant governmental body, finds that the way the invention is used by the owner or the user is anti-competitive.⁵³

Article 17(d) states that the grant of a compulsory license does not prevent the following acts:

1. Entering into license agreements by the patent owner subject to the provisions of this article;
2. Continuous exploitation of the rights licensed by the patent owner based on the provisions of article 15(a);
3. Grant of a non-voluntary license based on subparagraphs h(1) and h(2) of this article.

According to article 17(c), in the event the owner claims that the circumstances justifying the grant of a compulsory license no longer exist and are unlikely to happen again or the governmental body or third party have not complied with the terms of the Commission's decision, the Commission, after hearing the statements of the parties, cancels the license and depending on the case, issues a license for the owner or another licensee. It is not clear why this article has mentioned the owner as a potential licensee in case the compulsory license is cancelled; since the owner does not need any license. In case the protection of licensee's rights necessitates, the decision won't be cancelled.⁵⁴

E. Procedural Conditions for Granting a Compulsory License

Similar to the TRIPS Agreement, in Iranian law, the grant of a compulsory license is subject to proving the failure of prior negotiations. Articles 17(e) of the 2008 Act and 36 of the By-Law require the presentation by the minister or the highest authority of the governmental body of evidence to the Commission which prove that the owner was requested but the license was not acquired on reasonable terms and conditions in a reasonable time. Reasonable terms and conditions have not been defined and should be determined according to the custom and usage of the trade or business concerned.

Under article 36 of the By-Law, at the Commission's discretion, in immediate national security circumstances, presentation of the above said evidence is not necessary and the Commission's decision on granting the compulsory license would be enforced immediately. According to the same article, the owner must be notified as soon as possible.

In case of dependent inventions, the failure of negotiations requirement must be proved by evidence as well.⁵⁵

A secretariat is established to handle the administrative duties of the Commission (the Secretariat).⁵⁶ After receiving the application, the Secretariat notifies the patent owner who shall, in turn, notify his licensees. The patent owner and the licensees shall submit their justified comments in writing within 30 days to the Secretariat; such comments will be filed and delivered to the Commission.⁵⁷ The Secretariat shall, before at least 10 days, inform the applicant, the patent owner and any person concerned, of the time of the session which they may attend. The Commission will decide in this regard after hearing the statements of all parties.⁵⁸ In case a compulsory license is granted, the Commission shall declare the conditions of exploitation, the licensee's name, duration of

⁵³ Article 17(g) of the 2008 Act.

⁵⁴ Article 17(c) of the 2008 Act.

⁵⁵ Article 17(h) (6) of the 2008 Act.

⁵⁶ Article 45 of the By-Law.

⁵⁷ Article 37 of the By-Law.

⁵⁸ Article 38 of the By-Law.

license, the fee payable to the patent owner, procedural measures and their duration, geographical scope and the permitted uses of the invention.⁵⁹

VI. Conclusion

The Iranian law protects innovators including inventors by granting exclusive intellectual property rights to them. After patent rights are granted, no one may interfere with them; any violation would be followed by appropriate sanctions. However, as most countries of the world, Iran has provided for certain flexibilities in its law in the field of industrial property. Compulsory licenses of patents are among the flexibilities found in the Iranian law. The aim of such licenses is to make equilibrium between two opposing interests: the patentee's interests to benefit from his exclusive rights and the society's interest in having access to the patent subject matter to overcome the extraordinary circumstances happened in vital areas including national security, health and economy. Taking into account the philosophy behind the issuance of compulsory licenses, their existence is not faced with resistance from legal doctrine and Imami jurisprudence. Instead, they are justified through arguments such as those relying upon the nature of IPRs: given the fact that these rights are granted by the government, it can specify their scope and conditions of their exploitation. Any rights, whether traditional property rights or intellectual property rights, given to the Iranian citizens or foreigners, are not absolute and their protection is subject to the needs of the society as a whole. Under the Iranian law, if the preservation of the country's stability depends upon the exploitation of patent rights and the owner declines to do so, the government may intervene and grant a license to a third person. Indeed, the owner's will plays no role in this regard. Certainly, the circumstances giving rise to the issuance of compulsory licenses are exceptional and limited to those specified in the Iranian Act on the Registration of Inventions, Industrial Designs and Trademarks and a commission is in charge of reviewing the requests made to acquire compulsory licenses. The process of granting a compulsory license is designed in a method that guarantees the respect of the patent owner's rights and in all cases an appropriate fee is payable to him. Despite the provision of compulsory licenses in the Iranian law, no actual instances of such licenses have been reported since the enactment of the relevant provisions, a fact showing that the grant of compulsory licenses is rare and unusual. Therefore, individuals and companies may invest in Iran and register their inventions without fearing from the risk of losing their legitimate rights.

⁵⁹ Article 39 of the By-Law.

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Circumvention of Geo-Blocking Measures in Audio-Visual Sector: Related Copyright Issues

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Abstract

Geo-blocking as a second generation Digital Rights Management technology tool is used extensively by the copyright owners through licensing agreements for limiting access to their digital content on the basis of user's geographical location. This business model, used otherwise for market segregation by content/service providers, complements the well-established principle of copyright territoriality and at the same time, protect economic interests of the copyright owners.

Large content holders in the audio-visual sector supplying content in different jurisdictions, use it *en masse* through obligation clause in the license agreements seeking compliance that copyright content is not allowed access in jurisdictions not covered by their licenses.

Netflix, the Online Video Distributor, though serve in Europe as well as in the United States, its geoblock implementation blocks customers in the United Kingdom from accessing the content offered by it in the United States. Similarly, Premier League football matches are allowed live streaming in the European Union only and customers from the United States and India are blocked from the access even when they are ready to pay for the subscription. This has triggered the use of circumvention technologies by which video streaming is done by users through encrypted pathways like Virtual Private Networks and Tor, a practice famously called as the onion routing, resulting in burgeoning of the online piracy in this sector.

The present paper tries to untwine the complex traditional application of copyright law to the practice of geo-blocking for regulating access to copyright protected works as well as the use of geo-circumvention technologies by users and intermediaries like Virtual Private Networks and Tor. The paper covers the technical aspects of the geo-blocking technology, its interface with traditional

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concepts of copyright like territoriality, licensing and the copyright issues it presents in the audio-visual sector due to the specificities involved, highlighting the grey areas in existing copyright framework. Some models proposed to govern geo-blocking remedies have also been included. The chapter includes a comparative analysis of copyright laws of United States, European Union, Australia, UK and India on the status of technology protection measures, discussing legality of geo-blocking as a Technology Protection Measures. In the last section, it analyses the legality of use of Virtual Private Networks to bypass the virtual locks, exploring the impact of use of such measures on the rights of copyright holders under copyright laws in India, Australia as well as in the European Union and the United States.

Keywords: Geo-blocking, Audio-visual sector, Virtual Private Networks, Technology Protection Measures, Copyright licensing and Circumvention.

I. Introduction

“We are sorry. This content is not available in your country /territory.” (Error403)

This message is often displayed when one tries to access a movie or a live show in the United States or Europe from India or Canada. In the audio-visual(hereinafter AV) industry, this means that the content is geo-blocked in that territory. It restricts the access to certain websites and services based on the user’s location. This is because of the traditional concept of ‘territorial licensing’ or ‘territorial exclusivity’ in copyright laws where the producers of AV content sell/license exclusive broadcasting rights to specific broadcasters and online platforms on a territory-by-territory basis or country-by-country basis. This practice of using geo-blocking tools/geographical restrictions in creative content industry was adapted to conform to the national and international legal requirements as well as to serve their business interests by increasing revenue earning, easing financing for content production in AV works or tailoring creative content for culturally diverse audience.

Copyright, though not exclusive but is one of the major reasons why exploitation of creative work is still rigidly territorial and stakeholders in the creative content industry including AV sector operate under a framework of territorial copyright. Stake holders license and acquire rights in AV content like films, television shows and sports broadcasts on a territory-by territory basis, a practice grounded on the principle of copyright territoriality.¹The territorial fragmentation of the market is beneficial for the content producers and derivative right holders that is, a work based on an already copyrighted work. It allows them to receive higher remuneration for their works through differently timed release windows, differential pricing and designing their content on the basis of local leanings/tailor to specific taste of the markets.

New forms of content delivery like broadcasting and online streaming services are rapidly growing especially in films and television industry. Copyright issues often arise because of the cross border nature of AV works and the applicability of principle of territoriality. This provides for territory-wise regulation of broadcasters, distributors and on-demand services. In the absence of an international copyright law, the content provider or the AV service provider need to acquire rights and abide by national copyright laws before offering content across its country of origin/original registration. This

¹ Charles A. Weiss, *Available to All, Produced by Few: The Economic and Cultural Impact of Europe’s Digital Market Strategy within the Audio Visual Industry*, 3 COLUM. BUS. L. REV. 878 (2016).

is done to counter piracy and free riding of its content. Due to the fragmented law, high cost attached, and the amount of time taken, this process becomes prohibitively complex and challenging.

In the digital market, the copyright territoriality poses additional problems. Therefore, for distributing territorially-copyrighted content in digital market, especially in highly competitive AV sector, virtual borders created through geo-blocking practices have become instrumental for copyright holders and licensees to restrict access to the content based on the geographical location. The physical location of the user is determined on the basis of the Internet Protocol (hereinafter IP) address of their device to prevent them from accessing a website or purchasing content based on the location of access. This has frustrated the consumers asserting their right to borderless access to the online content available anywhere and perpetuated another mode of digital piracy² by downloading the content using VPNs (Virtual Private Networks) and TOR (The Onion Router) browsers illegally.

Apart from being criticised as unreasonable, unjustified and anticompetitive practice, geo-blocking, from a copyright perspective, may amount to a technological restriction/measure circumvention which may either facilitate copyright infringement or per se infringes any of the exclusive rights of copyright owners in the AV content.³

This paper deals with the use of geo-blocking by private stakeholders in AV sector and the copyright issues related to the use of circumvention measures to bypass geo-blocking measures and the possible interpretations under copyright law to protect exclusive rights of copyright holders in AV works.

II. Geo-blocking Technology –The New Tool in Creative Content Industry

In the digital world, geo-blocking is a term used to describe measures used by online service providers to limit access to users within a particular geographical area, blocking users from outside that area. This commercial practice is very common in the entertainment industry offering premium/large content like films, TV shows, documentaries and live streams over internet. This is done by discovering the location of the person seeking access with the help of geolocation technology/software which link the physical location of the user with a unique address, the IP address, given to each individual device, containing the code for country of origin.

Earlier it used to be just a ballpark estimation⁴ with IP address assigned being dynamic and non-permanent, ascertained on the basis of user's self-fed information, device signal over cellular network or Wi-Fi, routing data etcetera but recent trend based on the GPS signals (Domain Name System-hereinafter DNS) LOC records in the form of latitudes, longitudes and altitude information) are linked to satellites and more sophisticated.⁵ As with any new technology, geolocation too is prone to manipulation by use of a proxy like VPNs, DNS proxies and location masking browser extensions.

Geo-blocking measures maybe a voluntary, arising out of self-technological help, a technological protection measure (hereinafter TPM), where the copyright holders/companies or commercial players put up; 'virtual fences' to prevent piracy. This measure may also be used as a tool in a business model requiring partitioning of market; to tailor localised content, to protect their copyright content and to

² Jacklyn Hoffman, *Crossing Borders in the Digital Market: A Proposal to End Copyright Territoriality and Geo-Blocking in the European Union*, 49 GEO. WASH. INT'L L. REV. 143 (2016).

³ Mengna Liang, *Copyright Issues Related to Reproduction Rights Arising from Streaming*, 23 J. WORLD INTELLECT. PROP. 798 (2020), (accessed on Mar. 11, 2023) <https://onlinelibrary.wiley.com/doi/10.1111/jwip.12175>.

⁴ Deepa Kharb, Geo-blocking of Online Content: Copyright, Human Right and Competition Law Issues, in S. Sivakumar & Lisa P. Lukose eds., *Contemporary Issues in Novel Dimensions of Copyright Law* (Thomson Reuters 2022).

⁵ Tal Kra Oz, *Geo-blocking and the Legality of Circumvention* 27 IDEA 385 (2017).

ensure compliance in territorially limited licensing or to adhere to different legal, technical and safety requirements in different jurisdictions. Geo-blocking may at times be mandatorily imposed by legislation, executive order or judicial order for territory based regulations and enforcement. For instance, WTO's General Agreement on Tariff and Trade, 1994 (GATT hereinafter) allows territorial restrictions on online gambling if such restrictions are justified as "necessary to protect public morals or maintain public order" under Article XIV(a).⁶

III. Geo-blocking and Copyright Territoriality

Geo-blocking is commonly employed in private sector as well as by regulators (law and judiciary) as a compliance mechanism. It is seen as a common companion of copyright content on internet. It is a commercial practice, a business model adopted by the copyright holders either on voluntary basis to safeguard their economic interests or forced as an obligation to effectuate contractual obligations against the licensees in relation to the distribution or display of copyright protected digital content such as electronic books, AV content or live streams.

Geo-blocking is becoming a standard feature of internet operations in digitally delivered media content industry and is said to have resulted from the principle of 'copyright territoriality'⁷ which is the basis of the structure of copyright laws. Copyright stakeholders like authors and/or producers hold territorially limited rights and are allowed to exploit their rights on territorial basis. Copyright owners either implement geo-blocking measures on their part to preserve the exclusive distribution rights of licensees or put obligations on the licensees to implement such measures which restrict access to only those end-users within the geographical territory for which the licensees acquired the right to distribute the work.⁸ Therefore, content licenses are granted on country basis and are mostly territorial.

According to the principle of territoriality, copyright stems from national law and rights associated with copyright extend within the territorial scope of a country's jurisdiction.⁹ This principle also enables countries to formulate their copyright rules in conformity with the overall framework of the relevant international laws.¹⁰ Berne Convention established the cardinal principle of 'national treatment' in Article 5(2) under which every member state by virtue of a national legislation, grants and recognises copyright protection in its territory.¹¹ This resulted in the fragmentation of copyright law where different type of rights and scope of copyright were provided under different national copyright regimes simultaneously rather than creating an 'international copyright'. It ensured diverse protection against unauthorised exploitation of the works in all member countries under the different national laws.¹² The World Intellectual Property Organisation Copyright Treaty (hereinafter WCT),¹³

⁶ In *Jazette Enterprises Ltd. v. Commonwealth of Kentucky*, [2014 WL 689044, February 21st, 2014, p.] Court of Appeals of Kentucky ordered the online gambling website to employ geo-blocking measures to prevent access to internet users from Kentucky. See also, Marketa Trimble, *The Role of Geo-blocking in Internet Legal Landscape*, BOYD BRIEFS/ROAD SCHOLARS149 (2016), (accessed on Mar. 11, 2023), <https://scholars.law.unlv.edu/rscholars/149>.

⁷ Marketa Trimble, Copyright and Geo-blocking, 25 B.U. J. SCI. & TECH. L. 476 (2019).

⁸ Shaun Woo and Jian Ming, *Geo-blocking, VPN and Copyright*, 35 SING. L. REV. 66 (2017) 66-93.

⁹ *Ibid.*

¹⁰ Charles A Weiss, *supra* note 1.

¹¹ Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris on July 24, 1971 and amended on September 28, 1979, S. Treaty Doc. No. 99-27 (1986) [hereinafter Berne Convention], Arts. 5(1),5(3).

¹² *Ibid.*

¹³ *WIPO Copyright Treaty*, Dec. 20, 1996, 36 I.L.M. 65 (1997) [hereinafter WCT], art. 3.

and Performances and Phonograms Treaty (hereinafter WPPT)¹⁴ as well as TRIPS Agreement¹⁵ are built upon the principle of territoriality.

Different rules for authorship, originality, fixation rights, exemptions and limitations result in a *global patchwork* of diverse legal conditions for the same work in different territories in the name of international copyright.¹⁶ Therefore, geo-blocking has emerged as a standard solution to the problem of territoriality of copyright in the digital market whereby the companies holding territorially restricted rights create territorial borders in the borderless internet to comply with the copyright while maintaining the online presence.¹⁷

The distribution of AV work is usually based on exclusive mono-territorial licenses though there is nothing to preclude the right holder to provide a multi-territorial license. Territorial licensing does not cover all types of copyright protected works. In works such as musical works and non AV sector, it is always made on non-exclusive basis.

I. Territorial Licensing Practices in AV Sector

AV industry constitutes one of the sub-sectors of ‘communication services’¹⁸ and protected under copyright law. The motion picture production, broadcasting (television and radio), video and multimedia industries, and video games distribution constitute the notion of the AV sector and it excludes music industry. It is to be distinguished from the creative (or content producing) industries which in addition to AV sector also includes architecture, art and antique market, design, software, music etc. As mentioned earlier, copyright is not the only reason why exploitation of creative work is still rigidly territorial and technical restrictions on access to copyrighted works might be necessary for other market related considerations such as protecting sustainability of content production in AV works through securing adequate financing at pre-production stage allowing them a possibility of a return on investment. In case of Video on demand (hereinafter VoD) and other AV works, geo-blocking is not just an issue of copyright protection but a business model of the content providing platforms as well. It helps them in fragmentation of market to increase their revenues thus, tailoring their content for maintaining cultural and linguistic diversity for example, digital markets in India and EU.

Looking from a copyright perspective, territorial licensing is majorly practiced in AV works due to the specificity of the sector. Structure of AV sector appears to be multidimensional and complex. There are different players like creative providers, right holders, content distributors and they operate in the value chain-starting from the production of content like films, TV programmes or music to its delivery via cinema, TV channels or internet portals. In the ‘on-demand’ AV market and streaming video platforms, the key players are the large content producers owning the rights and the digital content providers who bundle the license content from multiple content owners into a single channel like website, mobile app or platforms such as Netflix and Amazon Prime. However, in order to transmit the AV content using internet, these content broadcasters need rights/obtain licenses from all relevant right holders in all the territories where the content is to be made available.¹⁹

¹⁴ *WIPO Performances and Phonograms Treaty*, Dec. 20, 1996, 36 I.L.M. 76 (1997) art. 4.

¹⁵ *Agreement on Trade-Related Aspects of Intellectual Property Rights* (Marrakesh, Morocco, 15 April 1994), Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994).

¹⁶ Marketa Trimble, *supra* note 7.

¹⁷ Jacklyn Hoffman, *supra* note 2.

¹⁸ GATS Services Sectoral Classification List, WTO Doc MTN.GNS/W/120(Mar. 31,1993)(5th ed.).

¹⁹ Miriam E. S. Eikelboom and Paul W. J. de Bijl, *The Next Step for Territorial Licenses for On-Demand Audiovisual Services in the Light of EU Digital Single Market*, 24(11) INF. COMMUN. SOC. 1551 (2021)1551-1567 ,(accessed on Mar. 12, 2023)<https://www.tandfonline.com/doi/full/10.1080/1369118X.2019.1705375>.

AV industry depends on copyright and neighbouring rights which foster content creation. The Copyright law gives the content owners an exclusive right to exploit their work that is, to control their accessibility, pricing etcetera through different modes like assignment and exclusive territorial licensing.²⁰ The impositions of restrictions on the licensees regarding the use, territory and technology is therefore justified considering the enormous change in technology for producing, distributing and consuming AV work.²¹

At the same time, it is a high risk sector, structurally fragmented due to the linguistic and cultural specificities across borders. The distribution of AV works is generally based on mono-territorial licensing because of the explicitness of the sector and absence of collective management like in music industry. Multi-territory licences are not granted as a matter of practice because of the fragmentation of the market. It is due to cultural and linguistic diversity across regions and countries, which require the adaptation of AV work to different national/regional tastes and preference of customers. Dubbing and sub-titles added to the AV content in the local language attracts more customers and hence are beneficial for licensees.²² Different market strategies related to advertising, dubbing and subtitles increase the market price of the work and hence the cost of distribution as well. Thus differential pricing becomes necessary, requiring different quotes for licensing in different territories.²³

Mono-territorial licensing is also popular with the content copyright holders in the AV sector as targeted marketing serve their economic interests, content creation being a very profitable business model. Production of AV content is more expensive as compared to other models and the requirement of pre-production contracts for early investment and pre-financing models between content producer and distributors calls for individual licences.²⁴ Further, there may also be a possibility of price differentiation between high-income and low-income countries resulting in segmentation of market. However, mono-licensing is not only technical and time consuming, it also has negative effects on the cross border availability of AV works. It also helps the content right holders to counter piracy or to ensure that their content is not consumed in violation of license agreements.²⁵

A. Advantages of Territoriality

The cross border transmission of copyright content in AV sector and online services is effectuated through licenses which are typically territorial, acquired on a country to country basis and have to abide by the copyright laws of each individual state.

Principle of territoriality though creates obstacles for the free movement of copyright content, it avoids market concentration in the favour of large content providers by way of multi-territorial licences or expensive global licences. It also leaves scope for small players to get licenses for small territories within their budgets.

²⁰ *Id.*

²¹ Matthew L. J. Masur, *The Importance of Copyright Protection to Audio and Visual Performers*, 38 COLUM. J.L. & ARTS 331 (2015).

²² Deepa Kharb, *supra* note 4.

²³ Barbara Havlikova, *Territorial Copyright Licenses for Audio-Visual Content: Steps towards Overruling of Copyright Territoriality* (PhD thesis, University of Uppsala, 2020).

²⁴ P. Bernt- Hugenholtz and Joost Poort, *Film Financing in the Digital Single Market: Challenges to Territoriality*, 51(2) INT'L REV. INTELL. PROP. & COMPETITION L.161 (2020).

²⁵ Mengna Liang, *Copyright Issues Related to Reproduction Rights Arising from Streaming*, 23 J. WORLD INTELLECT. PROP.798 (2020).

Moreover, it promotes competition in this sector as broadcasters compete for the market and not within the market. Meanwhile, the inter-brand competition is not hampered as broadcasters further compete for customers within the market offering best content at best price.²⁶

B. Geo-blocking and content strategy

As per the prevalent historic practice of ‘geographical licensing’ in AV sector, the content available with each provider also varies according to the licensing agreement for instance, Netflix’s catalogue is much smaller for Australia and India than the content available to the customers in the U.S. Geo-blocking ensures that the customers can only access the content available in the geographical region they are located in.²⁷ This leads to segregation of market, price discrimination and different conditions for identical products. The TPMs²⁸ and Digital Rights Management (hereinafter DRMs)²⁹ used by service providers to enforce territorial restrictions even restricts subscribers to access their paid-for content from other locations when they travel to other jurisdictions.

V. Use of Geo-blocking in AV Sector and the Issues it Presents

Though there are content filtering methods available, geo-blocking technology was adopted as the obvious solution, being more effective and cost effective in AV sector. Geo-blocking is used to put barriers on the cross border distribution of copyrighted AV content or live stream on geographical basis, complementing copyright owner’s right to exclusivity. The copyright owner may also impose an obligation on the online content distributor under the licence agreement to geoblock and not to provide the content outside the designated territory.

Geo-blocking as is widely known, is not a full proof technology and is prone to contravention through the use of virtual private networks (VPNs help in encrypting the internet traffic, disguising the online identity and activity of the user, such as www.kaspersky.com), proxies and TOR (The Onion Router i.e. the open source, free and anonymous platform) browser. With the extensive proliferation of online streaming services, the discrepancy in availability of content across different regions and denial of ability to purchase/purchasing different content at different price even when there is a willingness to pay has led to use of VPNs and other similar services to circumvent geo-blocking measures. On one hand, content providers and OTT platforms like Netflix have labelled such practices illegal and in violation of their copyright and broadcasting rights. Consumer groups on the other hand, believe that they have a right to borderless access to online content, argue that the access does not infringe the rights of content owners as the sale/subscription is otherwise legitimate.³⁰

VPNs are otherwise legitimate for a wide range of purposes like remote access working by employees during Covid-19 related restrictions. The legality of VPN circumvention of geo-blocking

²⁶ Işıl- Mutlu- Gündem, *Geo-blocking in Licensing Agreements* (Master's Thesis, Faculty of Law, University of Oslo, 2016), (accessed on Mar. 11, 2023),

<https://www.duo.uio.no/bitstream/handle/10852/50979/592.pdf?sequence=1&isAllowed=y> .

²⁷ Karen Ann Hayne & Alexander Britt, *VPN? “Virtual Private Network” and “Very Peeved Netflix”? The Battle for Control of Overseas Content Continues*, LINKEDIN(Feb.26, 2016), (accessed on Mar. 11, 2023), <https://www.lexology.com/library/detail.aspx?g=9eeffd72-72a7-474b-a9ba-37a0f053b959>.

²⁸ Technological Protection Measures (TPMs) aim to reduce infringement of copyright by controlling the way in which a work is used. TPM uses different types of technology to control access to digital copyrighted content, or to prevent users from copying or sharing it. While aiming to reduce infringement, TPM is preventing actions permitted in national laws through exceptions and limitations to copyright.

²⁹ Digital rights management (DRM) is a method to protect copyrights for digital media. It includes the use of technologies that limit the copying and use of copyrighted works.

³⁰ *Id.*

in the context of facilitating copyright infringement of AV content and OTT platforms is a contentious issue which has stirred up debate between the right holders, AV service providers and consumers.³¹

VI. Circumvention of Geo-blocking

For understanding whether the use of circumvention technology amounts to a violation of copyright law, it is important to explore the legal position of geo-blocking tools, specifically its treatment under the copyright laws. There are two scenarios possible here:³²

- whether by the use of VPNs and other circumvention tools, the user/ service provider engages in any of the acts exclusively entrusted to the copyright owner, like reproduction or communication of the work to the public. In such a case, this would be a *prima facie* copyright infringement; and
- whether the use of circumvention tools would just amount to bypassing the technical measures that protect the copyright and not the copyright itself. Here, it would violate anti circumvention provisions provided in copyright statutes, provided it is established that geo-blocking measures/tools is a DRM/TPM.³³

A. Copyright Infringement-Direct and Indirect

Copyright owner have been awarded certain exclusive rights in respect of their creations. Right of reproduction (right to make copies) and communication are the two essential rights copyright owners rely on, in the AV sector also, in respect of their works. Direct/primary infringement occurs when a person without the consent of the copyright owner does any act exclusive to the copyright owner. Where the users or the VPN service provider exercise any of these rights without authorisation, such act could amount to copyright infringement. In case the AV work is available online, subject to the geo-blocking restrictions, the question of infringement concerning any act of downloading the file (either in permanent or temporary form), on a device, must be determined under the copyright law applicable in that jurisdiction. The extent and scope of the copyright owner's right to make and distribute/communicate copies of the said work is dependent upon the statutory provisions available in that jurisdiction. Downloading of copyrighted works by using VPN services to bypass geo-blocking measures makes a permanent reproduction of the work, infringing the reproduction right of the copyright holder in most legislations, like the Digital Millennium Copyright Act, 1998(DMCA) or the Information Society Directive of EU.

In case of streaming of AV content using VPN services to bypass geo-blocking measures, it has to be kept in mind that there is only temporary or transient storage of the audio or video in the cache of the stream (as part of buffering process in streams) which would be deleted automatically once the stream ends. However, this technically constituted storage 'by electronic means' engages the exclusive right of the copyright owners to reproduce the work in any material form.³⁴

The liability of the user and the VPN service provider in case of temporary/transient storage of copy of the stream comprising copyright protected work is not uniform across jurisdictions. Further, there is no clear consensus on whether or not the act of making the communication itself constitutes

³¹ *Id.*

³² Althaf-Marsoof, *Geo-blocking and VPNs: A Comparative Discourse in Copyright Law*, 8 WIPO WTO COLLOQUIUM PAPERS 101(2017)101-114,(accessed on Mar. 12, 2023), https://www.wto.org/english/tratop_e/trips_e/colloquium_papers_e/2017/chapter_10_2017_e.pdf.

³³ *Ibid.*

³⁴ Shaun Woo Jian Ming, *supra* note 8 at 66.

infringement. In order to establish that geo-blocking or geolocation technology used by the copyright owner or right holder amounts to a DRM/TPM, the analysis of available definitions and technology, as discussed in the previous section, along with the statutory definitions of DRM/TPM becomes essential.

1. Legality of Circumvention of Geo-blocking

In order to counter the geo-blocking measures and to have access to a greater variety of content, especially on online live streaming websites, a rapidly growing form of content delivery, users are adopting circumvention technologies.

a. Circumvention of Geo-blocking-Tools Used

As with any new technology, there is always a way to circumvent geo-blocking. There are a variety of third party geo-block circumvention tools available in the form of geo-block circumvention websites (like unblock-us.com) which offer paid subscription to unblock geographical restrictions set up by the media streaming providers like Netflix, Hulu etcetera. Moreover, there are tools like VPNs, TOR browsers, DNS proxies and browser plug-ins for the same.

VPNs (Virtual Private Networks) essentially create a connection between the user's server and the remote server. It disguises the IP address of the server and routes the data traffic through virtual tunnel.³⁵ This method thus allows the users to access the content which is not available in a particular region.

Unlike VPN which re-routes the entire data to a server based in a different geographical location, DNS only needs to divert specific information of the location of the server. The browser plugins operate similarly but are found in the particular browser. All these methods intend to make the content provider believe that the user's server are present in the same geographical location. It enables the user to access the content which is not available otherwise.³⁶

a. Legality of Circumvention- Different Positions

Since there are no judgments specifically addressing legality of geo-blocking contravention, it remains a grey area. Consequences of circumvention of geo-blocking infringes upon copyright holder's right to take the decision with respect to distribution of the content. Geo-blocking can be seen as a copyright enforcement tool to protect the content.

b. Whether geo-blocking should be considered illegal?

Circumvention is considered illegal in various jurisdictions, but stopping the circumvention from occurring is difficult. Tal Kra-Oz³⁷ considers that practising geo-blocking might result in encouraging piracy. The consumers of the content for instant consumption may end up by passing the barriers especially with the increasing computer literacy. The content distributors might profit by relying less on geo-blocking and creating less geographical barriers.

³⁵ Aseem Kishore, "What's the Difference between a VPN and Smart DNS?" HELP DESK GEEK (June 28, 2019), (accessed on Mar. 11, 2023), <https://helpdeskgeek.com/help-desk/whats-the-difference-between-a-vpn-and-smart-dns/>.

³⁶ *Ibid.* See also, Kaspersky, "What is VPN? How It Works, Types of VPN," KASPERSKY, (accessed on Mar. 11, 2023), <https://www.kaspersky.com/resource-center/definitions/what-is-a-vpn>.

³⁷ Tal Kra-Oz, *supra* note 5.

Geo-blocking does not allow the consumers who move abroad for study, vacations or any other reason to access the content they have already paid for. The content distributor maybe due to market size may not allow the access in a particular geographical location. This might discourage the consumer who are willing to pay for the content. As a result, geo-blocking prevents the content distributor from maximising revenue and expand its capacity.

b. Implications on Free Speech

Further, geo-blocking may have implications on free speech and may restrict a geographical location from accessing the political, cultural or educationally relevant content.³⁸ A government eager to ban particular content may use copyright protection as an excuse to prevent the accessibility to a particular content.³⁹

Keeping these issues in mind, there have been arguments favouring a global digital market. This will ensure global distribution of copyrighted content therefore, discouraging the unauthorised use of the work. As long as the content will be accessible easily through illegal means, there will be an encouragement for piracy. It is argued that in a global market place the content will be easily available legally across jurisdictions. Global digital market place will also lead to a global legal jurisdiction where any kind of violation can be easily stopped. It will provide easy multi-jurisdictional access across the market. Although it is difficult to tell how the copyright content will be distributed in the future digital market, there have been many models proposed to govern geo-blocking remedies.

2. Models Proposed

a. Tailored Blocking

Tailored blocking can also achieve the objective of blocking specific content. It seeks to strike a balance between proprietary control and accessibility of content. It is possible in certain cases to allow tailored geo-blocking according to specific situations. In the *Football Association Premier League v. British Telecommunications PLC*,⁴⁰ live blocking of streaming was allowed against certain servers telecasting the unauthorised live streaming. This injunction enabled real time blocking of the live content. It is important to note that general geo-blocking can be considered as restricting the access and freedom of opinion but a tailored approach towards geo-blocking can strike an appropriate balance.

b. Geo-circumvention Exception

Geo circumvention measure allows a user to circumvent the geo-blocking measure for lawful purposes. There are certain policymakers and judges who argue in favour of establishing geo-circumvention exceptions.⁴¹ It allows circumvention of a technological measure if it does not result in infringement of the copyright. Explanations for adopting such exception can be exercise of cultural rights, the need for knowledge and education, and accommodation for disabilities.⁴² Although to

³⁸ Tremble, *supra* note 6.

³⁹ Peter K Yu, *A Hater's Guide to Geo Blocking*, 25(2)B.U. J. Sci. & Tech. L. 504 (2019) 504-528, (accessed on Mar. 12, 2023), <https://scholarship.law.tamu.edu/cgi/viewcontent.cgi?article=2328&context=facscholar>.

⁴⁰ *The Football Association Premier League Ltd v. British Telecommunications Plc*. [2017] EWHC 480.

⁴¹ *Supra* note 40; see also Althaf-Marsoof, *supra* note-33.

⁴² *Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled*, June 27, 2013 WIPO Art. 5(1), (accessed on Mar. 11, 2023), <https://www.wipo.int/treaties/en/ip/marrakesh/>.

protect the interests of the industry potential, abuse of such policy should be considered and its scope should be narrowed.⁴³

c. Geographic Redirects

Geographic redirecting happens when the user is redirected to the server located to their geographical location when trying to access another server. This generally happens when a user is trying to access any website of a foreign country. This type of redirecting can be useful to address issues arising out of circumvention and unauthorised use.⁴⁴ For example, if someone wants to access a website of a different geographical location, that user will be re-directed. Such re-direction will force the user to access the contents available in the user's geographical location and can be helpful in avoiding geo-circumvention.

d. Access Portability

Access portability allows individuals travelling abroad to access the content not available in certain geographical locations on providing requisite information. Nationality or domicile as the factor can be used by the countries to determine their own nationals and provide them access. For example, it will allow a user from India on travelling abroad, to access content that are hosted exclusively for Indian platforms. This generally requires providing of a digital identity or digital passports.⁴⁵

e. Voluntary Geo-blocking

Though there is a need to balance accessibility with proprietary concerns, copyright holders may themselves put up barriers. Protection of copyrighted content may be required to implement licensing agreements. Technological self-help tools allow the content provider to put up a 'virtual fence' to discourage unauthorised access to copyrighted content. Frequently seen message "*the uploader has not made this video available in your country*" on the YouTube platform is an example of such practice. This encourages the viewers to view rightful content on the platform.⁴⁶

B. Geo-blocking as Digital Rights Management and Technological Protection Measures

Digital Rights Management is a term commonly used for a set of technologies that identify, protect and manage intellectual property in the digital form. DRMs comprise Right Management Information (hereinafter "RMI", is a subset of DRM, technologies that protect sensitive information from unauthorized access) and TPMs. RMI identifies digital works and transmits the information pertaining to the use of the product to the right holder. On the other hand, TPMs enforce the terms and conditions of the license. These may also restrict access and use, preventing unauthorised copying.

It contains of a number of technological components including encryption, a surveillance mechanism, databases of works, owners and users, license management functionality and TPMs. They

⁴³ Michelle Edelman, *The Thrill of Anticipation: Why the Circumvention of Geoblocks Should Be Illegal*, 15(1) Va. Sports & Ent. L.J. 110(2015)110-134,(accessed on Mar. 11, 2023),<https://www.scribd.com/document/527774009/Why-the-Circumvention-of-Geoblocks-shd-be-illegal-2#>.

⁴⁴ Whitson Gordon, "Avoid Getting Redirected to Country-Specific Versions of Google," LIFEHACKER (September 4, 2012),(accessed on Mar. 11, 2023),<https://lifehacker.com/avoid-getting-redirected-to-country-specific-versions-o-5933248>.

⁴⁵ Trimble, *The Future of Cybertravel: Legal Implications of the Evasion of Geolocation*, 22 FORDHAM INTELL. PROP, MEDIA & ENT. L.J., 567(2012) 567-657.

⁴⁶ Peter K Yu, *A Spatial Critique of Intellectual Property Law and Policy*, 74(4) WASH. & LEE L. REV.2045 (2017) 2045-2132.

are also known as electronic copyright management systems or Intellectual Property Management and Protection Systems.⁴⁷

TPMs are technological measures used to control the access to information goods.⁴⁸ It simply means that one cannot access the protected work without the consent of the author. There are several varieties of TPMs which are in common use. Most commonly used TPMs are the ones which prevent the copying of information from a DVD, CD-ROM etcetera without authorization by the user.⁴⁹ Other TPMs limit the number of devices for a specific copy, limits how the information on a device may be used, and also controls the transmission of information.⁵⁰ Broadly speaking, there are two categories of TPMs- one that prevents access to works whereas the other prevents reproduction to the work.⁵¹ The repercussions of falling within the definition of TPMs under Copyright law will constitute the first indication regarding the illegality of circumvention measures. Geolocation circumvention would then concern the bypassing of technological measures that protect the copyright and not the copyright itself.⁵²

1. TPMs in International Regime

WIPO Copyright Treaty, 1996 (WCT) under Article 11 and WIPO Performances and Phonograms Treaty, 1996 (WPPT) under Article 18 create an obligation on the member states to prohibit circumvention of TPMs⁵³ and removal of RMIs under Article 11 and 14 respectively, by providing adequate and effective legal remedies in their national laws. DRMs are therefore legally protected under WIPO Treaties.

Accordingly, the right holders may use 'effective' technology tools as instruments in connection with the exercise of their rights under WCT/WPPT or Berne Convention and that restricts or prohibits relevant copyright implicating acts⁵⁴ like copying, distributing and communicating to the public unless and until authorised by them or permitted by law. WIPO definition covers only those TPMs which are used in connection with the rights conferred under the WIPO Treaties (Berne, WCT, and WPPT) on right holders.

⁴⁷ Denise Rosemary Nicholson, *Digital Right Management and Access to Information: A Developing Country's Perspective*, 19(1) Libr. & Info. Sci. Res., 1(Mar. 2009), 1-17. Some DRMs associated with copyright management societies/copyright societies do not utilise technological protection measures. The other ones which are enabled by technological measures find reference here.

⁴⁸ John A. Rothchild, *Economic Analysis of Technological Protection Measures*, 84 Or. L. Rev. 489(2005) 489-561, (accessed on Mar 11, 2023) <https://digitalcommons.wayne.edu/cgi/viewcontent.cgi?article=1332&context=lawfrp>.

⁴⁹ *Id.* at 493.

⁵⁰ *Id.* at 494.

⁵¹ Alpana Roy & Althaf-Marsoof, *Geo-blocking, VPNs and Injunctions*, 39(11) EUR. INTEL. PROP. REV. 672 (2017) 672-680.

⁵² Christopher Hillard, *Evaluating the Legitimacy of Geolocation Contravention in the context of Technological Protection Measures*, 5(2) QUEENS MARY J. INTEL. PROP. 157, 166 (2015). See also Tatiana Eliani-Synodinou, *Geoblocking in EU Copyright Law: Challenges and Perspectives*, 69 GRUR Int'l 136 (2020), (accessed on Mar 11, 2023) https://www.researchgate.net/publication/338928798_Geoblocking_in_EU_Copyright_Law_Challenges_and_Perspectives.

⁵³ 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, art. 6-7, 2001 O.J. (L 167) 10. It refers to the same obligations on DRMs as referred under WIPO Internet Treaties.

⁵⁴ Jane C. Ginsburg, *Legal Protection of Technological Measures Protecting Works of Authorship: International Experience and the US Experience*, 29 COLUM. J.L. & ARTS 11 (2005) 11-37.

Since the term ‘effective technological measures’ has not been defined by WCT, its ambit is not clear. Therefore, in the absence of specific words under the two treaties, establishing geo-blocking as a TPM falling under DRM, reference to the definition of TPMs in concerned jurisdictions is needed.⁵⁵

2. Comparative Analysis of Legal Position on TPMs in other Jurisdictions

a. United States

Section 1201(a) (3) of the DMCA, covers two different types of protective measures referred to as ‘anti-copy protection measures’⁵⁶ and ‘use controls’ to provide protection against reproduction and communication of the work to the public. The former restrict access to data and latter allows access but doesn’t give privilege to use it without author’s permission. Circumvention of ‘access control’ protection measures is prohibited under s.1201(A)(1) but ‘use control’ measures are not. This creates uncertainty over the position of measures that act as both access and use control measures and there may be difficulties in applying this distinction in practice as it is not technology neutral.

b. European Union

Three instruments in European Union govern the legal protection of TPMs- Article 7 of Software Directive, Copyright in the Information Society Directive and Conditional Access Directive (CAD).⁵⁷

Article 6(3) of the European Information Society Directive defines ‘technological measures’ as:⁵⁸

“any technology, device or component that, in the normal course of its operation, is designed to prevent or restrict acts, in respect of works or other subject matter, which are not authorised by the right holder of any copyright or any right related to copyright as provided by the law or the sui generis right provided for in Chapter III of Directive 99/9/EC. Technological Measures shall be deemed “effective” where the use of the protected work or other subject matter is controlled by the right holders through application of an access control or protection process, such as encryption, scrambling or other transformation of the work or other subject matter or a copy control mechanism, which achieves the protection objective.”

The Information Society Directive though does not distinguish between access control and other TPMs expressly, however, the reference to “*access control and protection process*” supports the argument that it does differentiate analytically. Therefore, geo-blocking could be regarded as a TPM as it controls access to works or other subject matters made available on internet to users from a geographical area.

Unlike DMCA, the Directive has adopted a ‘technology neutral’ approach similar to WCT, defining TPMs by their purpose-to prevent acts which are not authorised by the right holder of any copyright/ any right related to copyright.⁵⁹ The definition goes beyond the requirement of WCT and is wide enough to cover universe of protected measures including geo-blocking measures. The

⁵⁵ Christopher Hillard, *supra* note 51.

⁵⁶ Serial Copy Management System (SCMS) under Audio Home Recording Act, 17 U.S.C. §§ 1001-1002 (2018).

⁵⁷ Council Directive 98/84/EC of 20 November 1998 on the legal protection of services based on, or consisting of, conditional access, Official Journal L 320, 28/11/1998 P. 0001-0008.

⁵⁸ Directive 2001/29/EC of the European Parliament and of the Council.

⁵⁹ De Werra, Jacques. "The Legal System of Technological Protection Measures under the WIPO Treaties, Digital Millennium Copyright Act, The European Union Directives and other National Laws (Japan, Australia)." In *Adjuncts and Alternatives to Copyright* 179, edited by Jane C. Ginsburg, ALAI Congress, New York, 2002.

protection of TPMs is not dependent on rights of copyright holder i.e., there is no convergence between scope of copyright protection and scope of protection of TPMs.

c. United Kingdom

The Copyright, Designs and Patents Act, 1988 under Section 296ZF(1), defines technological measures as “any *technology, device or component which is designed*, in the normal course of operation, *to protect a copyright work* other than a computer program”. It further notes that the technical measure is effective if the “use of the work is controlled by the copyright owner through (a) access control or protection process such as encryption, scrambling or other transformation of the work...which achieves the intended protection”.⁶⁰

Going by the definition and technological analysis, geolocation technologies will fall under subsection(1) and it is capable of protecting copyrighted material because of their capability to restrict access in entire territory, in line with the wishes of right holders. Hence they are ‘effective’ TPMs⁶¹ for the purpose of the Act and its effectiveness does not need to be absolute.⁶²

d. Australia

Section 10(1) of the Copyright Act 1968 of Australia defines TPMs to include both access control measures and measures that restrict acts that are comprised in the copyright. Access control measures are defined as *device, component, technology or component* that in the normal course of its operation *prevents, inhibits or restricts* the doing an act comprised in the copyright like reproduction and communication of the work to the public or any other subject matter.

Geo-blocking merely restricts viewing, listening and playing which do not fall under rights of the copyright owner, therefore is unlikely to fall under the definition of TPMs under subsection (b) of section 10.⁶³ In order to be covered under subsection(1) as an access control TPMs, geo-blocking must be used in connection with the exercise of copyright and it must control access to the work or other subject matter.

e. India

Indian Copyright Act, 1957 under section 65A covers TPMs and the position is very similar to the Australian Law. Section 65A of the Copyright Act, 1957 provides that the circumvention of an ‘effective technological measure’ which is applied for the purpose of protecting any of the rights conferred by the Copyright Act, 1957 with the intention of infringing such rights (as per section 51) is punishable.⁶⁴ The section covers the act of circumventing as well as intention to infringe the rights of copyright holder. It is clear from the wording of the provision that the application is restricted to the rights expressly granted under the said Act. It does not prohibit the very act of circumvention and that way is closer to the EU Directive and therefore the act of circumvention is not *per se* illegal if the content protected by TPMs is not protected by the copyright law.⁶⁵ All the restrictions and limitations

⁶⁰ *Copyright, Designs and Patents Act*, c.48, s.296ZF (2) (1988).

⁶¹ *R. v. Higgs*, [2008] ECWA Crim.1324 (CanLII).

⁶² *Nintendo Co. Ltd. v PC Box Srl*, C-355/12, ECLI: EU:C:2014:2235.

⁶³ Thomas Burke, *Jumping the Wall: Geo-blocking, Circumvention and the Law*, 42(2) UNIV. AUS. L. REV. 56, 62 (2017). See also, Ramon Lobato & James Meese, Australia: Circumvention Goes Mainstream, in *Geoblocking and Global Video Culture* 120, 120-28 (Ramon Lobato & James Meese eds., Inst. of Network Cultures 2016), (accessed on Mar. 11, 2023), <https://www.readkong.com/page/australia-circumvention-goes-mainstream-rmit-research-9382419>.

⁶⁴ *Sony Computer Entertainment Europe Ltd. v. Harmeet Singh*, (2013) 53(4) PTC 1 (Del).

⁶⁵ Shreya Yadav, *Critically Analysing Section 65A of the Copyright Act, 1957*, 3(2) J. INTELL. PROP. STUD. 62

to copyright law continue to operate by virtue of section 65A(2) when TPMs are used. Moreover, while the act of circumvention is prohibited, its tools are not and it applies to third parties who facilitate circumvention of TPMs except for assisting people in legitimate exercise of rights by some people.

Therefore, one can gather from the above-mentioned scenario that there are two categories of TPMs that are covered by most of the jurisdictions—firstly, that prevent access to works (access control) and secondly, another that prevents copyright infringement of works (copy controls). The original purpose of the TPM protection provisions in Article 11 WCT was to protect existing IP rights and not extend them. The act of access has never been subjected to the control of copyright owners therefore, Copyright laws of jurisdictions which confine definition of TPMs to copy control TPMs applied to prevent copyright infringement will not grant protection to geo-blocking measures in case of contravention by use of technological tools like VPN and TOR browsers⁶⁶. Geo-blocking measures are generally access control TPMs and would not fall under copy controls. TPM gets legal protection only when its circumvention is done for the purpose of copyright infringement.

VII. Conclusion

Geo-blocking and territorial licensing have evoked a debate among the stakeholders because of the issues it gives rise to in context of the copyright. Geo-blocking in AV has resulted in counteractive practice of use of VPNs by the consumers for circumventing the geolocation technology measures adopted by the proprietary right holders to download or stream AV content on internet when it is exclusively made available to the users in other jurisdictions. As discussed in the paper, the legality of VPNs and other such contravention measures varies under copyright legislations from one country to the other due to the principle of copyright territoriality. Going by the evolution of technology and the application of law, geolocation circumvention in case of TPMs is not legitimate in most of the jurisdictions. However, there is still an ambiguity with regard to the service providers of technology.

Should circumvention be allowed is a big question today before the legislators, policy makers⁶⁷ and courts. The prevalence of geo-blocking circumvention and the wide availability of the tools and services are undermining the efforts of copyright holders and content holders in AV industry, making the technology ineffective *ab initio*. VPN service providers may become the next target for content providers. The extent of enforcement actions taken in this regard will depend upon the volume of revenue compromised. Netflix has already announced a ban on VPN access to their services and labelled the circumvention practice illegal. The stipulation in the user terms and conditions will further expose consumers to the risk of suspension of account for non-compliance.

Although there are certain ambiguities in the law, but it seems, like in case of loss of revenue, the law considers circumvention as violation of copyright holders rights. The ambiguity is due to law not being updated with the technology.

A sweeping ban on use of VPNs is neither justifiable nor possible. Legislations need to specifically provide exceptions for legitimate users and providers. The basic reason for the cause of a debate is balancing copyright protection and consumer craving for the content. The copyright holders have a right to decide on how to allocate their content to increase their revenues or achieve their

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⁶⁶ Fok Xu Xuan, Lim Chin Hou, & Tan JelMee, *Copyright Issues on Virtual Private Networks*, 23 U. Malaya L. Rev. 2 (2021), (accessed on Mar. 11, 2023), <https://www.umlawreview.com/lex-in-breve/copyright-issues-on-virtual-private-network>.

⁶⁷ Ettel, M., & de Bijl, P. W. J., *supra* note 19.

objectives. The consumers can also assert their right to access the content available without any geographical restrictions on borderless internet through legitimate means.

The existing legal remedies for most part addresses the issues but the speed at which such remedies are provided needs updating for a more efficient governance. Certain authorities have also called for more proportionate implementation of remedies as many uses of circumvention can be considered as legitimate. Distinction between legitimate and illegitimate use of circumvention will reduce the sweeping bans on the technologies. The legal remedies may not be able to keep pace with the technology. The solution to this debate needs to come within the industry.

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Intellectual Property Court Rulings on Perpetuation of Evidence in Patent Infringement Cases in 2021:

Observation and Suggestion*

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Abstract

The intangible nature of the intellectual property has an incentive that encourages infringement. Comparing with tangible property rights, the public domain feature thereof also results in the difficulty of noticing an infringement. It is especially so in the situation of industrial division of labor, where infringement facts and evidence are often controlled by infringers. This has led to a relatively low success rate of patent infringement claims and an unsatisfactory compensation amount. Due to the restricted access of patent infringement facts and evidence, the phrase “evidence tends to support one side” has become a common phenomenon in the contemporary industry environment. In addition, the fact that the number of patent cases account for 70% of cases heard by the intellectual property court also points out the importance of the perpetuation of evidence (alternatively known as “preservation of evidence”). Therefore, this article has analyzed the intellectual property court’s related judgments made in 2021 to summarize the practical situation of the year, analyze related motion requirements based on different themes, and then make suggestions on practical operations and a direction of making amendments to laws.

Keywords: Intellectual Property Court, Patent Infringement, Prevention type, Confirmation type, Perpetuation of Evidence

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I. Introduction

According to the traditional rule of allocation of the burden of proof, “Affirmanti (non neganti) incumbit probatio,” adopted in the Taiwan Code of Civil Procedure¹(hereinafter “CCP”), the plaintiff of a civil patent infringement lawsuit shall prove the existence of an infringement, which means an allegedly infringing object has fallen within the claims, in comparison with all the technical features. Intellectual property, by its intangible or immaterial nature, possesses the two main characteristics of public goods: non-excludability and non-rivalry², which result that intellectual property infringing is more easily conducted and less detectable than material property infringing. Besides, the comparatively low marginal cost of reproducing intellectual property, which is compared to the fixed cost of creating intellectual property, gives another strong incentive for the infringers.

Since 2003, criminal sanctions for patent infringement have been completely removed since the depenalisation movement from 1994, opposite to gradually strengthened criminal sanctions for other types of intellectual property infringement (trademark, copyright and trade secret for example). They are used to extinguish the abuse of the evidence collection mechanism (that means “search and seizure” mechanism) in the criminal procedure by right holders in practice, for free and coercive evidence collection conducted by the police officers, and higher amount of settlement agreed by the defendant under possible penal sanctions pressure. It can explain why the evidence perpetuation mechanism in civil procedure plays a great important role, particularly in patent litigation, not only for authentic infringement assessment but also for correct damage calculations³. Last but not least, the number of patent cases accounts for about 70% of the total Intellectual Property Court (hereinafter “IPC”) cases⁴. However, the overall success rate of patent infringement lawsuits and corresponding pronounced damages amount is relatively low, this phenomenon might bring a negative impression on the overall patent environment in Taiwan⁵.

II. Overview of IPC rulings about evidence perpetuation motions in 2021

Considering the difficulty and complexity of the evidence collection of patent infringement, Taiwanese legislature enacted the “Intellectual Property Case Adjudication Act” (hereinafter “IPCAA”) in March 2007, which came into effect in July 2007, to emphasize the provisions about evidence perpetuation mechanism, (crystallized by article 18⁶) and refine and strengthen the relevant rules in

¹ Article 277 of CCP : “A party bears the burden of proof with regard to the facts which he/she alleges in his/her favor, except either where the law provides otherwise or where the circumstances render it manifestly unfair.”

² Cooter, R., & Gilbert, M. (2022). Public Law and Economics. Oxford University Press, 42.

³ Lee, W.-H., Wang, H.-C., & Tsai, H.-R. (n.d.). A study on the validity and compensation for damage in intellectual property court's patent litigations (pp. 22, 31). Retrieved from <https://ipc.judicial.gov.tw/tw/dl-2084-b1bdee9b878242a9ac0deabf3664283a.html> (last visited on December 6, 2021).

⁴ Wei, Z. (2020). Analysis of the relationship between objective factors and evidence perpetuation approval rate based on intellectual property court's judgments of the perpetuation of evidence. Retrieved from https://web.ntnu.edu.tw/~hlshao/107_DH/IPcourt.html (Last visited on December 13, 2021).

⁵ Su, Y.-D. (2020). French patent system reform in the PACTE Act: Centering on strengthening validity of granted patents. *Fu Jen Law Review*, (60), 211.

⁶ Article 18 of IPCAA : “Where no action has been initiated, a motion for preservation of evidence shall be made to the court where the action is to be brought; where the action has been initiated, such motion shall be made to the court where the action is pending. The court may inspect, examine or preserve documentary evidence when preservation of evidence is ordered. The court may order a Technical Examination Officer to execute his duties on site when preservation of evidence is ordered. Where an opposing party has no grounds to refuse an order of preservation of evidence, the court may enforce such order by force, but only to the extent necessary, and may request assistance from the police to execute such order if necessary. Where preservation of evidence may violate the trade secrets of an opposing party or a third party, the court may, upon a motion by the movant or the opposing party or third party, set limits on or prohibit the presence of the persons on the premises of the preservation of evidence, and may preserve the

different aspects both to judge and parties. However, when it comes to the “motion requirements” of the evidence perpetuation mechanism, the IPCAA keeps silent on this core subject. According to the provision of article 1 of IPCAA⁷, it should refer to the provision of article 368.1 of CCP to assess the fulfillment of its motion requirements⁸. After exclusion of “initiative of the judge”⁹ and “consent of the opposing party,”¹⁰ these two rare situations in practice¹¹, are two main practical types of evidence perpetuation: “prevention type” based on the first paragraph of article 368.1¹² and “confirmation type” based on the last paragraph of the same article¹³. The last type was introduced in CCP in 2000 for expanding the scope of motion of the evidence perpetuation mechanism, due to the difficulty to prove the existence of urgency character (urgency of time) as an application element of the prevention type at that time¹⁴.

Taiwan has established a specialized IPC in July 2008 to adjudicate IP-related cases. Even though the IPC has only “prioritized jurisdiction,” in practice it possesses an “exclusive-like jurisdiction” over patent litigation particularly. If a patent litigation case is brought to a district common court, the last one, due to its complex technical characters, would decide to move that case to the IPC¹⁵. It is for this reason that the IPC has always been the main court to deal with the evidence perpetuation motion in patent infringement litigation. In the 13 years since the establishment of the court (3Q.2008-2021), the average granted rate of civil evidence perpetuation of intellectual property rights is about 33% and the overall granted rate has fluctuated greatly (the lowest 3.85% in 2009; the highest 69.23% in 2016). Although the granted rate has begun to pass 50% since 2015, its predictability and consistency are still not ensured (see “Figure 1”)¹⁶.

This article presents an analysis of research based on data from 2021, which was collected and compiled in mid-2022. The rationale for analyzing this particular year's data is two-fold. Firstly, the IPC was restructured into the Intellectual Property and Commercial Court, which began operating in July 2021. While the IP review division continued to function autonomously, the data collected for

evidence separately, or set limits on or prohibit the review of the evidence. Articles 11 through 15 shall apply mutatis mutandis to situations concerning violation of trade secrets described in the preceding paragraph. When necessary, the court may execute a preservation of evidence order through the district court in the locality of the domicile of the party being interrogated, or of the place where the evidence is located. When the assigned court executes a preservation of evidence order, Paragraphs 2 through 6 shall apply.”

⁷ Article 1 of IPCAA : “Intellectual property cases shall be adjudicated pursuant to this Act. For matters not provided for under the Act, the laws applicable to civil, criminal or administrative actions, as the case may be, shall govern.”

⁸ Article 368.1 of CCP : “Where it is likely that evidence may be destroyed or its use in court may be difficult, or with the consent of the opposing party, the party may move the court for perpetuation of such evidence; where necessary, the party who has legal interests in ascertaining the status quo of a matter or object may move for expert testimony, inspection or perpetuation of documentary evidence.”

⁹ Article 362 of CCP : “Where the court considers it necessary, the court may, on its own initiative, render a ruling to perpetuate evidence pending an action.”

¹⁰ Article 368.1 of CCP : “(...) the party may move the court for perpetuation of such evidence (...)”

¹¹ Lin, Y.-M., Lai, B., & Yu, S. (2018). Demonstration and review of evidence preservation cases in intellectual property courts. *Taiwan Bar Journal*, 22(7), 19.

¹² Article 368.1 of CCP : “Where it is likely that evidence may be destroyed or its use in court may be difficult (...)”

¹³ Article 368.1 of CCP : “(...) where necessary, the party who has legal interests in ascertaining the status quo of a matter or object may move for expert testimony, inspection or perpetuation of documentary evidence. (...)”

¹⁴ Ministry of Justice. (2000). Purpose of amendment of the article 368 of the CCP. Retrieved from <https://lis.ly.gov.tw/lglawc/lawsingle?003B28D54621000000000000000000001400000000400FFFFFD00^04527089011500^000000000000> (Last visited on December 13, 2021).

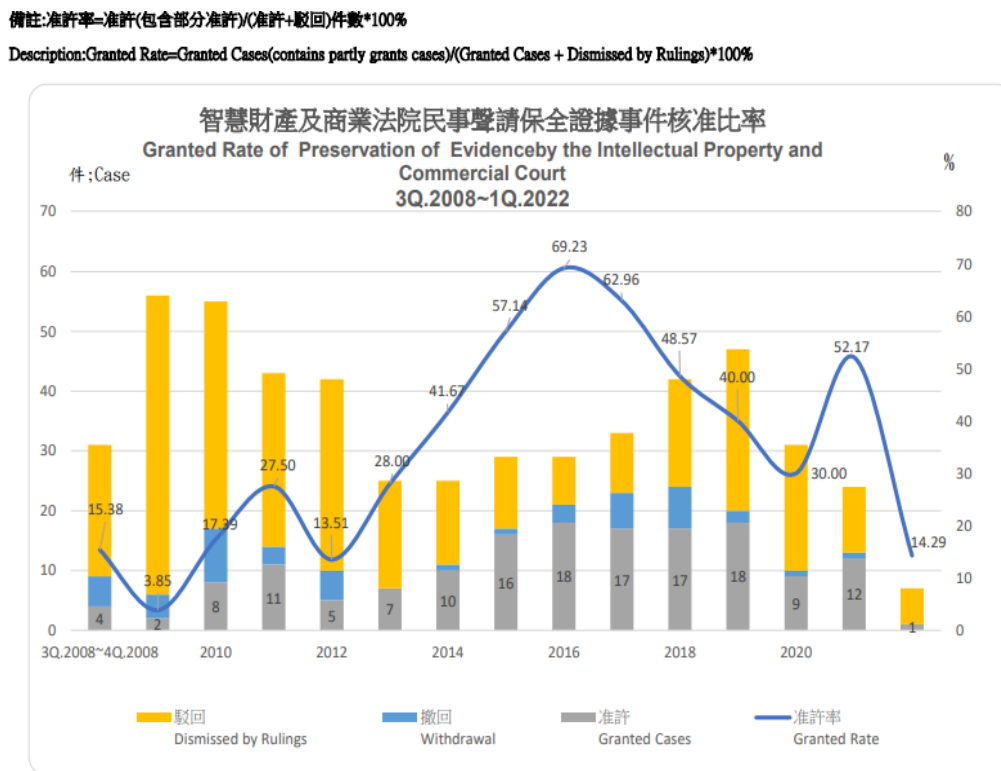
¹⁵ Lee, S.-H. (2020). Study on the patent litigation in the USA and Taiwan: Focusing on the interaction among invalidation and amendment proceedings and infringement lawsuit. *National Taiwan University Law Journal*, 49(2), 532-533.

¹⁶ IPCC. (2022). Granted rate of preservation of evidence by the Intellectual Property and Commercial Court 3Q.2008~2Q.2022. Retrieved from <https://ipc.judicial.gov.tw/tw/dl-62132-44bf422abd5245a48ca2fc1626595429.html> (Last visited on February 11, 2021).

2021 represents the first set of data obtained under the new court system, making it an important indicator. Secondly, because of the sudden surge in COVID-19 cases in Taiwan in May 2021, the government implemented stricter preventive measures, leading to the lowest number of applications filed since 2008.

However, the approval rate surpassed 50% for the first time since 2017, the appeal rate of the second instance court for the dismissed ruling of the first instance court is 0%, all of these appealed cases happen to involve patent infringement cases. This kind of data presentation may reduce the willingness of foreign technology companies to invest and produce in Taiwan, given the present focus on the international intellectual property market. Considering the pandemic's anticipated normalization, the data from 2021 indicates that legal activities in Taiwan were significantly impacted by the pandemic, and therefore has considerable reference value.

Figure 1 : Granted rates before IPC from 2008 to 2020



Therefore, this article makes statistics and analyzes a total of 28 related rulings about civil evidence perpetuation motions in intellectual property infringement rendered by the IPC in 2021¹⁷. After deducting 9 rulings about appointing the Technical Examination Officer to execute on-site evidence preservation¹⁸, there are 19 rulings remaining, and 13 of them involve patent infringement; 10 rulings rendered by the first instance of the IPC¹⁹, the other 3 rulings rendered by the second instance

¹⁷ Judicial Yuan. (n.d.). Law and Regulations Retrieving System. Retrieved from https://law.judicial.gov.tw/FJUD/Default_AD.aspx (Last visited on March 30, 2021).

¹⁸ IPCC, 110 Min Sheng Zi n°26; IPCC, 110 Min Sheng Zi n°24; IPC, 110 Min Sheng Zi n°3; IPC, 110 Min Sheng Zi n°7; IPC, 110 Min Sheng Zi n°8; IPC, 110 Min Sheng Zi n°8; IPC, 109 Min Sheng Zi n°48; IPC, 109 Min Sheng Zi n°2.

¹⁹ IPCC, 110 Min Sheng Zi n°22; IPCC, 110 Min Sheng Zi n°26; IPCC, 110 Min Sheng Zi n°17; IPC, 110 Min Sheng Zi n°11; IPC, 110 Min Sheng Zi n°3; IPC, 110 Min Sheng Zi n°8; IPC, 110 Min Sheng Zi n°4; IPC, 109 Min Sheng Zi

of the IPC²⁰ on the occasion of motion dismissing by the first instance of the IPC. Considering a high proportion (13/19) of the rulings about patent infringement, it shows the importance of patent infringement evidence perpetuation procedures, far more than other intellectual property infringement.

The granted rate (contents partly granted cases) of civil evidence perpetuation motions in intellectual property infringement on the first instance of the IPC in 2021 is about 52.17%, which is less than 70% granted rate in the field of patent infringement (7/10) (see “Table 1”). Nevertheless, there was only one appeal that was successful against the dismissed ruling regarding copyright infringement. At the view of the second instance of the IPC, the rest of the three appeals against the dismissed ruling regarding patent infringement were all not meritorious (0/3) (see “Table 2”).

Table 1 :

Rulings on civil evidence perpetuation motions in patent infringement before the first instance of the IPC in 2021

Decision number	Rendered date	Invention	Utility Model	Design	Prevention type	Confirmation type
IPCC, 110 Min Sheng Zi n° 22	2021.10.20		✓		granted (partly)	
IPCC, 110 Min Sheng Zi n° 26	2021.09.30		✓		granted	
IPCC, 110 Min Sheng Zi n°17	2021.09.17	✓			dismissed	dismissed
IPC, 110 Min Sheng Zi n°11	2021.03.29		✓		dismissed	dismissed
IPC, 110 Min Sheng Zi n° 3	2021.03.22		✓		granted	
IPC, 110 Min Sheng Zi n° 8	2021.03.08		✓		granted	granted
IPC, 110 Min Sheng Zi n° 4	2021.02.26	✓	✓		dismissed	
IPC, 109 Min Sheng Zi n° 48	2021.02.23	✓			granted	granted
IPC, 110 Min Sheng Zi n° 2	2021.02.17			✓	granted	granted
IPC, 109 Min Sheng Zi n° 46	2021.01.28	✓				granted
		4 cases	6 cases	1 case	6 granted 3 dismissed	4 granted 2 dismissed

Table 2 :

Rulings on appeals against the denials regarding patent infringement before the second instance of the IPC in 2021

Decision number	Rendered date	Invention	Utility Model	Design	Prevention type	Confirmation type
IPCC, 110 Min Zhuan Kang Zi n° 13	2021.12.07	✓			dismissed	dismissed
IPC, 110 Min Zhuan Kang Zi n° 3	2021.04.30		✓		dismissed	dismissed
IPC, 110 Min Zhuan Kang Zi n° 2	2021.02.01	✓			dismissed	
		2 cases	1 case		3 dismissed	2 dismissed

Under Patent Act, patent protection is accessible in three different forms; inventions, utility models, and designs. The first two forms’ subject matters should be an “invention” qualified given the patent law, which consists of a “creation of technical ideas by utilizing the laws of nature.”²¹ Utility

n°48; 109 Min Sheng Zi n°2; 109 Min Sheng Zi n°46.

²⁰ IPCC, 110 Min Zhuang Kang Zi n°13 ; IPC, 110 Min Zhuang Kang Zi n°3 ; IPC, 109 Min Zhuang Kang Zi n°2.

²¹ Article 21 of Patent Act.

models are also described unofficially as “little inventions,” demonstrating, in general, an improvement or modification of the features of an actual invention. With a lower level of technical standard, which subject matter is limited to a concrete shape or structure, an inventive process cannot be protected by a utility model but by an invention. Without the substantive examination of patentability conditions by the Intellectual Property Office (hereinafter “TIPO”), the average time of the grant procedure for utility models application is relatively short (2-3 months compares to 10-24 months for invention application) in favor of the applicants and right holders. But utility models enjoy less legal protection duration (10 years from the filing date compared to 20 years for invention patent), and its validity could be easily challenged in the civil infringement court procedure in theory.

Besides inventions and utility models, designs are “the creation made in respect of the shape, pattern, color, or any combination thereof, of an article as a whole or in part by visual appeal”²². Even though the “industrial application” is also required as a patentability condition, the “visual perception” is the most essential patentability condition. The methods to evaluate infringement between invention/utility model and design are different not only for legislation purposes, but also the patentability condition. That’s the reason why most civil law system countries categorize the design right as the independent type alongside the “patent right in a strict sense;” while, Taiwanese legislation influences through the classification of the U.S Patent Act and defines design rights as part of overall patent rights (see “Table 3”).

Table 3 :
Three different forms of patents in Taiwan

Patent forms	Substantive Patentability conditions	Substantive examinations	Subject matters ²³	Protection duration
Invention	Industrial Applicability; Novelty; Inventive Step	Yes, upon request	① Invention product ② Invention process	20 years
Utility Model		No	The shape or structure of an article or combination of articles	10 years
Design	Industrial Applicability; Novelty; Creativeness	Yes, mandatory	① The shape, pattern, color, or any combination thereof, of an article as a whole or in part by visual appeal. ② For computer generated icons (Icons) and graphic user interface (GUI) applied to an article	15 years

From the perspective of data in 2021, the evidence for perpetuation cases execution refers mostly to inventions (6 cases) and utility models (7 cases) rather than to forms (compared to 1 case about designs). This article believes that Invention and Utility Model cases are more complicated due to the higher technical features, and the design patents emphasize visual perception to attract the ultimate consumers, therefore, the relevant infringing products will be circulated in the market, and can be easily purchased by patentees as evidence collection. These two types of evidence perpetuation were introduced in the Patent Act for different purposes, and the corresponding motion requirements and Court rulings should be also different. Nevertheless, it is found that the first instance of IPC, based on the requests of motions, usually examines the prevention type first and then the confirmation type. If the movant file both, and the evaluation results that the two types are consistent (5 cases), which means

²² Article 121 of Patent Act.

²³ TIPO. (2020). 1.2 How many types of patents are there in the ROC? Retrieved from <https://www.tipo.gov.tw/en/cp-311-880709-0e9af-2.html> (Last visited on August 30, 2022).

both types are granted²⁴, both are dismissed²⁵. There are four cases that which the Court only examined the prevention type²⁶, and only one case the Court examined as a confirmation type²⁷. Given this, the movants invoke prevention type more often, and the examinations of confirmation type usually are conducted after the examinations of prevention type (in the cases of examining both types). The results of the two types are always the same, but it seems like the results of rulings on confirmation type are made to reinforce and supplement the grounds of rulings on prevention type.

Considering the achievement of the jurisdictional specialization made by the IPC, Taiwanese legislature established another independent Commercial Court at the same site as the IPC, “to establish a prompt, appropriate, and professional trial procedure for handling major civil commercial disputes”²⁸. This new Court was incorporated with the existing IPC when it was established in 2021, by the “Intellectual Property and Commercial Organization Act,” which resulted in the IPC being renamed officially the Intellectual Property and Commercial Court (hereinafter “IPCC”). It can also explain why the Court Decision numbers’ changed from “IPC” into “IPCC”. However, these two specialized Courts are operationally autonomous from each other in practice, and there are not many functional changes to the existing IPC. Therefore, this article continues to use the term “IPC” instead of “IPCC” in the following content.

Overall, Taiwan's public sector tends to lag behind the private sector in terms of digitization and remoteness, and the judicial branch (relative to the executive and legislative branches) is usually more precautionous and conservative in regards to reform. Even though the IPC has established the “E-Courts” system at the beginning of its establishment in 2008, with the help of modern technology equipment, for remote lawsuit filing, interrogation, trial, and other adjudication activities. However, it may be due to a lack of capacities of remote equipment and operational human resources that the IPC considers the convenience of trial activities (real-time interaction of evidence presented on the scene) and familiarity (if there are older clerks, they may be less familiar with the use of relevant technical equipment). To ensure that certain secret information will not flow out, the IPC once stopped court sessions due to the severe epidemic situation in 2021. Therefore, it can be observed that in four months (May to August) the court has not rendered any relevant rulings about evidence perpetuation motions. In addition, if the epidemic challenges become an ordinary situation in the future, the Taiwan government may no longer pursue reducing the number of infection cases, but adopt a policy of coexistence with the coronavirus. Which means people can work and live with epidemic masks, and physical court sessions of the IPC may still be the mainstream in the future.

III. The motions of the civil evidence preservation

A. The general rules on the application

According to the provisions of the Patent Act, the patentee and, the exclusive licensee in general have the qualifications to file a lawsuit for infringement²⁹, and therefore also have the qualifications to file an evidence perpetuation motion. Although the Patent Act expressly stipulates the licensing by the patentee shall have no locus standi against any third party unless it is recorded with the Specific

²⁴ IPC, 110 Min Sheng Zi n°2 ; IPC, 109 Min Sheng Zi n°48 ; IPC, 110 Min Sheng Zi n°8

²⁵ IPC, 110 Min Sheng Zi n°11 ; IPCC, 110 Min Sheng Zi n°17

²⁶ IPC, 110 Min Sheng Zi n°4 ; IPC, 110 Min Sheng Zi n°3 ; IPCC, 110 Min Sheng Zi n°26 ; IPCC, 110 Min Sheng Zi n°22

²⁷ IPC, 109 Min Sheng Zi n°46

²⁸ IPCC. (2021). IPCC - Creativity, Professionalism and Justice. Retrieved from <https://ipc.judicial.gov.tw/en/cp-677-371340-d3877-092.html> (Last visited on August 30, 2022).

²⁹ Articles 62.3 and 96.4 of Patent Act.

Patent Agency³⁰, this provision is largely for purposes to protect the third party who is “with good faith” and secure the market transaction order, but not for infringer’s sake. Therefore, even if the exclusive licensing has not been recorded yet, the exclusive licensee still possesses the above-mentioned qualifications to sue and file a motion.

When it comes to the competence of the court on such motion, in accordance with the general provisions of the Code of Civil Procedure (hereinafter “CCP”), “where the action has been initiated, the motion shall be made in the court in which the case is pending. Where the action has not been initiated, such motion shall be made in the district court at the place either where the person to be examined domiciles/resides or where the tangible evidence is located. In urgent cases, such a motion may be made, even if the action has been initiated, in the district court provided in the preceding paragraph”³¹. Besides, the IPC has only “prioritized jurisdiction” as mentioned before, at least by general provisions, any district court of the first instance has the competence on accepting evidence perpetuation motions and rendering rulings.

Nevertheless, in the view of the purpose of legislation of IPCAA, legislators are inclined to concentrate the IPRs’ cases onto this unique specialized court. Since the establishment of the IPC in 2008, other district courts of the first instance have not rendered any rulings on granting or dismissal of evidence perpetuation motions in IPR infringements. Even more, there is one ruling rendered by Kaohsiung District Court to transfer directly the action on copyright infringement to the IPC³². This district court also confirms that, on basis of the provisions of the IPCAA, if the IPC (located in northern Taiwan) grants the evidence perpetuation motion, the IPC may execute this ruling, if necessary, through another district court (not located in northern Taiwan) “in the locality of the domicile of the party being interrogated, or of the place where the evidence is located”,³³ without prejudice to the rights of the parties.

In addition, if the respondent has no grounds to refuse, “the court may enforce such a ruling by force, but only to the extent necessary, and the court may further request assistance from the police to execute such an order”³⁴. However, the evidence perpetuation is by nature a civil procedure, therefore, the court is prudent to make such a request of interference of the police in practice. In other words, the coercive force of the evidence perpetuation on IP infringement should be more modest (referring to the provisions of the Compulsory Enforcement Act) compared to the execution of evidence perpetuation in criminal procedure³⁵³⁶.

According to the general provisions of the CCP, the movant “shall specify the evidence to be perpetuated”³⁷ and “the disputed fact to be proved by such evidence”³⁸. Furthermore, the movant shall also make a preliminary showing of the identity of the respondent, and the reason why the evidence must be preserved³⁹. The “preliminary showing” means the evidence can create a “weak and roughly mental impression” on the judge⁴⁰, which requires level of proof lower than that of “proving”⁴¹. The

³⁰ Article 63 of Patent Act.

³¹ Article 369 of CCP.

³² Taiwan Kaohsiung District Court, 104 Zhi Quan Zi n°1.

³³ Article 18.7 of IPCAA.

³⁴ Article 18.4 of IPCAA.

³⁵ Article 219-1 of Code of Criminal Procedure.

³⁶ Judicial Yuan 2009 Intellectual Property Law Seminar proposals and results of Civil Litigation (No. 11)(22/06/2009).

³⁷ Article 370 I.2 of CCP.

³⁸ Article 370 I.3 of CCP.

³⁹ Article 370 II of CCP.

⁴⁰ IPC, 110 Min Sheng Zi n°30.

⁴¹ Max Lee. (2019). Introduction On The Provisional Attachment Order And The Evidence Preservation Order In Taiwan. Retrieved from

last is capable of creating a “strong mental conviction” on the judge⁴².

1. The granted collection measures

In means of proof, there are five complete means in prevention type (examination(s) of parties⁴³, evidence of witnesses⁴⁴, expert testimony⁴⁵, perpetuation of documentary evidence⁴⁶ and inspection⁴⁷), but only three means in confirmation type (expert testimony, inspection and perpetuation of documentary evidence)⁴⁸ to avoid the abuse of this mechanism to damage others' the rights and interests. However, even in the prevention type, the examination of parties and evidence of witnesses are rarely used in the practice. The concrete collection measures, in the patent infringement cases for both types of motions, granted by the IPC in 2021, are similar in the patent infringement cases (see “Table 4”). Besides, some other unusual measures might be adopted on the basis of each individual case, such as the IPC rendering an order to conserve the information and usage records of the relevant IP address holder in the copyright infringement case.⁴⁹

Table 4 :

The concrete collection measures for two evidence perpetuation types

Concrete collection measures	Prevention type	Confirmation type
Sample retention	IPC, 110 Min Sheng Zi n° 2	IPC, 110 Min Sheng Zi n° 2
Conservation in Court	N/A	IPC, 109 Min Sheng Zi n° 46; IPC, 110 Min Sheng Zi n° 8
Photography	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 2; IPC, 110 Min Sheng Zi n° 3; IPC, 110 Min Sheng Zi n° 26	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 2;
Video recording	IPC, 110 Min Sheng Zi n° 2; IPCC, 110 Min Sheng Zi n° 22	IPC, 110 Min Sheng Zi n° 2;
Photocopying	IPC, 109 Min Sheng Zi n° 48; IPCC, 110 Min Sheng Zi n° 22	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 2; IPC, 110 Min Sheng Zi n° 8
Printing	IPC, 110 Min Sheng Zi n° 2;	IPC, 110 Min Sheng Zi n° 2; IPC, 110 Min Sheng Zi n° 8
Disc copying	IPCC, 110 Min Sheng Zi n° 22	IPC, 110 Min Sheng Zi n° 8
Electromagnetic records reproduction	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 2;	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 2;
Inspection	IPC, 109 Min Sheng Zi n° 48; IPC, 110 Min Sheng Zi n° 3;	IPC, 109 Min Sheng Zi n° 48;

https://nysba.org/NYSBA/Sections/International/Seasonal%20Meetings/Tokyo%202019/Coursebook/Max%20Lee%20-%20CLE_provisional%20attachment%20article_MAX.pdf (last visited on May 28, 2022).

⁴² Supreme Court, 104, Tai Kang Zi n°712.

⁴³ Item 5-1 of CCP.

⁴⁴ Article 296-1.2 of CCP.

⁴⁵ Item 3 Expert Testimony of CCP.

⁴⁶ Item 4 Expert Testimony of CCP.

⁴⁷ Item 5 Expert Testimony of CCP.

⁴⁸ Article 368 I of CCP.

⁴⁹ IPC, 110 Min Sheng Zi n°6.

As for the measures of evidence perpetuation, the claimed measures in the motion by the movant are for reference purposes only. In other words, it's the IPC that enjoys the exclusive authority, with discretion, to grant the appropriated measures during the IPC's on-site execution on a case-by-case basis⁵⁰. In addition, to protect the respondents from unnecessary disadvantages due to the evidence perpetuation mechanism; especially, if the parties use this mechanism for unfair competition purposes to disrupt other competitors in the market. Neither movants nor respondents can disclose the notices sent from the IPC about the evidence perpetuation motion to non-parties (the third person out of litigation) before or after its execution⁵¹.

2. The role of Technical Examination Officers

Ideally, a judge qualified in patent matters would possess legal, technical, and even economic knowledge. Nevertheless, the traditional training of judges in Taiwan remains essentially legal. The lack of technical knowledge makes it difficult to understand content relating to technical creations, and seriously affects the quality and effectiveness of the judgment in the past. Because there were not enough judges with technical training or agents with legal knowledge in Taiwan, Taiwanese legislators, rather than introducing the technical judges' system in German Federal Patent Court, preferred the Japanese and South Korean legislation, by creating a new position - Technical Examination Officers (hereinafter "TEO"), while the establishment of the IPC in 2008. The TEOs are neutral, technical, and institutional judge's assistants only in the IPC, who are generally transferred from the senior examiners at the Taiwan Patent authority (TIPO). There is no practical experience requirement for candidacy, which may cause the divergences, between parties with practical experience, about appreciation patentability (patent elements), especially in the question of inventive activity.

The neutrality of the TEO system is based on the independence of the judge in matters of technical facts, which has changed the previous over-dependence on expertise made by professional organizations during patent infringement proceedings. TEOs' opinions serve to facilitate the judge's decision-making only; and, the judge still possesses an exclusive power to rule on the matter. In the other words, the TEO's opinion does not serve as evidence for the establishment of the facts⁵², and the parties are not relieved of the burden of proof⁵³. Furthermore, the judge cannot invoke the TEO's opinion directly as evidence, without an evidence investigation, on pain of dismissal by the higher-level court⁵⁴.

In addition to providing explanations and opinions on all technical issues, even questioning the parties, witnesses, experts, and other professionals in the trial⁵⁵, TEO is also authorized to intervene at the other judiciary-relative stages, including during the execution of evidence perpetuation⁵⁶. In 2021, there were 9 rulings rendered by the IPC for designating a TEO to perform the duties for the execution of evidence preservation⁵⁷. Most of them are relative to the patent infringement cases⁵⁸, and only two cases are relative to the other rights infringement⁵⁹. Besides, there is one rare ruling for designating a

⁵⁰ IPC, 109 Min Sheng Zi n°48 ; IPCC, 110 Min Sheng Zi n°22 ; IPCC, 110 Min Sheng Zi n°31.

⁵¹ IPC, 109 Min Sheng Zi n°48 ; IPCC, 110 Min Sheng Zi n°22 ; IPCC, 110 Min Sheng Zi n°31.

⁵² Article 18 of Intellectual Property Case Adjudication Rules.

⁵³ *Id.*

⁵⁴ Supreme Court, 98, Tai Shang Zi n°2373; Supreme Court, 99, Tai Shang Zi n°112.

⁵⁵ Article 4.1, 4.3, 13.2, 13.3 of IPCAA.

⁵⁶ Article 4.4 of IPCAA.

⁵⁷ Article 4.5 of IPCAA.

⁵⁸ IPCC, 110 Min Sheng Zi n°26; IPC, 110 Min Sheng Zi n°3; IPC, 110 Min Sheng Zi n°8; IPC, 110 Min Sheng Zi n°4; IPC, 109 Min Sheng Zi n°48; IPC, 110 Min Sheng Zi n°2; IPCC, 110 Min Zhuan Kang Zi n°13.

⁵⁹ IPCC, 110 Min Sheng Zi n°24: copyright; IPCC, 110 Min Sheng Zi n°7: copyright, trade secret, unfair competition.

TEO rendered after the date of the grant of the motion of evidence perpetuation⁶⁰.

B. The motion requirements and consideration factors

Since evidence perpetuation procedures have a significant impact on all parties, these procedures should be conducted in a way of maintaining the fairness of the competition order, and preventing the abuse of probing into respondents' secret information such as personal privacy and trade secrets. Hence, the Court dealing with the evidence perpetuation motion should consider, globally, the balance of the conflict of interests of parties, whether in prevention type or confirmation type.

The relevant factors have been clarified in the IPC decisions as followed⁶¹: “1. Whether the legal benefits (advantages) that the movant may obtain by the grant of motion in the following judicial proceedings; 2. In addition to evidence perpetuation mechanism, whether there are other methods available for evidence investigation; 3. Whether the movant may have lost his or her substantive interests by the denial of the motion; 4. Whether the respondent may have suffered uncertain disadvantages by the disclosure of his or her privacy or business secrets due to the grant of motion; 5. Whether there are legal and necessary interests that the movant may have possessed onto a certain matter or object for maintaining its temporary status quo,⁶² in favor of achieving the purposes of preventing litigation and centralizing litigation trials; 6. Whether the grant of the motion may cause the respondent litigation costs and burdens of responding in lawsuits; 7. To prevent the movant from abusing the perpetuation evidence mechanism, as a tool for improperly disrupting competitors.”

In addition to the above-mentioned 7 factors for a global consideration of the motion, the IPC would also examine the “necessary character” of this motion requirement in each case, which could also be understood as a “necessity test.” To go a step further, the grant of motion by the judge shall, under the principle of proportionality,” be the suitable measure for a legitimate aim, and there cannot be a less onerous way of doing it for the respondent. However, for two distinct evidence perpetuation types the usage of the term is the same, but the definitions of necessary character are different. To clarify this subject, this article will analyze the relevant rulings rendered by the IPC in 2021.

1. The different definitions of “necessity”

As mentioned above, the perpetuation of evidence can be divided mainly into “prevention” and “confirmation” type in practice. When filing the motion, the necessity thereof may be based on different judgment criteria. The former is prescribed as “Where it is likely that evidence may be destroyed or its use in court may be difficult...” in the front part of Paragraph 1 of Article 368 of Code of Civil Procedure. The necessity herein refers to “the urgency of time.” That is, the failure to immediately obtain evidence may cause difficulty in carrying out infringement comparison and calculation of compensation for damage. Nevertheless, if the evidence is unlikely to be immediately destroyed, and may be examined in the evidence proceeding, a party to the intellectual property action may request to examine the evidence during the examination without the perpetuation of evidence⁶³.

Although the motion for that type of perpetuation of evidence is provided with the requirement of “likely” instead of “the actual harmful result that already occurs,” the movant shall make a preliminary showing of the aforesaid “urgency of time.” If it is possible, it is suggested that the movant

⁶⁰ IPCC, 110 Min Sheng Zi n°26.

⁶¹ IPC, 110 Min Zhuan Kang Zi n° 3.

⁶² Tsai, H.-J. (2012). The Practice of Preventive Proceeding and Preservation of Evidence in Intellectual Property Civil Actions. NTUT J. of Intell. Prop. L. & Mgmt, 1, 111.

⁶³ IPC, 110 Min Zhuan Kang Zi n° 3; IPCC, 110 Min Zhuan Kang Zi n° 13.

can make a preliminary showing of the “infringed rights”⁶⁴ or “risk of infringement,”⁶⁵ plus “the relevance between the evidence filed with a motion for perpetuation and disputed facts.” Otherwise, the court may determine that the movant “has made a subjective conjecture”⁶⁶ or “does not have the necessity for emergency perpetuation,”⁶⁷ which largely increases risks involved in the granting or rejection of the motion.

To increase the granted rate of motion and to further secure holder's rights and legal interests, Taiwan's legislature further created a new “confirmation type” perpetuation of evidence in 2000. Specifying that, “where necessary, the party who has legal interests in ascertaining the status quo of a matter or object may move for expert testimony, inspection or perpetuation of documentary evidence”⁶⁸ in the provision of Taiwan Code of Civil Procedure. The necessity herein does not refer to “the urgency of time,” but “legal interests in ascertaining the status quo.” That is, those that comply with any of the following circumstances will be counted⁶⁹: First, the fact ascertained in the perpetuation of evidence proceeding can facilitate the reconciliation of dispute and avoid litigation. Second, a mechanism that can formulate and simplify issues in litigation proceedings. Third, providing fast and economic functions for those who claim substantial rights. It is true that the implementation of confirmation type perpetuation may be an attempt to illegally obtain evidence.

Therefore, to avoid conflicts between the two parties, the type of dispute and the movant (or the other party's monopoly power over the evidence) shall be equally and comprehensively considered according to proximity of evidence, principle of equality of arms and principle of interest balancing in order to determine the “necessity.”⁷⁰ Nevertheless, it is important to note that, although urgency of time is not the main focus in determining the necessity of confirmation type, (it is the main focus in determining the necessity of prevention type) the court still considers it when making a ruling⁷¹.

Ultimately, the grant of the motion for this type shall comply with the principle of proportionality, and is not true that all motions filed by a movant with legal interests in ascertaining the status quo will be granted⁷². Although this can evaluate the infringement and prevent the evidence from being destroyed or concealed, necessary legal interests shall not damage the respondents' rights and interests⁷³. Compared with the perpetuation of evidence in the general civil litigation case, the perpetuation of evidence in an intellectual property case has a bigger impact on respondents' privacy or business secrets. Moreover, if the movant requests the court to make an ex-parte motion for the perpetuation of evidence, it could affect the other relative sectors or the upstream/downstream suppliers to a certain extent.

Apart from protecting the movant's right to proof in perpetuation of litigation evidence, it is also a must to pay attention to opposing party's privacy or business secrets; and, to maintain the fairness of competition and ordinance. The purpose, thereof, is to prevent the movant from abusing the evidence

⁶⁴ IPC, 110 Min Sheng Zi n° 3; IPC, 110 Min Sheng Zi n° 6; IPCC, 110 Min Sheng Zi n° 22; IPCC, 110 Min Sheng Zi n° 24; IPCC, 110 Min Sheng Zi n° 31.

⁶⁵ IPC, 110 Min Sheng Zi n° 2; IPCC, 110 Min Sheng Zi n° 26.

⁶⁶ IPC, 110 Min Sheng Zi n° 4; IPC, 110 Min Sheng Zi n° 7; IPCC, 110 Min Sheng Zi n° 17; IPCC, 110 Min Sheng Zi n° 30; IPCC, 110 Min Zhuan Kang Zi n° 13; IPCC, 110 Min Sheng Zi n° 17; IPC, 110 Min Zhuan Kang Zi n° 3; IPCC, 110 Min Zhuan Kang Zi n° 13.

⁶⁷ IPC, 110 Min Sheng Zi n° 11; IPCC, 110 Min Zhuan Kang Zi n° 13; IPC, 110 Min Zhuan Kang Zi n° 2.

⁶⁸ Article 368 I of CPC.

⁶⁹ IPC, 110 Min Zhuan Kang Zi n° 3; IPCC, 110 Min Zhuan Kang Zi n° 13.

⁷⁰ Supreme Court, 105 Tai Kang Zi n° 774; Supreme Court, 106 Tai Kang Zi n° 1100

⁷¹ IPC, 109 Min Sheng Zi n° 46.

⁷² *Id.*

⁷³ IPCC, 110 Min Zhuan Kang Zi n° 13.

perpetuation system and using it as an improper market competition approach⁷⁴. In other words, if the perpetuation of evidence is adopted to explore and know about competitors' business secrets or manufacturing skills/technology, such act does not have "legal interests" and shall be deemed as unjustifiable and illegal⁷⁵.

Therefore, when filing a motion for confirmation type of the perpetuation of evidence, it is suggested that the movant shall provide adequate explanations and evidence to make a preliminary showing of the grounds of perpetuation of evidence⁷⁶. Or, the movant can provide a determination of the existence of the infringement against the respondent and of the compensation for damage to clarify the legal interests and necessity of that type⁷⁷. On the contrary, if the movant fails to make a preliminary showing of the content of the rights at issue, the court may suspect that the movant try to obtain illegal evidence through perpetuation of evidence⁷⁸. If the movant fails to assert the relevance between evidence of perpetuation and rights at issue, or the infringement of rights at issue, the court may determine that the motion is not necessary⁷⁹. If the relationship between the movant and respondent cannot be explained, the court may suspect that the movant's motion is done based on a subjective conjecture⁸⁰. If other methods can be adopted to ascertain the grounds for the future infringement of the rights at issue, there is no "legal interests in ascertaining the status quo," nor the necessity of perpetuation of evidence⁸¹.

By comparing these two types of the perpetuation of evidence from the "purpose of statute," the prevention type "enables the party to conduct a preliminary investigation for evidence for facilitating litigation proceedings. From literal interpretation, the timing of filing a motion, therefore, tends to be "prior to the litigation" for collecting evidence. On the other hand, the purpose of the statute of confirmation type is to emphasize "prevention litigation and concentrated trial." In other words, the disclosure of any beneficial evidence will facilitate the court to discover the facts, formulate the issues and express the objectives of the concentrated trial. From literal interpretation, the timing of filing a motion, therefore, consists of two stages of proceedings, including "prior to the litigation" (in response

⁷⁴ IPC, 110 Min Sheng Zi n° 11.

⁷⁵ IPC, 110 Min Zhuan Kang Zi n° 3; IPCC, 110 Min Zhuan Kang Zi n° 13.

⁷⁶ IPCC, 110 Min Sheng Zi n° 24.

⁷⁷ IPC, 109 Min Sheng Zi n° 48 ; IPC, 110 Min Sheng Zi n° 8: "*Considering the determination of the existence or nonexistence of the infringement against opposing party related to the filed motion for perpetuation of evidence and of the compensation for damage, the second part of Paragraph 1 of Article 368 of Taiwan Code of Civil Procedure, where the legislative intent of emphasizing on the prevention and facilitation of litigation in order to reach the objectives of concentrated trial, shall be referred. The filing of a motion for perpetuation of evidence not only facilitates the disclosure of evidence for dispute resolution, but also helps the court to discover the fact, formulate and simplify issues and reach the objectives of concentrated trial in the proceedings. This action has legal interests in ascertaining the status quo of a matter and is necessary.*"

⁷⁸ IPCC, 110 Min Sheng Zi no 17: "*The movant already obtained the product at issue. The conducted reversing engineering cannot confirm that the circuit thereof has some of the technical features specified in Claim 1 of the patent at issue. The movant even failed to provide evidence that supports the reasonable doubt on the existence of that technical feature. Even the claim has not been made with an effective preliminary showing. As previously stated, the movant already filed a lawsuit to the Court in regard to whether the product at issue infringes the patent at issue. This has been stated by the movant on file (page 344 of the Court's dossier). Therefore, with respect to whether the patent at issue has been infringed by patent at issue, the movant may try to find and intent to collect evidence through perpetuation of evidence. This intent does not comply with the aforesaid legislative intent. The movant's motion for perpetuation of evidence based on the legal interest in ascertaining the status quo of a matter and the necessity thereof is not reasonable.*"

⁷⁹ IPC, 110 Min Sheng Zi n° 7.

⁸⁰ Supreme Court, 106 Tai Kang Zi n° 1100; IPC, 110 Min Sheng Zi n° 11.

⁸¹ IPC, 110 Min Sheng Zi n° 11 : "*Moreover, the status quo of the product at issue has been photographed for confirmation. As aforementioned, the photos may be provided to ascertain the grounds for the future infringement of the patent rights at issue; and to ascertain the status quo of a matter or object.*"

to “prevention litigation”) and “during the litigation” (in response to “concentrated trial”).

2. Infringing informations under other’s domination

In addition, in the field of patents especially, industrial specialization has become mainstream when it comes to the relatively closed niche market⁸², such as involving high-end technology, customized products, or patented accessories. Allegedly infringing products transactions are often carried out in a business-to-business (B2B) way, which is undisclosed to the public and makes a collection of pieces of evidence difficult in the general market⁸³. Even if the patentee is aware of the existence of a possible infringement, it still needs to penetrate the private domain of the infringer⁸⁴ with the risk of alerting them. When the patent case involves complex technical characters, it should take the abilities of collection and perpetuation into account. At the same time, the legal rights and interests of the counterparty, such as personal privacy and business secrets, should be respected to secure both the admissibility and probative force of evidence⁸⁵. As the particularity of the intellectual property can result in the difficulty in evidence collection, it is quite common that important evidence relating to the basis of infringement evaluation and damage calculation are under the domination of the opposing party⁸⁶.

Furthermore, the acts of infringement of process patent are not necessarily attached to a specific tangible object, conducted often in the private domain, making all patentees hard to detect the infringement and collect the relevant evidence. Therefore, in witness of the particularity of “process patent” and difficulty in obtaining evidence, Taiwan’s legislators have specially set reverse onus responsibility, namely Article 99 of the Patent Act. Nevertheless, this part is, in fact, a subject “in the course of the proceeding.” If relevant evidence can be obtained “prior to the litigation” through perpetuation of evidence, this will facilitate the follow-up claims thereof. Patentees’ filing of a motion for perpetuation of evidence with the ground of “(being) under the domination of the opposing party” seems to be justifiable, but a motion was refuted in 2021⁸⁷ with the ground of :

By determining that the evidence may be destroyed or its use in court may be difficult with only the description of ‘all relevant information is under the domination of the opposing party’, it is difficult to think of any circumstance that does not comply with the preliminary showing request of this requirement. Therefore, as the movant asserts that all perpetuation targets are within the domination of the opposing party without providing other evidence that can be immediately investigated, it is hard to determine that the movant already fulfilled the responsibility of making a preliminary showing.

In the end, the IPC determined that the movant “failed to make a preliminary showing of the opposing party’s infringement of patents 1 and 2. The motion was based merely on subjective conjecture without preliminarily showing that the evidence may be destroyed or its use in court may be difficult.”

3. Preliminary statistics on IP Judge's tendencies

Looking back, the motions for perpetuation of evidence in patent infringement cases of IPC in

⁸² Chung, W. (2019). The summary and precautions of intellectual property infringement cases procedures in the development of Taiwan's IP legal system in the past ten years. Wunan Publishing, 387-402.

⁸³ Chang, R. (2017). Overall Observation and Suggestions on the Patent Trial Practice in the 10th Year of Intellectual Property Court's Establishment. Patent Attorney, (30), 23.

⁸⁴ Lin, C.-F., Patent Law Case (Wunan Publishing, 2019), 340.

⁸⁵ Lu, G. (2013). Evidence preservation practice in Intellectual Property Cases. Taiwan Bar Journal, 17(10), 36-37.

⁸⁶ IPC, 110 Min Sheng Zi n° 2; IPCC, 110 Min Sheng Zi n° 31.

⁸⁷ IPC, 110 Min Sheng Zi n° 4.

2021 were ten first-instance rulings. Among them, three refused to accept the ruling and filed an appeal to an IPC of the second instance. The success rate before higher court was 0%, indicating the importance of the first instance ruling. Therefore, this article suggests that the applicant should approach the application process with the mindset that they only have one chance to prepare.

And whether the motion content meets the general requirements, and necessity, it is within the “indefinite legal concept.” Although it is affected by the circumstances of the subject, it also directly involves the judge’s inner conviction, which gives a relatively bigger discretion. Since there are not many related ruling cases, every judge must be cautious about the ruling. Therefore, the ruling can represent the judge’s attitude towards the system of the perpetuation of evidence at some levels. According to the statistics, Judge Lin and Judge Wu granted the motions for perpetuation of evidence of all types, whereas Judge He refused the motions for perpetuation of evidence in all patent litigation cases.

Table 5: Intellectual property court judges’ ruling on motions for perpetuation of evidence in 2021

Judge (in alphabetical order)	Desion number	Rendered date	Case object	Prevention type	Confirmati on type
Chen, R.-Y.	IPCC, 110 Min Sheng Zi n° 24	2021.09.17	Copyright	dismissed	dismissed
	IPC, 110 Min Sheng Zi n° 8	2021.03.08	Utility Model	granted	granted
Du, H.-J.	IPC, 110 Min Sheng Zi n°11	2021.03.29	Utility Model	dismissed	dismissed
	IPC, 109 Min Sheng Zi n° 46	2021.01.28	Invention		granted
He, R.-W.	IPCC, 110 Min Sheng Zi n°17	2021.09.17	Invention	dismissed	dismissed
	IPC, 110 Min Sheng Zi n° 4	2021.02.26	Invention Utility Model	dismissed	
Lin, Y.-S.	IPC, 110 Min Sheng Zi n° 6	2021.02.23	Copyright	granted (partly)	
	IPC, 110 Min Sheng Zi n° 3	2021.03.22	Utility Model	granted	
	IPC, 109 Min Sheng Zi n° 48	2021.02.23	Invention	granted	granted
Pan, X.-M.	IPCC, 110 Min Sheng Zi n° 31	2021.12.17	Trade Secret	granted (partly)	
Wang, B.-Y.	IPCC, 110 Min Sheng Zi n° 30	2021.10.21	Trade Secret Trademark Copyright Fair Trade	dismissed	dismissed
	IPCC, 110 Min Sheng Zi n° 22	2021.10.20	Utility Model	granted	
Wu, J.-L.	IPCC, 110 Min Sheng Zi n° 26	2021.09.30	Utility Model	granted	
	IPC, 110 Min Sheng Zi n° 8	2021.03.22	Trade Secret Copyright Fair Trade	granted	granted
	IPC, 110 Min Sheng Zi n° 2	2021.02.17	Design Trademark	granted	granted

Something worth paying attention to is that, after the motion for perpetuation of evidence is granted, the ruling shall be enforced by the judge in person instead of the executive officer of the Civil Execution Department who handles compulsory enforcement. Unlike in-court paperwork and trial work, on-site enforcement relies on on-the-spot response, communication and coordination skills. Thinking about this from human nature, this is likely to affect the judge's willingness to grant the motion, this point of view was even raised by the judge "in person" of the IPC, noting that it is not just

a theoretical concept but is also backed up by practical experience and analysis⁸⁸.

After the IPCC established in July 2021, the case receipt status was not quite ideal. In order to not waste precious judicial human resources, Judicial Yuan had to temporarily delist the seven newly appointed commercial judges from the system. Three of them were sent to support the high court and the other four were sent to support IPC. Thinking of the possibility that these judges may not be familiar with the adjudication of intellectual property cases, it is likely that their willingness to grant the motion for perpetuation of evidence may also be affected. Finally, the impact of the COVID-19 epidemic on judges' willingness to grant the motion shall not be ignored.

After all, adjudication proceedings can be postponed, or be carried out in a distant mode using technology. But perpetuation of evidence must be enforced by the judge in person and on site. Therefore, this article states that, to increase the granted rate and patentees' rights and interests, legislators shall consider to design a system operated with the concept of professional division of labor in terms of "ruling" and "enforcement."

4. Successful Example: The French Model

The French legal system for obtaining evidence in civil infringement cases related to intellectual property, known as "saisie-contrefaçon" in French, is designed based on the tradition that emphasizes "natural rights" (*droit naturel*). This results in a favorable position for rights holders, whereby French judges have relatively lenient criteria for examining the motion requirements without evaluating the evidence itself. Rather, French judges should only consider whether the application involves unfair competition, such as prying about the respondent's privacy or business secrets, or intentionally disrupting a competitor's business activities.

However, the enforcement and perpetuation of evidence is conducted by a "judicial officer" (*huissier de justice*), who is equivalent to a civil enforcement officer in Taiwan, rather than by the judges who issued the relevant ruling. This division of labor has been in practice for over two centuries. The judicial officer must strictly adhere to the judge's ruling, and any enforcement that exceeds the scope or violates the principle of fairness will be revoked by the judge.

The French legislature also imposes a deadline for the movant to file a lawsuit, thereby balancing the rights and responsibilities of the movant, respondent, judge, and judicial officer. In sum, the *saisie-contrefaçon* system in France has matured through long-term operation, and is widely recognized by the French public and extensively employed in practice, while maintaining a relatively high grant rate. This successful model has even been referenced and transplanted by neighboring countries, such as Belgium⁸⁹, and the Unified Patent Court of the European Union⁹⁰. Even American scholars acknowledge that the French evidence collection system is very effective and much more cost-efficient than the American discovery system⁹¹.

In Taiwan, there are no specific requirements for perpetuation of evidence in cases of intellectual property infringement under CCP and IPCAA. Therefore, based on feedback from practitioners in the field and reasonable judgment of human nature, this article proposes that a professional division of

⁸⁸ Hsiung, S.-M. (2013). From the practical operation of intellectual property evidence preservation to new thinking on the allocation of the burden of proof. *Taiwan Bar Journal*, 17(10), 30-31.

⁸⁹ de Visscher, F. L., & Jacques de Dixmude, F. (2011). La saisie-description en Belgique: une mesure probatoire et parfois conservatoire. *Les Cahiers de Propriété Intellectuelle*, 13(2), 467-475.

⁹⁰ Lazega, E. (2020). L'usage dramaturgique de la culture juridique dans la construction d'une juridiction transnationale. *Droit et Société*, 105(2), 325-341.

⁹¹ Emerson, R. W. (2018). The French Constat: Discovering More Efficient Discovery. *Boston University International Law Journal*, 36(1), 3-53.

labor between "ruling" and "execution" could reduce the workload of judges and potentially increase their willingness to grant motions.

IV. Conclusion

In witness to intellectual property right holders' difficulty in giving evidence in regard to the infringement and range of damage, Taiwan's legislators passed "Intellectual Property Case Adjudication Act" in 2007 to embody their value on "perpetuation of evidence." The primary provision is Article 18, where the paragraphs explicitly and respectively define the power of the "judge," strengthens the legal weapon of the movant, and enhances the protection of the rights and interests of the respondent in order to balance the interests of all parties. Nevertheless, "motion requirements," known as the core focus in the proceedings, are not specified in the Intellectual Property Case Adjudication Act. Instead, it is a must to go back and refer to Code of Civil Procedure relevant rules.

It is important that the enforcement of perpetuation of evidence has significant influence on respondent's privacy or business secret, and considers the particularity of patent infringement cases. Therefore, to protect movant's right to prove in litigation through perpetuation of evidence, prevent abuse in the system, and pry about respondent's privacy or business secrets, the court shall consider the possibility of infringement appropriately and evaluate the interests of the two parties in the conflict. Apart from general motion requirements, it is important to note that "prevention" and "confirmation" type perpetuation of evidence has different focuses, and the determination of relevant "necessity" thereof also varies. That is, the former emphasizes on the "urgency of time," and the latter, highlights the "legal interests in ascertaining the status quo;" consequently, movants shall provide different contents of preliminary showing accordingly.

Upon the establishment of the IPC over the last 13 years (3Q.2008 – 2021), the granted rate of motion for perpetuation of evidence regarding infringement is around 33%. Although the overall granted rate has increased, the predictability and consistency thereof are not quite ideal. The IPC's granted rate of motion for the perpetuation of infringement evidence already reached 50% in 2021. Consider not only the fact that the perpetuation shall be enforced by the judge who grants the motion, but also especially the current epidemic situation, this article states that to increase the granted rate and enhance patentees' rights and interests, legislators are recommended to consider implementing a system based on the concept of professional division of labor in "ruling" and "execution" by amending the CCP or IPCAA, which could potentially enhance judges' willingness to grant motions by appointing executive officers from the Civil Execution Department to handle enforcement instead of judges themselves.

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***Georgia-Pacific* Factors Applied To U.S. Patent Cases with R.O.C. Companies Being Parties – Through Lens of Testimonial Experts**

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Abstract

Despite of the criticisms to the *Georgia-Pacific*, current U.S. case laws still apply these factors for calculating damages in related disputes, including R.O.C. companies being parties. Companies registered in R.O.C. are involving in U.S. cases related to reasonable royalty, wherein *O2 v. BiTech* and *O2 v. Sumida* are examples.

R.O.C. companies are confronting with certain circumstances. One is that the competitive relationship with trading parties which may lead to a price erosion issue. An even more popular one is that manufacturing of components rather than whole systems which may lead to an apportionment issue. In these issues, some *Georgia-Pacific* factors may be applicable while others have limited applicability. However, there are circumstances, e.g., allocating the award, where reasonable royalty is not adopted at all due to failure of expert testimony.

While competitive relation of Factor (5) is applicable to price erosion issue, convoyed sale of Factor (6) may not be quite helpful to apportionment issue, and hardly any factor can be found to enhanced award or split award, especially when expert testimony of Factor (14) failed to meet the requirements. So, limitation to certain factors in certain circumstances are shown. Since the expert testimony, as long as it fulfills associated requirements, is always applicable to related issues in reasonable royalty cases and thus deserved more attention when dealing with analogous cases in the future.

Keywords: reasonable royalty, lost profits, price erosion, apportionment, enhanced damages

I. Introduction

Given that the patent law does not set forth criminal punishment, the remedies to patent litigation are civil remedies, including money damages. Among these various options of money damages provided by the paragraph 1 of article 97 of R.O.C. Patent Act (R.O.C. Patent Act §97(I)),¹ Patent Act §97(I)(1) is the plaintiff's lost profits, while Patent Act §97(I)(2) is the infringer's illicit profits. These two clauses follow tort law concept, and are typical ways of calculating damage in civil cases.

Notably, the Patent Act §97(I)(3) provides the reasonable royalty for calculating damages, which was not promulgated until December 21, 2011, because it is not originated in R.O.C. but from U.S., wherein reasonable royalty damages are the predominant form of relief awarded in patent infringement cases.

There are cases in R.O.C. regarding reasonable royalty as well. For example, the New Taipei District Court held that the reasonable royalty is a legal fiction with no readily reasonable market price as reference, thus it should be determined by the court considering factors "in all circumstances". However, no clear guideline about what factors are to be examined and how.²

In U.S., the patent law reasonable royalty damages measure have been further applied to other types of intellectual property misappropriation, such as copyright, trade secret, trademark, unfair competition, along with others.³

Similarly, R.O.C. Trademark Act §71(I)(4), which was not promulgated until June 29, 2011, provides reasonable royalty regulation as well.⁴ Also, there are trademark cases. For example, the Intellectual Property Court held that Trademark Act §71(I)(4) provides that royalties may be used as damages. However, the court adds that this reasonable royalty can be calculated on the condition that, based on the information submitted by the parties, the court still fails to calculate the amount of damage suffered by the trademark owner, and then the court may, in accordance with Paragraph 2 of Article 222 of the Civil Procedure Law,⁵ consider the royalties payable as the basis so as to appropriately compensate for the damage suffered by the trademark owner.⁶ Clearly, the condition and procedures, which are not set forth in Trademark Act, are rather rendered by the court in this case instead. And again, no clear guideline about what factors are to be examined and how.

¹ R.O.C. Patent Act §97(I). (The damages claimed pursuant to the preceding article may be calculated according to any of the following methods: 1. the method as set forth in Article 216 of the Civil Code; if no method of proof can be produced to prove the damages suffered, a patentee may claim damages based on the difference between the profit earned through patent exploitation after infringement and the profit normally expected through exploitation of the same patent; 2. the profit earned by the infringer as a result of patent infringement; or 3. the amount calculated on the basis of reasonable royalties that may be collected from exploiting the invention patent being licensed.)

² New Taipei District Court 108 Zhi Zi 10.

³ See, e.g., *Gaylord v. United States*, 777 F.3d 1363, 1368 (Fed. Cir. 2015) (A case applies to copyright); *Linkco, Inc. v. Fujitsu Ltd.*, 232 F. Supp.2d 182, 186, n.6 (S.D. N.Y. 2002) (Because the plaintiff's loss or the defendant's gain may be very difficult to calculate in intellectual property cases, a reasonable royalty is a common form of award in both trade secret and patent cases. *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 138 F.3d 449, 450 (2d Cir. 1998); *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1128 (5th Cir. 1991), *aff'd*, 505 U.S. 763 (1992); *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 88 F.3d 142, 151 (2d Cir. 1996); *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 535-37 (5th Cir. 1974); *Restatement (Third) of Unfair Competition* § 45 cmt. g (1995).

⁴ R.O.C. Trademark Act §71(I)(4). (Damages demanded by the proprietor of a registered trademark may be calculated according to any of the following ... (4) the equivalent amount of royalty that may be collected from using the trademark under licensing.)

⁵ R.O.C. Code of Civil Procedure §222(II). (Where a party has proved injury but is unable to or is under great difficulty to prove the exact amount, the court shall, taking into consideration all circumstances, determine the amount by its conviction.)

⁶ Intellectual Property Court 102 Civil and Commercial Shangzi 4.

Even further, the Intellectual Property Court held that calculation method based on reasonable royalty is mainly used when the trademark owner himself has not actually used the trademark for the designated goods or services, and if another person uses the same or similar trademark for the same or similar goods or services without authorization. When the trademark owner suffers the damage that should be collected but does not collect the authorization fee, it is stipulated that the trademark owner can received the royalty as the basis for calculating damages when his trademark is infringed.⁷ Again, no clear guideline about what factors are to be examined and how.

Cases tried in Taiwan demonstrate that courts adopt and agree about this theory, however there is a need for establishing a guideline, wherein factors to be considered for actual calculation of reasonable royalty shall be provided. *Georgia-Pacific Corp. v. United States Plywood Corp.*,⁸ well-known of providing fifteen factors for calculating reasonable royalty, is good for being a reference, because these factors are applied as precedents for calculating damages in associated disputes in current U.S. cases, although their appearance are not without criticisms.

Nevertheless, this article does not aim to implant these foreign factors to resolve the domestic problem, because on one hand we are not bound by them, and we may manage to create or establish our own associated factors on the other. Rather, this article purposes to selectively discuss certain *Georgia-Pacific* factors which are particularly related to U.S. cases with R.O.C. companies as parties, because on one hand they are bounded by these factors, and a better understanding of these factors would be helpful for them to prevail these cases on the other.

Indeed, companies registered in R.O.C. are involving in U.S. cases related to reasonable royalty. For purpose of discussion, two cases are presented in this article, i.e., *O2 Micro International Ltd. v. Beyond Innovation Technology (O2 v. BiTech)*⁹ and *O2 Micro International, Ltd. v. Taiwan Sumida Electronics (O2 v. Sumida)*,¹⁰ wherein both plaintiff and defendants had registered their companies in R.O.C (collectively “R.O.C. Companies”).¹¹ Protecting these companies is especially important, not only to them but to our nation as a whole, because trading with U.S. has long been in top of foreign trade degree of dependence (FTD) list.¹²

This article purposes to discuss some pertinent factors, because not all factors are squarely applicable in each individual case, wherein expert testimony of Factor (14), is to be discussed across the board because it is a common factor appeared in both cases thereof.

It is important to note that R.O.C. companies are frequently confronting with certain circumstances. One is that the competitive relationship with trading parties which may lead to a price erosion issue. An even more popular one is that manufacturing of components rather than whole systems which may lead to an apportionment issue. This article purposes to examine the applicability of *Georgia-Pacific* factors, specifically the Factors (5) and (6), to these issues. And, the effect of expert testimony to the allocating the award is also examined as well.

After the instruction in Part I, the origin of reasonable royalty and the criticisms thereof will be discussed in Part II, U.S. cases having R.O.C. companies as parties with related issues through the lens

⁷ Intellectual Property Court 102 Civil and Commercial Shangzi 11.

⁸ *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D. N.Y. 1970), modified and aff'd, 446 F.2d 295 (2d Cir. 1971), cert. denied, 404 U.S. 870 (1971).

⁹ *O2 Micro International Ltd. v. Beyond Innovation Technology*, 2005 U.S. Dist. LEXIS 47075 (E.D. Tex. 2005).

¹⁰ *O2 Micro International Limited v. Sumida Corporation*, Civil Action No. 2:03-CV-07 (E.D. Tex. Apr. 12, 2006).

¹¹ Specifically, O2, BiTech and Sumida had registered their companies in R.O.C.

¹² Foreign Trade Dependence Degree Foreign Trade Dependence is describes as the ratio of whole trade to GDP. https://www.researchgate.net/figure/Foreign-Trade-Dependence-Degree-Foreign-Trade-Dependence-is-describes-as-the-ratio-of_fig1_346051184.

of testimonial experts will be discussed in Part III, and Part IV is the conclusion.

II. Reasonable Royalty as Damages

A. The *Georgia-Pacific* Factors

According to the U.S. case law, *Mars, Inc. v. Coin Acceptors, Inc.*, the three traditional modes of measuring compensatory damages are lost profits, established royalty, and reasonable royalty.¹³ A fourth traditional mode -- an accounting for the infringer's illicit profits -- was eliminated by statute in 1946, except as to design patents.¹⁴

In 1952, reasonable royalty was codified in section 284 of the U.S. Patent Act (35 U.S.C. §284),¹⁵ despite the broad damages language of §284, patentees tend to try to fit their damages cases into the lost profits framework, or else fall back on the statutory grant of a reasonable royalty.¹⁶ And, it expressly provides that the court shall award the successful patent claimant "in no event less than a reasonable royalty."¹⁷

The established royalty is a good measurement if parties can find one between them, though it is not readily available in most instances. Indeed, for a royalty to be established, it must be paid by such a number of persons as to indicate a general acquiescence in its reasonableness by those who have occasion to use the invention;¹⁸ Mere offers to license' without actual consummated licenses are insufficient to show an established royalty rate for the technology.¹⁹ Given that the established royalty is not provided in 35 U.S.C. §284, so in most U.S. patent cases, two alternative categories of infringement compensation are the patentee's lost profits and the reasonable royalty the patentee would have received through arms-length negotiation.²⁰

And in 1970, the *Georgia-Pacific*,²¹ based on these previous associated case laws, collectively established the reasonable royalty measure as a means of providing a just recovery to a patent owner who could not, for evidentiary or other reasons, prove lost profit or an established royalty.

A reasonable royalty for use of the patented invention is judicially defined as the amount that would have been set in a hypothetical negotiation between a willing patent owner and a willing potential user as of the date when the infringement began in fact and on the assumption that the patent was valid and entitled to respect.²²

In determining this supposititious license rate, the courts consider a variety of factors or categories of evidence. A comprehensive list of evidentiary facts relevant, in general, to the determination of the amount of a reasonable royalty for a patent license may be drawn from a conspectus of the leading

¹³ See *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359 (Fed. Cir. 2008), cert. denied, 129 S. Ct. 653 (2008).

¹⁴ 6A Chisum on Patents §20.01.

¹⁵ 35 U.S. Code §284. (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....)

¹⁶ Herbert F. Schwartz, *Patent Law and Practice*, 212 (5th ed. 2006) (The two traditional measures of monetary damages awarded under 35 U.S.C. §284 are lost profits and royalties).

¹⁷ *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324 (Fed. Cir. 2009), cert. denied, 130 S. Ct. 3324 (2010).

¹⁸ *Trell v. Marlee Electronics Corp.*, 912 F.2d 1443, 1446 (Fed. Cir. 1990).

¹⁹ *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1443, 1446 (Fed. Cir. 1983).

²⁰ *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling USA, Inc.*, 699 F.3d 1340, 1357 (Fed. Cir. 2012)

²¹ 318 F. Supp. 1116, 1120.

²² See Nathaniel C. Love, *Nominal Reasonable Royalties for Patent Infringement*, 75 U. Chi. L. Rev. 1749 (2008); John J. Barnhardt III, *Revisiting a Reasonable Royalty as a Measure of Damages for Patent Infringement*, 96 J. Pat. & Trademark Off. Soc'y 991 (2004).

cases as follows.²³

(1). The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

(2). The rates paid by the licensee for the use of other patents comparable to the patent in suit.

(3). The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

(4). The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

(5). The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promotor.

(6). The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.

(7). The duration of the patent and the term of the license.

(8). The established profitability of the product made under the patent; its commercial success; and its current popularity.

(9). The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

(10). The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

(11). The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

(12). The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

(13). The portion of the realizable profit that should be credited to the invention as distinguished from nonpatented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

(14). The opinion testimony of qualified experts.

(15). The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee -- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention -- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

As mentioned earlier, the one of the three traditional modes of measuring compensatory damages,

²³ 318 F. Supp. at 1120.

established royalty, is not provided in §284, but ironically, the case law, *Georgia-Pacific* provides it on top of the list as a factor to be considered. And some case laws opine that Factor (1) is the most influential factor is that of prior and existing licenses negotiated under the patent in suit; The profits or benefits to be anticipated from use of the invention are also given weight as such usually constitutes a limit on the amount a willing user would agree to pay as a royalty;²⁴ An established royalty is usually the best measure of a reasonable royalty for a given use of an invention because it removes the need to guess at the terms to which parties would hypothetically agree.²⁵ Nevertheless, the established royalty is not readily available in most instances, as some other case laws suggest to the opposite mentioned above.²⁶

B. Criticisms

In U.S., the primary tool used to assess reasonable royalty damages is the hypothetical negotiation construct arising from the *Georgia-Pacific* case. However, this case itself is challenged as well, and related criticisms are listed as follows.

Jarosz and Chapman concern about whether *Georgia-Pacific* factors are likely to achieve the ultimate goal of reasonable royalty damages -- to provide the patent holder with fair and adequate compensation for the unauthorized use of a patented invention. They argue that the foundation for the construct is tenuous and that the use of the hypothetical negotiation construct introduces unnecessary and unproductive questions and conflict into the determination of reasonable royalty damages. They propose that the determination of reasonable royalty damages be based on a direct and objective assessment of a patent's (1) incremental benefits, (2) licensing comparables, and (3) design-around costs. And, they support a balancing and weighing of the results of these different approaches without the introduction of artificial bargaining drama.²⁷

Chapman further provides an alternative framework, which is based on standard approaches undertaken to value a wide range of assets. Again, that approach focuses on the contributions of the patent, licensing comparable, and design-around costs. Each of those should be assessed objectively, without the distractions and distortions introduced by bargaining drama. Specifically, the essential requirement for reasonable royalty damages awards is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.²⁸

Spulber suggests a contract approach to patent infringement and develops a methodology for finding reasonable royalty damages. In particular, the contract approach complements approaches based on property and tort, intending to provide a more complete understanding of damages. He introduces the concept of an "informed contract" as the basis for damages, purporting that it would improve estimation of damages by taking into account information revealed during the period of infringement. He also introduces a "market value method" for calculating reasonable royalty damages based on patent transfer prices, while the contract approach helps calculate reasonable royalty damages based on royalties in comparable patent licenses.²⁹

²⁴ Mobil Oil Corp. v. Amoco Chemicals Corp., 915 F. Supp. 1333, 1353 (D. Del. 1994) ("Courts and commentators alike have recognized that the royalties received by the patentee for the licensing of the patents in suit is the 'most influential factor' in determining a reasonable royalty.").

²⁵ Monsanto Co. v. McFarling, 488 F.3d 973, 978–79 (Fed. Cir. 2007).

²⁶ See *supra* notes 18 and 19 and associated texts.

²⁷ John C. Jarosz & Michael J. Chapman, The Hypothetical Negotiation And Reasonable Royalty Damages: The Tail Wagging The Dog, 16 Stan. Tech. L. Rev. P769 (2013).

²⁸ Michael J. Chapman, The Incremental Value of Apportionment in Reasonable Royalty Patent Damages Analysis, 29 Fed. Cir. B.J. 49, 51 (2019).

²⁹ Daniel F. Spulber, Finding Reasonable Royalty Damages: A Contract Approach TO Patent Infringement, 2019 U. Ill.

Gajarsa et. al. argue that the *Georgia-Pacific* factors not only complicate the damages analysis but also lead to damages awards that systematically overcompensate patent holders. Specifically, these problems have led to an increased focus on whether the long list of *Georgia-Pacific* factors is in fact helpful to juries. They suggest that courts should replace their reliance on the *Georgia-Pacific* factors with a more concise and coherent set of principles that will facilitate damages awards based on the true market value of the patent at the time of the hypothetical negotiation.³⁰ Further, regarding reasonable royalty damages, they suggest that what is intended is a determination of the market value of the patented technology,³¹ and they propose four factors for determining reasonable royalty damages.³²

By reviewing these suggestions deriving from criticisms, this article finds that some of them can be essentially found in *Georgia-Pacific* factors, e.g., the licensing comparable suggested by Jarosz and Chapman is similar to Factor (2) thereof.

As mentioned earlier, the established royalty is not readily available in most instances, so, as depicted in Factor (2), the rates paid by the licensee for the use of other patents comparable to the patent in suit would be more applicable instead. In determining a reasonable royalty rate by Factor (2), the court necessarily must make an informed estimate or approximation.³³ Nevertheless, the rate must be supported by evidence in the record and not mere conjecture. In addition to determining a reasonable royalty rate, a court must determine the royalty base, that is the quantum of infringing sales or uses to which the rate must be applied. Courts also admit evidence of subsequent events as a basis for inferring what royalty rate would have been set in hypothetical negotiations as of the date when the infringement began.³⁴

This article suggests that the “market value method” suggested by Spulber and Gajarsa et. al. is in essence the Factor (15), because it is highly possible that the amount that a licensor and a licensee would have agreed upon if both had been reasonably and voluntarily trying to reach an agreement would reflect the market value thereof.

More importantly, despite of the above-mentioned criticisms to the *Georgia-Pacific*, the current U.S. case laws still apply this precedent for calculating damages in associated disputes, so it is expected to see continuous practicing of these factors for the prolong future. Nevertheless, these factors are far from being perfect because, as can be seen in the following cases, there are quite a few limitations to them.

III. Georgia-Pacific Factors In Cases with R.O.C. Companies Being Parties – Through Lens of Testimonial Experts

As above-mentioned, *O2 v. BiTech*³⁵ and *O2 v. Sumida*³⁶ are reasonable royalty cases in U.S. with R.O.C. companies being parties.

In *O2 v. BiTech*, BiTEK manufactures current inverter controllers in R.O.C. and sells the

L. Rev. 615, 622 (2019); Christopher B. Seaman, Reconsidering the Georgia-Pacific Standard for Reasonable Royalty Patent Damages, 2010 BYU L. Rev. 1661 (2010).

³⁰ Arthur J. Gajarsa, William F. Lee, and A. Douglas Melamed, Breaking the Georgia-Pacific Habit: A Practical Proposal to Bring Simplicity and Structure to Reasonable Royalty Damages Determinations, 26 Tex. Intell. Prop. L.J. 51 (2018).

³¹ *Id.*, at 71.

³² *Id.*, at 74.

³³ See, e.g., Grain Processing Corp. v. American Maize-Products Co., 185 F.3d 1341, 1353 n.5 (Fed. Cir. 1999).

³⁴ See 1 Chisum on Patents §20.07.

³⁵ 2005 U.S. Dist. LEXIS 47075.

³⁶ Civil Action No. 2:03-CV-07.

controllers to companies in Asia that combine them with other circuit components to create inverter control modules. BiTEK's customers in turn sell the modules in Asia to companies such as Samsung, which incorporate the modules into LCD products and import those products into the U.S.³⁷

At issue was a patent on DC-to-AC converter circuits. At the time the accused infringer began selling the accused devices, the price was about \$1.00 per unit. Yet the patent owner's expert opined that a reasonable royalty would be about \$3.00 based on a hypothetically assumed \$4.00 price. The expert supported the price by noting that the patent owner had earlier sold inverter controllers for \$4.00 and that infringing competition had lowered the market price to \$1.

To aid in the proof process, 35 U.S.C. §284 expressly affirms the admissibility of expert testimony,³⁸ and the opinion testimony of qualified experts is provided as Factor (14) in *Georgia-Pacific*.³⁹ An expert testifying on damages "should concentrate on fully analyzing the applicable factors, not cursorily reciting all fifteen", "while mathematical precision is not required, some explanation of both why and generally to what extent the particular factor impacts the royalty calculation is needed."⁴⁰

In *O2 v. BiTech*, the infringer filed a "Daubert" motion challenging the expert opinion,⁴¹ and argued that the expert was improperly introducing a price erosion model through the guise of a reasonable royalty calculation without conducting the economic analysis necessary to support a price erosion model.

In this case, Judge Ward noted that he had earlier addressed a similar objection involving the same expert in *O2 v. Sumida*,⁴² wherein he ruled that the objection went to the weight, not the admissibility of the expert's opinion, but in that case, the parties subsequently agreed on damages and "the court ... did not have the benefit of hearing the expert's testimony in the context of all of the evidence offered on the question of damages."

As mentioned earlier, R.O.C. companies are frequently confronting with certain circumstances. One is that the competitive relationship with trading parties which may lead to a price erosion issue. An even more popular one is that manufacturing of components rather than whole systems which may lead to an apportionment issue. This article purposes to examine the applicability of *Georgia-Pacific* factors, specifically the Factors (5) and (6), to these issues. And, the effect of expert testimony to the allocating the award is also examined as well. These circumstances are addressed as follows.

A. Price Erosion Issue and Applicability of Factor (5)

A patent owner may recover as a measure of damages the lost profits caused by the illicit competition of an infringer. The owner must establish a factual basis for causation, i.e. that but for the infringer's improper acts, he would have made greater sales, charged higher prices or incurred lower expenses. Causation need be proved only as a reasonable probability.⁴³

³⁷ *O2 Micro Int'l Ltd. v. Beyond Innovation Tech. Co.*, 449 Fed. Appx. 923, 925.

³⁸ 35 U.S. Code §284. (...The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances....)

³⁹ 1 Chisum on Patents §20.07.

⁴⁰ *WhitServe, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 31 (Fed. Cir. 2012).

⁴¹ 509 U.S. 579 (1993). (A type of motion which seeks to exclude the presentation of an expert's testimony to a jury. Daubert motions are named for the USSC case, *Daubert v. Merrell Dow Pharm., Inc.*)

⁴² Civil Action No. 2:03-CV-07.

⁴³ *See Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 671 (Fed. Cir. 1988), cert. denied, 488 U.S. 968 (1988), on remand, 714 F. Supp. 899, 709 F. Supp. 821 (N.D. Ill. 1989).

U.S. Supreme Court (USSC) decisions affirmed that a patent owner who engaged in the manufacture and sale of the patented device and refused to license competitors could recover against an infringer for lost profits through price erosion or others. However, they imposed on the patent owner a heavy burden of proof on causation, i.e., that the patent owner would have enjoyed higher sales or prices or lower costs but for the infringer's illicit acts.⁴⁴ In addition to causation, the patent owner must establish a reasonable approximation of the amount of lost profits. As to lost sales, the owner may generally use the pre-infringement price level and need deduct only the incremental costs which the additional sales would have required.⁴⁵

In *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*,⁴⁶ the court noted that "to obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made."⁴⁷ In *BIC Leisure Products v. Windsurfing International*, Court of Appeals for the Federal Circuit (CAFC) reversed a district court award of market share lost profits. The patent owner's products were of a different design and higher priced, and the patent owner licensed other manufacturers who sold products similar to those of the infringer and at a price close to that of the infringer.⁴⁸

Specifically, Factor (5) applies to the commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business, or whether they are inventor and promoter.⁴⁹ when the issue is the licensing of a direct competitor, an expert is entitled to consider general price erosion in the context of calculating a reasonable royalty.⁵⁰

Evidence of causation has been found sufficient when the patent owner and the infringer were the only suppliers of the product.⁵¹ Thus, under the two-supplier test, a patentee must show: (1) the relevant market contains only two suppliers, (2) its own manufacturing and marketing capability to make the sales that were diverted to the infringer, and (3) the amount of profit it would have made from these diverted sales. In essence, the two-supplier market test collapses the first two *Panduit* factors into one "two suppliers in the relevant market" factor.⁵² An inference that the patent owner lost sales equal in quantity to those actually made by the infringer may arise if the two were the only suppliers of a unique and in-demand product and the owner had or could have acquired the capacity to meet the full demand.⁵³

As above-mentioned, the opinion testimony of qualified experts is provided as Factor (14) of *Georgia-Pacific*. In *Ericsson, Inc. v. Harris Corp.*,⁵⁴ the court held that "to make out its theory of price erosion, the patentee Ericsson again relied on the expert testimony of its expert Jackson, who used a 'benchmark methodology' to assess price erosion."⁵⁵

In *O2 v. BiTech*, the court noted that when the issue is the licensing of a direct competitor, an

⁴⁴ 7 Chisum on Patents §20.05[1].

⁴⁵ 7 Chisum on Patents §20.05.

⁴⁶ *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978).

⁴⁷ 575 F.2d at 1156.

⁴⁸ *BIC Leisure Products v. Windsurfing International*, 1 F.3d 1214 (Fed. Cir. 1993).

⁴⁹ 1 Chisum on Patents §20.07, at n120.

⁵⁰ 1 Chisum on Patents §20.07, at n130.

⁵¹ *E.g.*, *Yale Lock Co. v. Sargent*, 117 U.S. 536 (1886).

⁵² 318 F.3d at 1124.

⁵³ *See Fuji Photo Film Co. Ltd. v. Jazz Photo Corp.*, 249 F. Supp.2d 434 (D. N.J. 2003), *aff'd*, 394 F.3d 1368 (Fed. Cir. 2005).

⁵⁴ *Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369 (Fed. Cir. 2003).

⁵⁵ 352 F.3d at 1378.

expert is entitled to consider general price erosion in the context of calculating a reasonable royalty. However, Judge Ward noted that the accused infringer has not cited any legal authority, that it is improper for an expert to consider, as a starting point for a royalty analysis, the expected price of a product based on past sales of a prior product. He concluded that, contrary to the accused infringer's argument, the expert's selection of \$4.00 was not arbitrary; it was supported by, *inter alia*, documents sales of similar products. Though denying the Daubert motion to exclude the expert's testimony, he noted that the expert's damages model was not "free from criticism" and might not be sufficient to support a jury verdict. This was because "the expert report lacks sufficient analysis that the market would have supported the number of sales made by this defendant at the higher \$4.00 price that is the benchmark for the royalty rate calculation."⁵⁶

For price erosion damages, the patentee must show that, but for the infringement, it would have been able to charge and receive a higher price.⁵⁷ Evidence of causation has been found insufficient when the infringer charged a significantly lower price than the patent owner.⁵⁸ In *BIC*, the CAFC affirmed a district court finding that the documentary and testimonial evidence on price erosion was too speculative to support an award of price erosion lost profits.⁵⁹ On the other hand, in *Standard Havens Products, Inc. v. Gencor Industries, Inc.*,⁶⁰ the CAFC held that the jury's \$5.93 million award is not "speculative" despite the infringer's argument that "neither party can ascertain exactly how it was calculated."⁶¹

B. Apportionment Issue and Applicability of Factor (6)

The most perplexing and persistent problem in the law of remedies for patent infringement is considered being apportionment, i.e., how to compute monetary recovery for infringement when the patent in question is for a "mere improvement" or small part of the commercial device sold or used by the patent owner or infringer.⁶² Specifically, causation is more difficult to establish if the patent covers only an improvement on or a small part of the product sold by the infringer.⁶³

USSC held that a patent owner could recover the infringer's whole profits from illicit sales only if the patent concerned the "whole article" or the patented part or improvement gave the article its whole commercial value. Otherwise the plaintiff bore an initial burden of proving a basis for apportioning the profits between the patented and unpatented elements of the article sold.⁶⁴ Lower court decisions have responded to apportionment arguments in various ways. Some indeed reject any recovery for lost profits because of the plaintiff's failure to provide a basis for apportionment,⁶⁵ while some allow recovery of the entire amount of lost profits by applying the "whole article" or "whole market value" exceptions.⁶⁶ The CAFC has applied both "causation" and "whole market value"

⁵⁶ 2005 U.S. Dist. LEXIS 47075, at 12.

⁵⁷ See *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed. Cir. 1983); *Tel-Lock, Inc. v. Thomson Consumer Elecs.*, 2005 U.S. Dist. LEXIS 7224, 31-32 (N.D. Ill. Mar. 30, 2005) (The price erosion theory of damages as used in patent law is the difference between actual costs of goods and potential price.).

⁵⁸ *Dobson v. Dornan*, 118 U.S. 10, 17-18 (1886).

⁵⁹ 1 F.3d 1214.

⁶⁰ *Standard Havens Products, Inc. v. Gencor Industries*, 953 F.2d 1360, 1374 (Fed. Cir. 1991), cert. denied, 506 U.S. 817 (1992).

⁶¹ *Id.*

⁶² 7 Chisum on Patents §20.05[3].

⁶³ 1 Chisum on Patents §20.07.

⁶⁴ 7 Chisum on Patents §20.05[3][a].

⁶⁵ *Westinghouse v. New York Air Brake Co.*, 140 F. 545, 550-51 (2d Cir. 1905), cert. denied, 201 U.S. 648 (1906); *Roemer v. Simon*, 31 F. 41 (C.C. S.D. N.Y. 1887).

⁶⁶ *Saginaw Prod. Corp. v. Eastern Airlines, Inc.*, 615 F.2d 1136, 1143 (6th Cir. 1980).

approaches.⁶⁷ Closely related to apportionment is the issue of the recoverability of lost profits on parts or accessories,⁶⁸ and some decisions apply either a causation or a whole market value rationale to allow such recovery.⁶⁹

It is noted that many R.O.C. companies manufacturing parts or accessories, which may include improvement thereof, to be incorporated into a whole article, machine, or system. Thus, the apportionment and accessory issues are involved. Liability still existed even the manufacturer is not making the whole subject matter in dispute, so the bearing reasonable royalty as damages is a possible outcome after completing the litigation process. And, U.S. courts had had continuously held companies liable in this regards.⁷⁰

In *O2 v. Sumida*, Sumida is a R.O.C. company with its principal place of business in R.O.C., while Dell sells computers worldwide and is headquartered in Texas. The evidence reflects that Sumida manufactured a component product and sought to meet Dell's specification with that the product be incorporated into Dell laptops and sold everywhere Dell sells -- including the U.S. The basis for Sumida's argument is that it only sold inverter modules outside the U.S. and did not control the actual importation of the devices which incorporated the infringing components into the U.S.⁷¹

Experts can utilize "apportionment methodology" to testify in situations, e.g., "an invention used more frequently is generally more valuable than a comparable invention used infrequently" where "frequency of expected use and predicted value are related".⁷² This utilization may be interpreted as being encompassed in Factor (14), but perhaps not in conveyed sale of Factor (6). A conveyed sale refers to the relationship between the sale of a patented product and a functionally associated non-patented product, but it is not so in the current case. Rather, in *Warsaw Orthopedic, Inc. v. NuVasive, Inc.*, two patents concerned surgical devices. The CAFC held that the fixations did not qualify as conveyed sales because the patent owner failed to prove that the fixations were functionally related to the patented devices,⁷³ as required by *Rite-Hite Corp. v. Kelley Co., Inc.*⁷⁴ and *Am. Seating Co. v. USSC Grp., Inc.*⁷⁵

C. Award Issue and Failure of Associated Factors

Panduit does not authorize additional damages on top of a reasonable royalty because of heavy litigation or other expenses. Nor did *Panduit* suggest enhancement of a compensatory damage award

⁶⁷ *Tec Air, Inc. v. Denso Manufacturing Michigan Inc.*, 192 F.3d 1353 (Fed. Cir. 1999); *TWM Mfg. Co., Inc. v. Dura Corp.*, 789 F.2d 895, 901 (Fed. Cir. 1986), cert. denied, 479 U.S. 852 (1986).

⁶⁸ See Eric E. Bensen, Understanding the Federal Circuit on Patent Damages for Unpatented Spare Parts, 12 Fed. Circuit B.J. 57 (2002); Roger D. Blair & Thomas F. Cotter, Rethinking Patent Damages, 10 Tex. Intell. Prop. L. J. 1 (2001); Susan Perng Pan, Patent Damage Assessments After Rite-Hite and Grain Processing, 42 IDEA: J. L. & Tech. 481 (2002); Tsu Sung Hsieh, The U.S. Patent Extraterritoriality and Its Influence to Related Cases from the Perspectives of International Private Law Chung Hsing University Law Review, Volume 17 (2015).

⁶⁹ *Micro Chemical, Inc. v. Lextron, Inc.*, 318 F.3d 1119, 1122 (Fed. Cir. 2003), discussed below; *Kalman v. Berlyn Corp.*, 914 F.2d 1473, 1484 (Fed. Cir. 1990).

⁷⁰ Ernest J. Hanson, What Is A Component: Has Cardiac Pacemakers Put 35 U.S.C. § 271(F)'s Applicability To Process Patents On Life Support? 2010 U. Ill. J.L. Tech. & Pol'y 383 (2010); Blaney Harper, Domestic Manufacturer Infringement Liability Under the Process Patent Act, Computer Law, (1991); Cameron Hutchison and Moin A. Yahya, Infringement & the International Reach of U.S. Patent Law, 17 Fed. Cir. B.J. 241 (2008).

⁷¹ Civil Action No. 2:03-CV-07, para. 3-4.

⁷² *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1333 (Fed. Cir. 2009).

⁷³ *Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538, 1550 (Fed. Cir. 1998). (A conveyed sale occurs when a non-patented item is sold with a functionally associated patented item and the items are part of a single, cohesive unit.)

⁷⁴ *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995).

⁷⁵ *American Seating Co. v. USSC Group*, 514 F.3d 1262 (Fed. Cir. 2008).

as a substitute for the strict requirements for these statutory provisions.⁷⁶ However, it is noted that the reasonable royalty as damage is merely one option out of possible selections. Indeed, 35 U.S.C. §§284 and 285 set forth statutory requirements for awards of enhanced damages and attorney fees.⁷⁷ The statute bases these awards on clear and convincing proof of willfulness and exceptionality.⁷⁸

In this *O2 v. Sumida* case, the court has considerations beyond *Georgia-Pacific* factors and does not adopt the reasonable royalty for calculating damage due to failing to fulfill the requirement of expert testimony. So, the court considers and adopts plaintiff's motion to enhanced damage.⁷⁹ In general, when a jury finds willful infringement, an enhancement of damages is appropriate.⁸⁰ The court agrees that enhanced damages are appropriate and awards the full amount of \$4,000,000 in accordance with the parties' stipulation.⁸¹ Comparing to the reasonable royalty calculation, the latter may result in a better outcome to the plaintiff of *O2 v. Sumida*.

However, in these damages granted other than reasonable royalty, the testimonial experts still play the role. In *Lucent Techs., Inc. v. Gateway, Inc.*,⁸² The patent owner did present the testimony of its damages expert on both his apportionment methodology and on the RIM license. the accused infringer did not challenge the admissibility of that license. The RIM license, in conjunction with the expert's testimony, provided substantial evidence as to what royalty the parties would have agreed in a hypothetical negotiation and, therefore, supported the verdict.⁸³

Most awards are for profits lost because of diverted sales, based on a finding that the patentee would have made all or a portion of the sales the infringer in fact made, but awards of profits because of infringing competition and even of diminished sales growth have been made.⁸⁴ However, a patent owner may recover a mixed award with lost profits on some sales and an established or reasonable royalty on other sales.⁸⁵ Specifically, courts may grant a mixed or split award, using lost profits as a measure for some infringing sales and lost royalties as a measure for other such sales.⁸⁶

The practice of mixed awards derives in part from the old equitable practice of computing infringer profits where the infringer made a profit on some sales and a loss on other sales. The patent owner could recover for the profitable sales, disregarding any offset for the unprofitable ones.⁸⁷ Therefore, such an award is appropriate when the infringer's acts of infringement occur under market conditions that vary in terms of customer type, product type, time period, or geographic area to such an extent as to alter the extent and provability of the damages to the patent owner.⁸⁸

⁷⁶ *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, at 1581 (Fed. Cir. 1996), cert. denied, 525 U.S. 1106 (1999).

⁷⁷ 35 U.S. Code §284. (...When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d)...); 35 U.S. Code §285. (The court in exceptional cases may award reasonable attorney fees to the prevailing party.)

⁷⁸ Mark A. Lemley, *Inducing Patent Infringement*, 39 U.C. Davis L. Rev. 225 (2005); Elizabeth Moulton, *Inducing Immune Infringement: The Interplay of Section 287(c) And Section 271(b)*, 13 Colum. Sci. & Tech. L. Rev. 206 (2011).

⁷⁹ Civil Action No. 2:03-CV-07, para. 7.

⁸⁰ *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992); *Markman v. Westview Inst., Inc.*, 52 F.3d 967 (Fed. Cir. 1995) (en banc), af'd, 517 U.S. 370 (1996).

⁸¹ Civil Action No. 2:03-CV-07, para. 8.

⁸² *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1333 (Fed. Cir. 2009).

⁸³ 802 F.3d at 1300.

⁸⁴ E.g. *Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 711 F.3d 1348, 1378 (Fed. Cir. 2013).

⁸⁵ 7 Chisum on Patents §20.05.

⁸⁶ *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1286 (Fed. Cir. 2017), rehearing en banc denied, 870 F.3d 1298 (Fed. Cir. 2017).

⁸⁷ *Duplate Corp. v. Triplex Safety Glass Co.*, 298 U.S. 448 (1936).

⁸⁸ *See Smith International, Inc. v. Hughes Tool Co.*, 229 USPQ 81, 93 (C.D. Calif. 1986).

In *Broadview Chem. Corp. v. Loctite Corp.*, the court awarded lost profits on domestic sales by the infringer, but awarded a reasonable royalty on a sale to a foreign customer as to which it found insufficient proof of causation.⁸⁹ In *H.K. Porter Co. v. Goodyear Tire & Rubber Co.*, the court affirmed an award of lost profits for certain years but a reasonable royalty for certain other years.⁹⁰ In *State Industries, Inc. v. Mor-Flo Industries, Inc.*,⁹¹ the CAFC confirmed that “the award may be split between lost profits as actual damages to the extent that they are proven and a reasonable royalty for the remainder.”⁹²

A mixed award may also be appropriate when a patent owner establishes a right to partial lost profits award on a “market share” theory.⁹³ In *Funai Electric Co. v. Daewoo Electronics Corp.*, the CAFC held that substantial evidence, including testimony by the patent owner’s expert, which the infringer did not rebut, supported a jury damage award of lost profits on the loss of “the business of a long-time large customer” and, for other infringing sales, of the patent owner’s 30% market share.⁹⁴

In *McKee Glass Co. v. H.C. Fry Glass Co.*,⁹⁵ Court of Appeals for the Third Circuit actually awarded infringer profits on the profitable transactions and a reasonable royalty on the transactions at a loss. When a patent owner and an exclusive licensee sue an infringer jointly, it may be appropriate to award a royalty to the former and lost profits to the latter in view of their respective interests.⁹⁶

IV. Conclusion

Despite of the criticisms to the *Georgia-Pacific*, current U.S. case laws still apply these factors for calculating damages in related disputes, including R.O.C. companies being parties. Companies registered in R.O.C. are involving in U.S. cases related to reasonable royalty, wherein *O2 v. BiTech* and *O2 v. Sumida* are examples.

R.O.C. companies are confronting with certain circumstances. One is that the competitive relationship with trading parties which may lead to a price erosion issue. An even more popular one is that manufacturing of components rather than whole systems which may lead to an apportionment issue. In these issues, some *Georgia-Pacific* factors may be applicable while others have limited applicability. However, there are circumstances, e.g., allocating the award, where reasonable royalty is not adopted at all due to failure of expert testimony.

Regarding lost profit and price erosion, the USSC decisions affirmed that a patent owner who engaged in the manufacture and sale of the patented device and refused to license competitors could recover against an infringer for lost profits through price erosion or others. However, they imposed on the patent owner a heavy burden of proof on causation, i.e., that the patent owner would have enjoyed higher sales or prices or lower costs but for the infringer’s illicit acts. In addition to causation, the patent owner must establish a reasonable approximation of the amount of lost profits.

The competition relationship is included in Factor (5) of *Georgia-Pacific*. Evidence of causation has been found sufficient when the patent owner and the infringer were the only suppliers of the product. Thus, under the two-supplier test, a patentee must show: (1) the relevant market contains only

⁸⁹ *Broadview Chem. Corp. v. Loctite Corp.* 311 F. Supp. 447(D. Conn. 1970); *Datascope Corp. v. SMEC, Inc.*, 879 F.2d 820, 827 (Fed. Cir. 1989), cert. denied, 493 U.S. 1024 (1990), on remand, 14 USPQ2d 1071 (D. N.J. 1990).

⁹⁰ *H.K. Porter Co. v. Goodyear Tire & Rubber Co.*, 536 F.2d 1115 (6th Cir. 1976).

⁹¹ *State Industries v. Mor-Flo Industries*, 883 F.2d 1573 (1989).

⁹² 883 F.2d at 1577.

⁹³ See 7 Chisum on Patents §20.05[2][f].

⁹⁴ *Funai Electric Co. v. Daewoo Electronics Corp.*, 616 F.3d 1357 (Fed. Cir. 2010).

⁹⁵ *McKee Glass Co. v. H.C. Fry Glass Co.*, 248 F. 125 (3d Cir. 1915).

⁹⁶ See 7 Chisum on Patents §20.05[3][f].

two suppliers, (2) its own manufacturing and marketing capability to make the sales that were diverted to the infringer, and (3) the amount of profit it would have made from these diverted sales.

Regarding part and accessory, it is noted that many R.O.C. companies manufacturing these items, which may include improvement thereof, to be incorporated into a whole article, machine, or system. Thus, the apportionment and accessory issues are involved. Liability still existed even the manufacturer is not making the whole subject matter in dispute, so the bearing of reasonable royalty as damages is a possible outcome after completing the litigation process. Further, R.O.C. companies are possibly need to deal with convoyed sale issue, which is provided as the Factor (6) of *Georgia-Pacific* as well.

Regarding enhanced damage, it is noted that the reasonable royalty as damage is merely one option out of possible selections. In *O2 v. Sumida* case, the court does not adopt the reasonable royalty for calculating damage due to failing to fulfill the requirement of expert testimony. So, the court considers and adopts plaintiff's motion to enhanced damage. It is noted that when a jury finds willful infringement, an enhancement of damages is appropriate. The court may award the enhanced damage in accordance with the parties' stipulation. And, comparing to the reasonable royalty calculation, the latter may result in a better outcome to the plaintiff.

Regarding award, it is noted that courts may grant a mixed or split award, using lost profits as a measure for some infringing sales and lost royalties for other such sales. Such an award is appropriate when the infringer's acts of infringement occur under market conditions that vary in terms of customer type, product type, time period, or geographic area.

While competitive relation of Factor (5) is applicable to price erosion issue, convoyed sale of Factor (6) may not be quite helpful to apportionment issue, and hardly any factor can be found to enhanced award or split award, especially when expert testimony of Factor (14) failed to meet the requirements. So, limitation to certain factors in certain circumstances are shown. Since the expert testimony, as long as it fulfills associated requirements, is always applicable to related issues in reasonable royalty cases and thus deserved more attention when dealing with analogous cases in the future.

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