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UNIVERSITY OF TECHNOLOGY

# **NTUT Journal of Intellectual Property Law and Management**

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**EDITORIAL NOTE ON VOLUME 13, NUMBER 1, 2024**

**Editorial Note**

Dr. Ming-Liang Lai  
Associate Professor,  
Graduate Institute of Intellectual Property,  
National Taipei University of Technology (Taiwan).

This journal has been included in SCOPUS and WESTLAW citation databases since 2015. It presents that the steady efforts of the editing team and all authors in maintaining the quality of the publications and increases the visibility of the articles in the related academic field. We would like to express our appreciation to all the authors, reviewers, editors, advisors of the journal. The editorial board welcomes submissions from legal, management, or interdisciplinary areas related to intellectual property issues from all over the world. We will not limit the scope of the journal to any single jurisdiction, which can confirm the articles in the journal covers all aspects.

In this issue, the selected articles are from different jurisdictions and areas of intellectual property rights. The first article in the issue is to analyze the effectiveness of the Uniform Dispute Resolution Policy and Indian dispute resolution mechanisms in addressing the issue of cybersquatting, particularly in light of the post- COVID-19 Pandemic era. Next article is from an Indian perspective to discuss reconciling right to repair and intellectual property rights. In addition, the article by Jinyang Tian provides unique opinion about the nature and ownership of copyright for AI generated works. Another article is about optimizing taxation on copyright royalties in franchise business in Indonesia. Last, the article is exploring intellectual property in the era of generative AI and presents some excellent view. In addition to expressing our gratitude to all contributors who made this issue possible, we strongly hope you keep to support us in the future. Your help can maintain the goal and quality of the journal.

Dr. Ming-Liang Lai  
Associate Professor,  
Graduate Institute of Intellectual Property  
National Taipei University of Technology (Taiwan)

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## **Discerning Cybersquatting and its Escalation amidst the COVID-19 Pandemic: Analyzing the Effectiveness of the Uniform Dispute Resolution Policy and Indian Dispute Resolution Mechanisms in the aftermath of *Namase Patel***

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### **ABSTRACT**

The basic aim of the following piece is to analyze the effectiveness of the Uniform Dispute Resolution Policy and Indian dispute resolution mechanisms in addressing the issue of cybersquatting, particularly in light of the post- COVID-19 Pandemic era. Domain names serve as valuable assets for corporations in the digital age, providing a unique online identity and serving as an essential component of a company's brand. As businesses increasingly rely on the internet for their operations and marketing, domain names have become indispensable in establishing and maintaining an online presence. However, the misuse of domain names, commonly known as cybersquatting, poses a significant challenge. Persons engaging in cybersquatting, cybersquatters, exploit the value and recognition associated with established trademarks by registering and using similar domain names in bad faith, often with the intention of extracting financial gain or causing harm to legitimate trademark owners. Thus, understanding the conflicts and legal mechanisms surrounding domain names is crucial for effectively combating cybersquatting and protecting the rights of trademark holders. With the advent of the COVID-19 Pandemic, there has been an exponential increase in online trade, thereby amplifying instances of cybersquatting. The following piece, delves into the legislative landscape surrounding cybersquatting, highlighting the significance of domain names as valuable corporate assets and the conflicts arising from their misuse. An extensive examination of the dispute resolution mechanisms available in India will follow, encompassing both judicial courts and the arbitration process under the Internet Corporation for Assigned Names and Numbers. By scrutinizing the effectiveness of these mechanisms, the research evaluates their ability to efficiently address cybersquatting disputes, safeguarding the rights of legitimate trademark owners. Lastly, central to this analysis is the seminal case of *Adobe, Inc. v Namase Patel*, which is a milestone in the evolving India jurisprudence regarding cybersquatting. The research piece, thus, investigates the consequences of applying the Adobe analysis and its impact on the resolution of future cybersquatting cases, thereby contributing to the evolution of Indian jurisprudence on the matter.

**Keywords:** Cybersquatting, Adobe, Domain Names, ICANN

## 1. Introducing domain names and cyber squatting

In the current digital era, in which everyone has their own online presence, human contact with domain names may exceed expectations. A domain name is the text that a user inserts into the address bar of a web browser to visit a certain website. For instance, Google's domain name is google.com. The real address of a website is a complex numerical IP address (e.g. 192.0.2.2), but thanks to the Domain Name System (a database of addresses of networked computers on the Internet, associates an Internet Protocol address with an easily remembered alphanumeric symbol), users can input human-friendly domain names and be redirected to the desired websites.<sup>1</sup> This is referred to as a DNS lookup.

Most domain name registration procedures allow names to be reserved on a first-come, first-served basis without any verification of trademark rights that may exist for the domain name's words.<sup>2</sup> As a result, many names were registered by entities that had nothing to with related trademark rights because before the internet blew up, many trademark owners were hesitant to register their brands as domain names. Anticipating this delay on the part of trademark holders, individuals known as "cybersquatters" registered the domain names earlier and are now demanding ransom for their use. A cybersquatter is a speculator who deliberately registers a brand as a domain name in order to resell it for a profit."<sup>3</sup>

### 1.1 The aftermath of Covid-19

As of now, the Internet has become significantly more accessible and inexpensive thanks to the declining prices of internet and electronic devices. The number of Internet users grew steadily until recently, when many companies and businesses discovered they could utilize it as a commercial tool to reach customers and consumers all over the world.<sup>4</sup> As a consequence of the worldwide spread of Covid-19, governments were forced to impose lockdowns and social isolation policies. Subsequently, a large number of people were forced to work from home, establishing a work-from-home culture

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<sup>1</sup> Elizabeth Martin, "Too Famous To Live Long!" *The Anticybersquatting Consumer Protection Act Sets Its Sights to Eliminate Cybersquatter Opportunistic Claims on Domain Names*, 31 ST. MARY'S LAW JOURNAL (1999), <https://commons.stmarytx.edu/thestmaryslawjournal/vol31/iss3/5>.

<sup>2</sup> Aminollah Khormali et al., *Domain Name System Security and Privacy: A Contemporary Survey*, 185 COMPUTER NETWORKS 107699 (2020).

<sup>3</sup> Aisha Saleem Khan, *Cybersquatting in India: Jeopardy to Cyberspace*, 3 INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES (2020), <https://ijlmh.com/cybersquatting-in-india-jeopardy-to-cyberspace/> (last visited Mar 19, 2024); Khormali et al., *supra* note 2.

<sup>4</sup> Radhika Bhusari & Karan Rampure, *Cybersquatting: A Threat To The Globalising World*, 3 INDIAN JOURNAL OF LAW & LEGAL RESEARCH (2020), <https://www.ijllr.com/post/cybersquatting-a-threat-to-the-globalising-world> (last visited Mar 19, 2024); Sapna Deo & Sukrut Deo, *Cybersquatting: Threat to Domain Name*, 8 INTERNATIONAL JOURNAL OF INNOVATIVE TECHNOLOGY AND EXPLORING ENGINEERING 1432 (2019).

dependent on online shopping, banking, and other electronic services. Initially, the pandemic was a burden for humanity, but it quickly became a blessing for those who wished to exploit Information Technology through cybercrime attacks. Cybercrime has no geographical limits; therefore, it can be perpetrated anywhere in the world.<sup>5</sup> Unsurprisingly, the largest surge occurred in the week following the WHO's declaration of COVID-19 as a pandemic, with daily registrations then doubling to more than 4,000 per day.<sup>6</sup> In February 2021, nearly a year after the outbreak began, there were 377.5 million brute-force attacks, a considerable rise from the 93.1 million attacks registered at the beginning of 2020. In the wake of the pandemic and the development of remote working, bad actors who utilize noteworthy events to drive traffic to their harmful websites became aware of it. What followed was a sharp increase in phishing attacks, particularly those utilizing the term "COVID" and surrounding phrases in their domain names. Numerous of these reports contained large, attention-grabbing numbers but little or no detail on collection methods, definitions, etc., making them difficult to verify. Cybersquatters started using terms like "vaccine" and "drugs" for spreading rumors, a phenomenon which was eventually termed as the infodemic of coronavirus misinformation.<sup>7</sup> In reaction to these occurrences, a number of organizations began disseminating "threat intelligence," or information and data regarding reported or observed security threats in these domains. Some domain registrars like Namecheap took a step to no longer accept new domain applications including the words "coronavirus", "covid," and "vaccine", as well as variants of these words and phrases referencing the ongoing COVID-19 outbreak.<sup>8</sup> Some organizations, such as the COVID-19 Cyber Threat Intelligence League and the COVID-19 Cyber Threat Coalition, also initiated countermeasures against these malicious actors.<sup>9</sup>

## 2. The legislation pertaining to cyber-squatting in India amidst increased instances

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<sup>5</sup> Somlata Sharma & Shobha Yadav, *Cyber Crimes during Covid-19 Pandemic*, in PROCEEDINGS OF DHE APPROVED ONE DAY NATIONAL SEMINAR ON ROLE OF DIGITIZATION DURING COVID-19 , <https://www.sdcollegeambala.ac.in/wp-content/uploads/2022/01/compjune21-8.pdf>.

<sup>6</sup> COVID-19 domains: what's going on?, CLARIVATE (2020), <https://clarivate.com/blog/covid-19-domains-whats-going-on/> (last visited Mar 26, 2024).

<sup>7</sup> Rupali Mukherjee, *Domain of Cheats: Cybersquatters Using Covid to Spread Infodemic*, THE TIMES OF INDIA, 2021, <https://timesofindia.indiatimes.com/india/domain-of-cheats-cybersquatters-using-covid-to-spread-infodemic/articleshow/81264726.cms> (last visited Mar 26, 2024); Ryo Kawaoka et al., *A First Look at COVID-19 Domain Names: Origin and Implications*, (2021), <http://arxiv.org/abs/2102.05290> (last visited Mar 26, 2024).

<sup>8</sup> Nick Statt, *Namecheap Blocks Registration of Domains with 'Coronavirus' and 'Vaccine' in the Name*, THE VERGE (2020), <https://www.theverge.com/2020/3/25/21194417/namecheap-coronavirus-covid-19-domain-name-ban-registrar-abuse> (last visited Mar 26, 2024).

<sup>9</sup> SIÔN LLOYD, *Registrations Related to COVID-19: 18 Months of Data*, (2021), <https://www.icann.org/en/system/files/files/octo-028-09nov21-en.pdf>.

With the rising use of domain names and the incorporation of words like ‘Google’ into everyday discourse, domain names have become increasingly important. Convenient and well-known domain names such as <www.yahoo.com>, as well as less well-known domains, are vital to facilitating communication between millions of Internet users and the countless Web sites available on the World Wide Web. The Internet without this convenient addressing system is akin to a vast metropolis where no street names exist and no residents' nameplates adorn its myriad structures.

### **2.1 Domain names: a corporate valuable asset**

The fact that "inhabitants" of virtual locations in cyberspace have the ability to influence, and even largely determine, the name of their address is an essential aspect that differentiates the addressing system used on the Internet from the addressing system used for physical locations. In a connected world, where tens of millions of Internet addresses exist, the ability to orient oneself (on the part of users) and the capacity to signal one's identity (on the part of net publishers) within the sea of digital information are both vitally important.<sup>10</sup>

Since long individuals, businesses, and organizations have attempted to maintain their online identities around a domain name. This made sense in the late 1990s, when search engines and other digital tools were not as advanced as they are now and domain names were the natural extension of well-established businesses. In spite of this, we continue to believe that domain names are an essential component of an organization's online exposure. As a result, it does not come as a surprise to know that very substantial sums of money are still spent at public auctions to secure the registration of domain names.<sup>11</sup>

### **2.2 The conflicts with a domain name: just a web address or more?**

For one field of law, notably that of trade and service marks, the registration as well as use of unique identifiers (addresses) on the Internet, particularly by firms trading in products and services, has opened up a bag of worms. The fundamental cause of this issue is that those planning to use domain names have turned to already-existing, extremely well-known marks; increasingly, companies with strong brands are realizing the benefits of using their existing marks as domain names.<sup>12</sup> The IDs resemble trade names in other ways as well, so businesses that already have them may choose to utilize them as domain names. Unsurprisingly, some companies that have established themselves online have appropriated well-known brand names, marks, or trade names that belong to other organizations to use

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<sup>10</sup> Zohar Efroni, *Names as Domains, Names as Marks: Issues Concerning the Interface between Internet Domain Names and Trademark Rights*, in *INTELLECTUAL PROPERTY AND INFORMATION WEALTH: ISSUES AND PRACTICES IN THE DIGITAL AGE* (2007), <https://papers.ssrn.com/abstract=957750> (last visited Mar 26, 2024).

<sup>11</sup> Albert Agustinoy, *Domain Names- Still a (Very) Appreciated Digital Asset*, INTERNATIONAL BAR ASSOCIATION, <https://www.ibanet.org/domain-names-and-digital-assets> (last visited Mar 26, 2024).

<sup>12</sup> P. S. Sangal, *Trademarks and Domain Names: Some Recent Developments*, 41 JOURNAL OF THE INDIAN LAW INSTITUTE 30 (1999).

as their domain names. Due to the overlap and confusion between domain names and marks or trade names, there are a number of conceptual and practical issues that have arisen.<sup>13</sup>

For starters, domain names have a nearly global reach because no territorial limitations may be placed on their usage, unlike trademarks, which only have legal force in the designated regions for which they are registered or, if unregistered, have established themselves.<sup>14</sup> Second, and related to the previous argument, different parties may own the same mark, whereas only one organization may own a domain name. This is presuming that there is just one registration method in use or applied globally. The issue will grow more serious as soon as nationwide registration is made available and the prerequisites for several centres or protocols are met.<sup>15</sup> Thirdly, the overlap in functionality between domain names and marks further complicates the issue because the former increasingly take on the functions of the latter without losing their initial function as basic addresses. This is true independent of the fact that the latter begin as registered (or already used) marks or that a process can commence in which "new" domain names turn into markers of the caliber of goods or services offered online. The trademark system would then have to accept the new form of product or service indications and give it full standing alongside "offline" marks, or it would do so at its own risk.<sup>16</sup>

Similarly, application of trademark laws invites criticism of evaluating domain names at par with brand names. While it is true that similar domain names might divert customers away from the intended website, it is important to acknowledge that domain names are only one of several factors that can lead to consumer confusion. Design and content of the website with a similar or same domain name should be the most important aspect of the examination of likelihood of confusion. Even though the domain name sounds similar to that of another service provider, it is conceivable that the design and content of the website will be sufficient to inform consumers that the source of the goods or services is wholly distinct. In circumstances where parties other than a trademark owner may have legitimate reasons to use a particular domain name in good faith, this knowledge becomes crucial. A fan club or forum of product users, for instance, may have a valid cause to choose a domain name that is close to the name of a celebrity or product that they wish to discuss among themselves. Thus, the good faith purpose of these users should be a relevant concern. The tort of passing off should only be used to prevent

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<sup>13</sup> Assafa Endeshaw, *The Threat of Domain Names to the Trademark System*, 3 THE JOURNAL OF WORLD INTELLECTUAL PROPERTY (2005), <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1747-1796.2000.tb00130.x> (last visited Mar 26, 2024).

<sup>14</sup> Thomas Curtin, *The Name Game: Cybersquatting and Trademark Infringement on Social Media Websites*, 19 JOURNAL OF LAW AND POLICY (2010), <https://brooklynworks.brooklaw.edu/jlp/vol19/iss1/13>.

<sup>15</sup> Jeetika Aggarwal & Priyanshi Bainwala, *Cybersquatting and Trademark Infringement*, 4 INTERNATIONAL JOURNAL OF LAW MANAGEMENT & HUMANITIES 1220.

<sup>16</sup> David Loundy, *A Primer on Trademark Law and Internet Addresses*, 15 J. Marshall J. Computer & Info. L. 465 (1997), 15 UIC JOHN MARSHALL JOURNAL OF INFORMATION TECHNOLOGY & PRIVACY LAW (1997), <https://repository.law.uic.edu/jitpl/vol15/iss3/4>.

confusion and not to suppress speech that is otherwise legal.

### **2.3 The Trademarks Act, 1999**

The Indian Trade Marks Act, 1999 (the '1999 Act'), provides for the registration of trademarks and the protection of trademark owners' rights. The Act also includes provisions for infringement actions, which can be used by trademark owners to enforce their rights against infringing domain names. To prove infringement, a trademark owner must show that the domain name is identical or similar to their registered trademark and that it is being used in connection with goods or services that are identical or similar to those covered by the trademark registration. The trademark owner must also show that the use of the domain name is likely to cause confusion or deception among consumers.<sup>17</sup>

*Satyam Infoway Ltd. v. Siffynet Solutions Pvt. Ltd.*<sup>18</sup> is one of the leading precedents in India as the Supreme Court of India deliberated for the first time ever on the application of trademark law to similar sounding domain names. The Supreme Court's primary determination was whether internet domain names are subject to the same legal standards as trademarks. This was a crucial question because India, unlike some other countries, did not have specific laws in place regulating the protection of domain names. In addition, because the phrase in the domain name was not registered as a trademark, the Court was forced to apply existing passing-off standards to domain names.<sup>19</sup>

This opinion came at a time when lower Court judges relied on passing-off principles to settle domain names issues. Two such judgments from the Delhi High Court and Bombay High Court were delivered in the case of *Yahoo Inc. v Akash Arora*<sup>20</sup> and *Rediff Communication Ltd. v Cyberbooth and Anr*<sup>21</sup>. In both the instances, the courts invoked the concepts of passing off under common law to resolve the disputed domain name. The three requirements for establishing the tort of passing off are the (i) the existence of a reputation associated with a certain business; (ii) that there was misrepresentation by another person who wrongfully claimed an association with the bonafide user of the name in question and (iii) finally, that such misrepresentation caused damage to the goodwill of the bona-fide user.<sup>22</sup> The Supreme Court's ruling in the Satyam Infoway case just validated the correctness of this approach, ensuring legal certainty in this area. According to the Indian Constitution, the Supreme Court's decisions are binding throughout the nation.

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<sup>17</sup> Harman Preet Singh, *Domain Name Disputes and Their Resolution under UDRP Route: A Review*, 6 ARCHIVES OF BUSINESS RESEARCH (2018), <https://journals.scholarpublishing.org/index.php/ABR/article/view/5786> (last visited Mar 26, 2024).

<sup>18</sup> *Satyam Infoway Ltd. v. Siffynet Solutions Pvt. Ltd.*, 2004 (3) AWC 2366 SC

<sup>19</sup> Prashant Reddy Thikkavarapu, *The Principles of Passing off under Trademark Law Apply to Domain Names in India*, in ANNOTATED LEADING TRADEMARK CASES IN MAJOR ASIAN JURISDICTIONS (2019).

<sup>20</sup> 78 (1999) DLT 285.

<sup>21</sup> 1999 (4) Bom CR 278

<sup>22</sup> Thikkavarapu, *supra* note 19.

### 3. Tracking the Dispute Resolution Mechanism in India

In the past few years, India's commercial and judicial landscape has undergone a significant transformation due to the country's ever-expanding economy, which aims to move up the global ease of doing business index.

#### **3.1 The Indian Judicial System and Cybersquatting**

As far as India is concerned, there is no legislation that specifically refers to dispute settlement in connection with domain names. However, disadvantaged parties may pursue one of the following two types of redressal mechanisms under the 1999 Act:

1. Infringement remedy: According to the Act, the trademark owner is only entitled to an infringement remedy when the trademark is registered;
2. Passing-Off remedy: No trademark registration is necessary if the owner chooses to use the remedy of passing-off.<sup>23</sup>

To substantiate the same, the Supreme Court, in *Satyam Infoway*<sup>24</sup> held that even if the 1999 Act does not operate extraterritorially and may not permit sufficient domain name protection, this does not imply that domain names are not protected in India. The Court also observed that domain names have all the traits of trademarks and that the use of a domain name might give rise to a claim of passing-off.

Historically, *Yahoo Inc. v. Akash Arora*<sup>25</sup> was the first instance of cybersquatting in India. Here, Yahoo Inc. filed a lawsuit seeking an injunction against the Defendant Akash Arora, who had registered a trademark confusingly similar to Yahoo Inc. 's as 'Yahoo.com.' The High Court of Delhi issued an injunction in the Plaintiff's favor prohibiting the Defendant from using 'Yahoo!' since it violated Yahoo Inc.'s trademark. In another landmark case, *Rediff Communication v. Cyberbooth*,<sup>26</sup> the Court held that a domain name's worth and significance are comparable to those of a company's corporate assets. The Court decided in favor of the Plaintiff because it believed that internet domain names were significant, could be a valuable corporate asset, and were entitled to protection comparable to that afforded to trademarks. Furthermore, the Delhi High Court, in the matter of *Acqua Minerals Ltd v. Pramod Bose*,<sup>27</sup> relying on the judgment passed in *Rediff*, stated that 'with the growth of online communication, the domain name has achieved as much legal sanity as a trade name.'

Subsequently, the Delhi High Court focused on the concept of presumptive right while barring a

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<sup>23</sup> Shrishti Mittal, *Trademark Cyber-Squatting Laws in India*, MANUPATRA ARTICLES (2021),

<https://articles.manupatra.com/article-details?id=undefined&ifile=undefined> (last visited Mar 26, 2024).

<sup>24</sup> 2004 (3) AWC 2366 SC.

<sup>25</sup> (1999 PTC (19) 201 Delhi).

<sup>26</sup> AIR 2000 Bom 27; *Dr Reddy's Laboratories Ltd v. Manu Kosuri*, 2001 (58) DRJ 241.

<sup>27</sup> *Acqua Minerals Limited vs Mr. Pramod Borse & Anr*, AIR2001DELHI463

cybersquatter from using, selling, or otherwise commercially exploiting the domain name aroonpurie.com, finding that chairman of the India Today Group Aroon Purie had a presumptive right to the name.<sup>28</sup> Recently, the Bombay High Court, following the footsteps of the Delhi High Court, determined that domain name registrars can only be ordered to temporarily suspend individual domain names and cannot be expected to ‘limit access’ to a domain name.<sup>29</sup> Thus, the case is significant in its approach as it clarified domain name registrars’ obligations and responsibilities in internet trademark disputes.

Conclusively, it should be noted that the stance of the Indian judiciary is proactive when it comes to recognizing, preventing and culminating practices of cybersquatting, as they are swiftly dealing with cybersquatting issues on a regular basis.<sup>30</sup> However, presently, India, unlike her contemporary counterparts, does not have a specific legislation dealing with cybersquatting, thus delaying the implementation of an effective mechanism for dealing with issues pertaining to cybersquatting.<sup>31</sup> Therefore, with the increase in internet usage by people across the globe, it is paramount to introduce a specific legislation incorporating a distinct set of remedies/penalties for cybersquatting, as till date, the determination of the same has been done on a case-to-case basis, according to the judge’s viewpoint.<sup>32</sup> Additionally, the subsequent section explains the recent headway introduced in the field of cybersquatting via the deliverance of the judgment in Adobe, Inc. v Namase Patel.

#### **4. Adobe, Inc. v Namase Patel: A Milestone for India’s Evolving Jurisprudence on Cybersquatting**

In the recent case of Adobe, Inc. v. Namase Patel,<sup>33</sup> the Delhi High Court awarded the Plaintiff, Adobe, Rs. 2,00,01,000/- in damages against Namase Patel, the Defendant, who was identified by the Court as a *persistent cyber squatter*. Additionally, a permanent injunction prohibiting the Defendant from registering any domain names that might infringe on the Plaintiff’s trademarks ‘ADOBE,’ ‘PHOTOSHOP,’ and ‘SPARK’ was issued by the Delhi High Court. This section will analyze the principles of passing off under trademark law as applied to domain names in India.

##### **4.1 Facts**

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<sup>28</sup> Aroon Purie v. Kautily Krishan Pandey & Anr., C.S. (Commercial) 947/2018, Delhi High Court.

<sup>29</sup> Hindustan Unilever Limited v. Endurance, LC-VC-GSP-24 OF 2020.

<sup>30</sup> The Web of Cybersquatting: Are Laws Needed to Clean Up the Web?, KHURANA & KHURANA (2022), <https://www.khuranaandkhurana.com/2022/02/04/the-web-of-cybersquatting-are-laws-needed-to-clean-up-the-web/> (last visited Mar 26, 2024).

<sup>31</sup> Mittal, *supra* note 23.

<sup>32</sup> The Web of Cybersquatting: Are Laws Needed to Clean Up the Web?, *supra* note 30.

<sup>33</sup> 2022 SCC OnLine Del 4190.



The Plaintiff, a US-based corporation filed a suit, alleging trademark infringement by the Defendant's use of the domain names 'www.addobe.com' and 'www.adobee.com.' Additionally, it was claimed that because of their similarity, the Defendant may pass off the Plaintiff's services as his own. Plaintiff further said that the Defendant was making use of a 'catch-all' email service offered by Above.com, which allowed users to view any messages with typos in the domain name. The Plaintiff asked internet and telecom service providers to restrict access to the Defendant's websites and shut down their services in response to these claims. The Court formulated the following issues:

1. For how long did Namase Patel have the infringing domains registered?
2. Did Namaste Patel frequently register different iterations of well-known trademarks?
3. Does the use of well-known trademarks as domain names imply registrations made in bad faith?

#### **4.2 Legal Context:**

The case was decided under Section 29 of the Trade Marks Act, 1999, which deals with the infringement of trademarks.<sup>34</sup> Section 2(zg) of the Act recognizes *well-known trademarks*, which are marks that have gained enough recognition among a sizable portion of the public who use such goods or receive such services.<sup>35</sup> The court also applied the principles of passing off, which are used to protect unregistered trademarks and prevent others from using similar marks in a way that could cause confusion among the public.

The concept of passing off is derived from English common law and is used to protect unregistered trademarks. Passing off occurs when a defendant presents his goods or services in such a way that it misleads or deceives the public into believing that they are associated with the plaintiff's goods or services. Passing off is a common law tort that allows the owner of a trade name or trademark to prevent others from using it in a manner that could cause confusion among the public.

#### **4.3 Court's Reasoning:**

The Court found that the defendant's domain names were 'confusingly similar' to the plaintiff's trademarks, and there was no disputing that the defendant had violated the plaintiff's mark, as defined by Section 29 of the Trade Marks Act, 1999. The Court also noted that the plaintiff's trademarks were well-known trademarks, as recognized by Section 2(zg) of the Act.<sup>36</sup> The Court further cited the plaintiff's submission of the decisions of the National Arbitration Forum and the WIPO Arbitration

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<sup>34</sup> Trademarks Act, 1999, § 29.

<sup>35</sup> Trademarks Act, 1999, § 2(zg).

<sup>36</sup> Adobe Systems Inc. v. Rohat Rathi, 2008 SCC OnLine Del 697.

and Mediation Centre as evidence that the defendant was a persistent cybersquatter who had a history of infringing on famous domain names.

The Court also held that the defendant's use of the domain names was likely to cause confusion among the public and lead them to believe that the defendant's services were associated with the plaintiff's services. The Court stated that the defendant's use of the domain names was a classic example of passing off, as it was likely to cause confusion among the public and harm the plaintiff's reputation.

In its reasoning, the court also observed that the defendant had no legitimate interest in the domain names 'www.addobe.com' and 'www.adobee.com' and that the defendant's actions amounted to bad faith. The Court noted that the defendant had deliberately chosen to use a domain name that was similar to the plaintiff's well-known trademark with the intention of creating confusion among the public and benefiting from the goodwill associated with the plaintiff's mark. The court found this to be a clear case of passing off and infringement of the plaintiff's trademark rights.

#### **4.4 Commercial Relevance of the Decision:**

The decision in Adobe, Inc. v. Namase Patel is significant in several ways. Firstly, it reiterates the importance of protecting trademarks and preventing others from using similar marks in a way that could cause confusion among the public. In today's digital age, where businesses rely heavily on their online presence, domain names have become a critical component of brand identity. Therefore, protecting domain names that incorporate trademarks has become increasingly important.

Secondly, the decision highlights the need for companies to monitor the use of their trademarks and act against cybersquatters who engage in the abusive registration of domain names. Cybersquatting is a practice in which individuals or entities register domain names that are similar to or misspellings of a trademarked name with the intention of profiting from the confusion they create. This decision sends a clear message to cybersquatters that their actions will not be tolerated, and companies have the legal means to take action against them.

Thirdly, the decision serves as a warning to potential infringers that the courts will not tolerate the misuse of well-known trademarks for commercial gain. Trademarks are a valuable asset for businesses, and companies invest significant time, effort, and resources in building and maintaining their brand identities. Any attempt by third parties to misuse these trademarks for commercial gain is a serious offense and will not be taken lightly by the courts.

Finally, the decision has broader implications for intellectual property law in India. It reaffirms the Courts' commitment to protecting Intellectual Property rights and upholding the law against infringers. The ruling sets a precedent for future cases involving trademark infringement and passing off under Indian law. Companies can take heart from this decision knowing that the courts are willing to protect their intellectual property rights and that they have legal recourse against those who seek to

infringe on those rights.

In conclusion, the decision in *Adobe, Inc. v. Namase Patel* is a significant milestone in Indian trademark law. It reiterates the importance of protecting trademarks and preventing others from using similar marks in a way that could cause confusion among the public. The decision highlights the need for companies to monitor the use of their trademarks and take action against cybersquatters who engage in the abusive registration of domain names. Moreover, the decision serves as a warning to potential infringers that the courts will not tolerate the misuse of well-known trademarks for commercial gain. Ultimately, this ruling reaffirms the courts' commitment to protecting intellectual property rights and upholding the law against infringers.

Lastly, after shedding light on the Indian Judiciary's stance on cybersquatting, the authors believe it imperative to understand the International Jurisprudence on the subject and its impact on the Indian Authorities dealing with such instances.

## **5. International Mechanism and its sway over the Indian Authorities: An Interplay of UDRP and .INDRP**

### **5.1 The Uniform Domain Name Dispute Resolution Policy [UDRP]:**

India is one of the 171 nations in the globe that are members of the WIPO. One of the services offered by WIPO to its member nations is the provision of a venue for the worldwide formulation and application of treaties and other policy tools as intellectual property policies.<sup>37</sup>

In essence therefore, the core of WIPO's anti-cybersquatting system, as recognized by the ICANN, is the UDRP. Brand owners use it all around the globe to prevent the misuse of their trademarks in domain names. This dispute resolution process applies to all domain names registered in top-level domains like **.com**. The owners of many country domains, including **.ch** and **.io**, have also started using the UDRP.<sup>38</sup> Qualified panelists, rigorous and quick administrative processes, and overall objectivity and credibility are all incorporated into the UDRP. Additionally, the COVID-19 epidemic has spurred cybersquatting lawsuits submitted to the WIPO Arbitration and Mediation Center. The WIPO Center handled 3,405 cases from January through October 2020, an 11% increase from the same time in 2019. It should be noted that the overarching objectives of the UDRP appear to be to provide:

1. An expeditious, less expensive, and fair alternative to traditional litigation for cybersquatting cases;

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<sup>37</sup> *Satyam Infoway v. Sifynet Solutions*, AIR 2004 SC 3540.

<sup>38</sup> WIPO's Anti-"Cybersquatting" Service Surpasses 50,000 Cases amid COVID-19 Surge, WORLD INTELLECTUAL PROPERTY OFFICE MEDIA CENTER, [https://www.wipo.int/pressroom/en/articles/2020/article\\_0026.html](https://www.wipo.int/pressroom/en/articles/2020/article_0026.html) (last visited Mar 27, 2024).

2. A uniform administrative dispute-resolution procedure for domain name disputes in all gTLDs; and
3. Effectiveness in addressing distinct types of cybersquatting. Although ICANN staff did not identify any explicit statement of policy goals, UDRP-related documents, community feedback, and discussions support this conclusion.<sup>39</sup>

In relation to domain name conflicts, this policy provides for arbitration rather than litigation. If an abusive registration occurs, a trademark owner may use one of the following two options to enforce the policy:

- file a complaint against the domain-name holder in a court with appropriate jurisdiction (or, if necessary, bring an in-rem action involving the domain name); or
- in cases of abusive registration, submit a complaint to an authorized dispute-resolution service provider.<sup>40</sup>

Further, in accordance with this policy, anybody (complainant) may file a complaint on the basis that:

- 1) A domain name is identical to or confusingly similar to a trademark or service mark in which the complainant has rights;
- 2) A domain name is registered in bad faith;
- 3) The domain name owner has no legal or valid claims to the name;
- 4) The domain name is being used in bad faith and has been registered.<sup>41</sup>

However, the burden of proof of proving all the elements lie on the Complainant, and even if misapplication of registration is proved, there are no financial remedies available to the complainant. Only the domain name registration is canceled or transferred to the said complainant.

Nonetheless, since no government has created or is responsible for enforcing the UDRP, it is not a strict legal framework. It is based on a totally confidential contract that a buyer executes when they decide to buy a domain name. The terms and conditions set out by the *root registrar* and one of these requirements is that all domain name registrars must make sure that each and every one of their clients

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<sup>39</sup> THE WORLD INTELLECTUAL PROPERTY ORGANIZATION, *The Management of Internet Names and Addresses: Intellectual Property Issues: Final Report of the WIPO Internet Domain Name Process*, (1999), <https://www.wipo.int/amc/en/processes/process1/report/index.html> (last visited Mar 27, 2024).

<sup>40</sup> Uniform Domain-Name Dispute-Resolution Policy - ICANN, INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS, <https://www.icann.org/resources/pages/help/dndr/udrp-en> (last visited Mar 27, 2024).

<sup>41</sup> Lukas Bleidorn, *The Ultimate Guide on How to Protect Domain Names - Red Points*, RED POINTS (2023), <https://www.redpoints.com/blog/how-to-protect-domain-name/> (last visited Mar 27, 2024).

will be subject to the UDRP's jurisdiction.<sup>42</sup> Lastly, the UDRP has resolved more than 80,000 domain name disputes to date. In the great majority of cases, the cybersquatted domain name is returned to the legitimate trademark owner.<sup>43</sup> Additionally, legal action may still be filed before a court in the unlikely case that a complaint is unsuccessful before the UDRP.

## **5.2 The .IN Dispute Settlement Policy [.INDRP]:**

In addition to enforcement under the 1999 Act, and since India has not voluntarily acceded to the UDRP disputes pertaining to the country code top level domain, generally known as the domain name extension **.in**, may be resolved by an India-specific regulation, the **.IN Dispute Settlement Policy (.INDRP)**, which has been developed by the National Internet Exchange of India.<sup>44</sup> All/any disputes involving **.IN** or **BHARAT** (available in all Indian Languages) IDN's in any other Indian Languages shall be subject to this policy (INDRP). Any and all disputes must be resolved in accordance with Indian law, and subject to the aforementioned, only Delhi's courts will have jurisdiction over any arbitration proceedings. In accordance with the relevant legal regulations, the Registrar must properly implement the award as and when ordered by the NIXI/.IN Registry. If the Registrar refuses to carry out the award or instructions from NIXI /.IN Registry without a good reason, NIXI /.IN Registry will carry out the award on its own. An arbitrator will be chosen by the .IN Registry from the registry's list of empaneled arbitrators. The .IN Registry must make the List of Arbitrators available online on its website. In line with the Arbitration and Conciliation Act, 1996, as modified by the Arbitration and Conciliation (Amendment) Act, 2021, and the INDRP Policy and Rules, as updated from time to time, the Arbitrator shall conduct the arbitration proceedings.<sup>45</sup>

Further, the UDRP's complaint-filing criteria are the same as these criteria. The settlement process is the same as the UDRP process. The remedies provided may result in the transfer or cancellation of the registrant's domain name.<sup>46</sup> In contrast to the UDRP, the arbitrator may grant expenses if they are justified.<sup>47</sup> According to its proponents, the .INDRP complies with pertinent sections of the Information Technology Act, 2000 as well as generally acknowledged best practices.

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<sup>42</sup> Sanjay Sareen, *Domain Name Disputes and Cybersquatting*, LEXISNEXIS INDIA (Dec. 4, 2020), <https://lexisnexusindia.wordpress.com/2020/12/04/domain-name-disputes-and-cybersquatting/> (last visited Mar 27, 2024).

<sup>43</sup> Andrew Christie, *WIPO and IP Dispute Resolution*, in RESEARCH HANDBOOK ON THE WORLD INTELLECTUAL PROPERTY ORGANIZATION (2020), <https://www.e-elgar.com/shop/gbp/research-handbook-on-the-world-intellectual-property-organization-9781788977661.html> (last visited Mar 27, 2024).

<sup>44</sup> .IN Domain Name Dispute Resolution Policy (INDRP), <https://www.registry.in/domaindisputeresolution> (last visited Mar 27, 2024).

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> *id.*

However, a key distinction between both procedures is that, according to the UDRP, a complainant may group many domain names into a single, consolidated complaint. A unique complaint must be submitted for each domain name in a dispute, according to the INDRP's regulations [INDRP Rules of Procedure, Paragraph 3(c)].<sup>48</sup>

Additionally, any individual who considers that the registered domain name is not in tandem with his/her legitimate rights or interests can challenge the same on the following grounds:

- A. The registrant's domain name is identical or confusingly similar to a name, trademark or service mark in which he has rights; or
- B. the registrant has no rights or legitimate interests in respect of the domain name; and
- C. the registrant's domain name has been registered or is being used in bad faith.

The registrant is required to submit to a mandatory arbitration proceeding if a complaint is filed. The .IN Registry appoints an arbitrator to proceedings in accordance with the Arbitration and Conciliation Act, 1996.

In *Starbucks Corporation v. Mohanraj*<sup>49</sup>, the learned arbitrator determined that the domain name should be handed to the complainant since the respondent registered it in bad faith.<sup>50</sup> In the matter of *Google Inc. v. Gulshan Khatri*<sup>51</sup>, the learned arbitrator ruled that the contested domain name was confusingly similar to the complainant's other previously registered domain name and the registered trademark and ordered the registrar to immediately cancel the disputed domain name and transfer it to the complainant. Additionally, a prominent case brought under the .INDRP's jurisdiction was *YouTube LLC v. Rohit Kohli*,<sup>52</sup> in which the respondent registered the domain name 'www.youtube.co.in.' The company known as 'YouTube' owns the trademark in the domain name. The domain name was transferred to the owner of the trademark after the Board determined that it was phonetically and conceptually similar to the complainant's brand.

## 6. Concluding thoughts

Although the judgement is favorable for repeat offenders, it is nevertheless challenging, if not impossible, to have orders enforced and to have damages awarded to those defendants. In the current internet age and online presence, criminals are frequently able to conceal their identities, use aliases

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<sup>48</sup> Conventus Law, *India - Enforcement Against Cybersquatting.*, CONVENTUS LAW (Oct. 6, 2020), <https://conventuslaw.com/report/india-enforcement-against-cybersquatting/> (last visited Mar 27, 2024).

<sup>49</sup> *Starbucks Corp. v. Mohanraj*, INDRP/118 (Nov. 26, 2009).

<sup>50</sup> Domain Name- Case laws in India, S.S. RANA & CO., <https://ssrana.in/ip-laws/domain-names-india/domain-names-case-law-india/> (last visited Mar 27, 2024).

<sup>51</sup> *Google Inc. v. Gulshan Khatri*, O.M.P. (COMM) 497/2016 (Delhi High Court Nov. 29, 2016).

<sup>52</sup> INDRP/42.

and pseudonyms to avoid detection, and simply escape their legal obligations. For people and organizations who have been identified as participating in infringement-related activities, domain registries and domain registrars may need to impose more stringent onboarding procedures.

As per the Amendments to the INDRP Policy and Rules,<sup>53</sup> precedence has been given to electronic modes of filing and communication. This, in turn, has widened the scope of the policy to include foreign parties in its ambit by making the option of remote proceedings available to them. Even the responsibility of providing requisite documents rests on the Complainant, and since, the Complainant is the aggrieved in such cases, it is probable that this change will expedite the process. These changes have resulted in a more streamlined procedure, making the enforcement easier.<sup>54</sup>

In conclusion, the recommended approach for resolving domain name disputes includes both the UDRP and INDRP. An international treaty is urgently required to harmonize the disparate norms imposed by various nations since the absence of a coordinated strategy among these nations has grave consequences for both human and corporate rights.

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<sup>53</sup> .IN Dispute Resolution Policy (INDRP) Rules of Procedure, <https://www.registry.in/indrprulesprocedure> (last visited Mar 27, 2024).

<sup>54</sup> Amendments brought about to INDRP for .in domain disputes – Selvam & Selvam, SELVAM & SELVAM (2020), <https://selvams.com/blog/amendments-brought-about-to-indrp-for-in-domain-disputes/> (last visited Mar 27, 2024).

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## **Reconciling Right to Repair and Intellectual Property Rights: An Indian Perspective**

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### **ABSTRACT**

Right to repair is a global movement to empower consumers and an important step towards achieving a more circular economy. Anti-competitive practises adopted by the original equipment manufacturers (OEMs) in restricting repair activities, are a rather regretful stricture in achieving this new-age consumer right. India is also set to introduce a regulatory framework on the right to repair and the Ministry of Consumer Affairs in July, 2022 has set up a special committee to make recommendations for the same. The aim is to empower the consumers and product buyers in the local market, harmonize trade between the OEMs and the third-party buyers and sellers, emphasize on developing sustainable consumption of products and reduction in e-waste. On one hand right to repair is becoming indispensable for achieving sustainable development goals (SDGs) and a circular economy, on the other hand IP rights have emerged as the most potent barriers in restricting this right.

Copyright is impeding access to repair information and anti-circumvention laws protecting technological protection measures (TPMs) used by manufacturers, is controlling repair of software-embedded products. Trademark implications may follow from use of replacement parts which are affixed with microscopic logos or when the shape of the part is itself trademarked, which restrain the independent repairers from refurbishing or repairing these products. Furthermore, repairing of the patent protected product may amount to reconstruction and thus trigger patent infringement. The danger of a possible legal liability under the present IPR regime looms over the small-scale and independent repairers, which may deter the uninformed independent repairers and consumers from exercising the right to repair in its entirety.

To this aim, the present article is an earnest attempt to enumerate some instances of IP rights which may possibly curtail the right to repair and the exceptions against such IPR infringement claims, if any, available under the current Indian IPR regime for purposes of repair. Other than stating the *status quo* of the confrontation of IPR with right to repair in the Indian legal landscape, the article also attempts to suggest some solutions to reconcile the two rights without prioritising one over the other. These recommendations include: clarifying the scope of patent exhaustion under the Indian patent regime to allow repair of the patented products for their continued use, introducing a repair specific exception under the Indian copyright regime to allow the access to copyrighted information and embedded computer codes hidden behind the mirage of digital locks and taking a cautious approach while granting trade mark registration to microscopic marks or shapes of individual parts.

**Keywords:** Right to Repair, Repair-Reconstruction Dichotomy, Patent Exhaustion, Technological Protection Measures (TPM), Microscopic Trademarks

## I. Introduction

The right to repair is a global movement whereby the consumers are empowered to make a free choice of repairing their devices either on their own or through an independent repairer.<sup>55</sup> In the last couple of years, countries around the globe have resolved to introduce legal and regulatory frameworks towards establishing a new right to repair.<sup>56</sup> For instance, over twenty states in the United States of America (USA) have introduced repair legislations and New York became the first state to enact the Digital Fair Repair Act.<sup>57</sup> The New York legislation applies to devices used or purchased after July 1, 2023 and mandates the OEMs of consumer electronics to provide parts, tools, manuals, and other information to both consumers and independent repairers for repair purposes.<sup>58</sup> Likewise, Australia has passed the Competition and Consumer Amendment (Motor Vehicle Service and Repair Information Sharing Scheme) Act 2021, which came into force on July 1<sup>st</sup>, 2021 to establish a mandatory scheme for the sharing of motor vehicle service and repair information.<sup>59</sup>

India being one of the largest consumer markets in the world, has followed suit and is in the stage of developing a comprehensive framework on the right to repair. To this effect, the Department of Consumer Affairs has set up a committee chaired by Smt. Nidhi Khare, Additional Secretary, Department of Consumer Affairs, Government of India, to make recommendations for the same.<sup>60</sup> Under the framework, it would be mandatory for the OEMs to provide complete knowledge and access to manuals, schematics, and software updates, including diagnostic tools to the consumers for purpose of repair.<sup>61</sup> The aim of developing such a framework is to empower consumers and product buyers in the local market, harmonize trade between the OEMs and the third-party buyers and sellers, emphasize on developing sustainable consumption of products and reduction in e-waste. This right will also provide an impetus to the businesses of small repair shops in the country. In the first meeting of this Committee held on July 13<sup>th</sup>, 2022, certain sectors for the initial focus of the framework were identified. The sectors include farming equipment, mobile phones and electronics, consumer durables and automobile equipment.<sup>62</sup>

The need for a comprehensive framework for repair seems indispensable in the wake of restrictive steps taken by the manufactures to inhibit these repair activities. For instance, companies manufacture products with planned obsolescence, to artificially shorten their lifecycle to retain customers and increase sales.<sup>63</sup> Manufacturers avoid the publication of manuals that can help users make repairs and exercise restrictive monopolies over the spare parts.<sup>64</sup> Further, to monopolise the repair market, the manufactures restrict the warranty claims by the customer who gets his product repaired from a non-authorised repairer.<sup>65</sup> However, another significant but often overlooked impediment in transforming

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<sup>55</sup> Robert W. Gomulkiewicz, , *Considering a Right to Repair Software*, 37 BERKELEY TECH. L.J. 943, 944 (2022).

<sup>56</sup> Anthony D. Rosborough et al., *Achieving a (copy)right to repair for the EU's green economy*, 18 J. INTELL. PROP. L. & PRAC. 344, 345 (2023).

<sup>57</sup> Faulkner, Cameron , *New York breaks the right to repair bill as it's signed into law*, THE VERGE (2023), (accessed 23 July 2023).

<sup>58</sup> Ibid.

<sup>59</sup> Competition and Consumer Amendment (Motor Vehicle Service and Repair Information Sharing Scheme) Act 2021, Act No. 54 of 2021, An Act to amend the Competition and Consumer Act 2010 in relation to sharing information for motor vehicle service and repair, and for related purposes. (accessed 23 July 2023).

<sup>60</sup> Department of Consumer Affairs sets up committee to develop comprehensive framework on the Right to Repair, Press Information Bureau, Government of India (2022), (accessed 22 July 2023).

<sup>61</sup> Ibid.

<sup>62</sup> Ibid.

<sup>63</sup> Wiens, Kyle, *The Shady World of Repair Manuals: Copyrighting for Planned Obsolescence*, WIRED (2012), (accessed 23 July 2023).

<sup>64</sup> A "Right to Repair" Movement Tools Up, THE ECONOMIST (2017), (accessed 23 July 2023).

<sup>65</sup> Ganesh, BL and Ahuja, Muskaan, *The Need for a "Right to Repair" in India*, INDIACROPLAW (2021), (accessed 23 July 2023).

the vision of right to repair to reality, is the IP rights of the OEMs.<sup>66</sup> Irrespective of the fact that a consumer or a repairer has specialised knowledge or capacity to repair the product, any kind of tinkering with the copyrighted software or patented technology or reproduction of the trademark (hereinafter, “TM”) protected product may invite an action for infringement of these IP rights. Consequently, IP rights could easily be used by owners to debilitate or obscure the right to repair of consumers.<sup>67</sup>

And while IP rights such as industrial designs and trade secrets can also obstruct the realisation of the right to repair, the lions share is taken by patents, trademarks and copyright. Repairing a patented product can amount to patent infringement, unless otherwise permitted. Although the doctrine of patent exhaustion (including right to repair the patented product) is recognised as a potent defence against such infringement claims worldwide, the applicability and scope of this doctrine in India remains an unsolved quagmire.<sup>68</sup> Moreover, the repair-reconstruction dichotomy and post-sale restrictions prohibiting repair, can further add to the woes of reconciling repair with the existing Indian patent regime. Further, copyright laws can be successfully used by the OEMs to inhibit repair by restricting access to copyright protected repair manuals and other repair related information. Manufacturers curtail access to such information by exercising their exclusive rights of distribution, reproduction and communication of such material online.<sup>69</sup> Moreover, software embedded in almost every digital device is copyright protected and manufacturers use TPMs or digital locks to prohibit access to such software codes needed to repair these products.<sup>70</sup> Circumventing such digital locks invites copyright liability, thereby making repair more difficult.

Furthermore, certain manufacturers in order to control the repair markets, affix microscopic TMs and logos on small component or repair parts, that can barely be seen by the consumers. For instance, Apple routinely puts microscopic “Apple” logos on internal iPhone repair parts to restrain the independent repair shops from refurbishing or repairing the iPhone without infringing its TM.<sup>71</sup> This practise although technically legal, far exceeds the traditional function of TM, as it neither acts as a source identifier, nor increases consumer recognition. It only provides yet another layer of TM protection, through which the manufacturers can claim infringement of TM or at least passing off, against independent repairers when they use such unauthorized repair parts to refurbish the products.<sup>72</sup>

Evidently, there is an urgent need to reconcile the IP Rights and the right to repair and provide clarity as to which aspects of repair may potentially amount to IP infringement. Till then, the danger of possible legal liability looms over the small-scale and independent repairers. The manufacturers often use cease and desist letters and other informal demand notices to threaten the small repairers with infringement litigation.<sup>73</sup> Although, certain exceptions are available against these IP claims, this danger of being sued may either deter the uninformed independent repairers and consumers from

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<sup>66</sup> Perzanowski, A., *Repair and Intellectual Property*, in *THE RIGHT TO REPAIR: RECLAIMING THE THINGS WE OWN*, 110, 110-166 (Cambridge University Press, 2022).

<sup>67</sup> Rosborough, Anthony D., et al., *supra* note 2.

<sup>68</sup> Basheer, Shamnad and Kochupillai, Mrinalini, ‘*Exhausting’ Patent Rights in India: Parallel Imports and TRIPS Compliance*, 13 J. INTELL. PROP. RTS. 486, 486-487 (2008).

<sup>69</sup> Rosborough, Anthony D., et al., *supra* note 2, at 346.

<sup>70</sup> Quan, Yanmin and Zhang, Xiaohao, *Outlook on the right to repair: how will it find its way into China’s Copyright Law?*, 18 J. INTELL. PROP. L. & PRAC. 382,382 (2023).

<sup>71</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, *Intellectual Property Law and The Right to Repair*, 88 FORDHAM L. REV. 63, 67 (2019).

<sup>72</sup> Pathak, Gaurav and Kapoor, Gaurangi, *Suggested Framework for the Right to Repair in India*, in *Consumer Law and Practise: Contemporary Issues and Way Forward*, 6 (Prof. (Dr.) Ashok R. Patil, ed., Ministry of Consumer Affairs, Food and Public Distribution, Government of India, New Delhi and National Law School of India University, Bangalore, India, 2023).

<sup>73</sup> Grinvald, Leah Chan, *Policing the Cease-and-Desist Letter*, 49 U. S. F. L. REV. 411 (2015).

exercising this right to repair in its entirety or result in giving in to the demands of IP proprietors, for settling out of court.<sup>74</sup> With such high stakes at issue, the need of the hour is to clearly delineate the possible IP infringements from certain acts of right to repair and defences available against such claims and also to reconcile the IPR laws with various subsets of right to repair.

## II. Patents and Right to Repair

The patent law grants some monopoly rights to the patent holder with respect to the patented product. Section 48 of the Patents Act, 1970 provides the patent holder: “(a) where the subject matter of the patent is a product, the exclusive right to prevent third parties, who do not have his consent, from the act of making, using, offering for sale, selling or importing for those purposes that product in India; (b) where the subject matter of the patent is a process, the exclusive right to prevent third parties, who do not have his consent, from the act of using that process, and from the act of using, offering for sale, selling or importing for those purposes the product obtained directly by that process in India”.<sup>75</sup> Repairing a patented product will amount to the act of ‘using’ the patent, which will result in patent infringement, unless otherwise permitted.<sup>76</sup>

### A. Patent exhaustion and the Repair-Reconstruction dichotomy

Doctrine of patent exhaustion, is recognised as one of the important permitted uses or defences available against patent infringement. Patent exhaustion signifies that the first sale of the patented product by the patent owner exhausts or extinguishes all exclusive rights of the patent holder with respect to that particular product.<sup>77</sup> The buyer of this patented product can use, sell, import or distribute it without the risk of patent infringement. As the owner of the patented product under this doctrine is allowed to “use” the product, he is also allowed to “repair” it for its continued use.<sup>78</sup> However, courts of most countries have provided that the doctrine permits only repairs of the patented product, but not its “reconstruction”.<sup>79</sup> Reconstruction results in making of a new product, which remains the exclusive right of the patent holder even after the first sale and thus is not permitted.<sup>80</sup> Although, a clear line between repair and reconstruction has not been drawn, courts at several instances have tried to adjudicate on the limit of permitted repair. For instance, the Supreme Court of USA in the landmark case of *Aro Mfg. Co. v. Convertible Top Replacement Co.*<sup>81</sup>, ruled that the purchaser has no right to reconstruct or rebuild the patented combination (in this case, an automobile convertible roof assembly). However, he can replace the individual unpatented parts (in this case, the fabric top portion of the convertible roof), which have worn out, and are essential to restore the original working of the whole patented entity. Further, the modification of a patented article through various minor operations, for improving useful life or functionality of the product, not resulting in making of new article, is not infringement.<sup>82</sup> The UK patent law also recognises that prolonging the life of a product through repair (which does not amount to reconstruction), is within the purview of the purchaser’s right to use the patented product.<sup>83</sup> Recently, the High Court of Australia (the highest court of appeal in Australia) in

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<sup>74</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, supra note 17, at 74.

<sup>75</sup> The Patents Act, 1970, Act 39 of 1970, § 48.

<sup>76</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, supra note 17, at 100.

<sup>77</sup> Himanshu, Vijay Kumar, *Patent Monopoly and Doctrine of Exhaustion: Limits on Exclusive Right*, 16 J. INTELL. PROP. RTS. 453 (2011).

<sup>78</sup> Id., at 456.

<sup>79</sup> Basheer, Shammad and Kochupillai, Mrinalini, supra note 14, at 494.

<sup>80</sup> Himanshu, Vijay Kumar, supra note 23, at 456.

<sup>81</sup> 27- 365 U.S. 336 (1961).

<sup>82</sup> *Jazz Photo v. U.S.* (Fed. Cir. 2006, 05–1096).

<sup>83</sup> *Dunlop, United Wire Ltd v. Screen Repair Services (Scotland) Ltd* [2001] RPC 24.

the landmark case of *Calidad Pty Ltd v. Seiko Epson Corporation*<sup>84</sup> has also held that the repair of a patented product, not amounting to reconstruction, does not amount to infringement of patent rights.

The Indian courts or the legislature have not provided ample clarity as to whether repair of the patented product is permitted under the Indian patent law. To understand the Indian position, it is thus pertinent to first examine the applicability and contours of doctrine of patent exhaustion in India. Under the Indian Patents Act, 1970, the doctrine of patent exhaustion does not find explicit mention. The only provision which touches upon this doctrine is section 107A(b), which was amended in 2005 and states that the “*importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product*” shall not be considered patent infringement.<sup>85</sup> A literal interpretation of the provision does not provide ample clarity as to whether the exception of patent exhaustion is available under the Indian law and if it is available, which type of patent exhaustion is applicable. Therefore, a discussion on the types of patent exhaustion applicable under the patent regime globally is inexorable at this juncture. The three important types of patent exhaustion are: -

**Domestic exhaustion-** If the first sale of the patented product is made in a country by or with authorization of the patentee, then the product can be used, imported or sold anywhere in that country, without the permission of patentee.

**International exhaustion-** If the first sale of the patented product is made anywhere in the world by or with authorization of the patentee, then the product can be used, imported or sold anywhere in the country (that allows international exhaustion), without the permission of the patentee.

**Regional exhaustion-** If the first sale of the patented product is made anywhere in the regional bloc (for example, the European Union which follows regional exhaustion), by or with authorization of the patentee, then the product can be used, imported or sold in any country of the regional bloc, without the permission of the patentee.

Coming back to the literal interpretation of section 107A(b) of the Patents Act, 1970, it only allows parallel imports by a third party of a patented product into India, derived from a person who is duly authorised under the law to produce and sell or distribute the product. The expression, “duly authorised under the law” is also open to various interpretations as it is not clear whether the applicable law is only the Indian law or the law of the country from which the patented product is imported.<sup>86</sup> Moreover, as discussed earlier, the exclusive rights of the patentee under section 48 of the Patents Act, 1970 includes using (which includes repairing), selling, distributing and importing the patented product and the exception of patent exhaustion seeks to exhaust all the above rights. However, the strict interpretation of the section 107A(b) suggests that only importing is allowed.

Nonetheless, most scholars have preferred to use purposive interpretation to further the intent of the Parliament reflected from the Statement of Objects and Reasons appended to the Patents (Amendment) Act, 2002 (which brought about the earlier version of section 107A(b)), and various Parliamentary debates and official press releases related to the Patents (Amendment) Act, 2005.<sup>87</sup> Through this interpretation, section 107A(b) can be construed to indicate that India follows “International patent exhaustion” and allows “use, sale or distribution” of the patented product (after first sale), other than just the explicitly mentioned “import”.<sup>88</sup> Although, the international exhaustion is a much wider exception than the “national exhaustion” and most countries which allow international

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<sup>84</sup> [2020] HCA 41.

<sup>85</sup> The Patents Act, 1970, Act 39 of 1970, § 107A(b).

<sup>86</sup> Basheer, Shamnad and Kochupillai, Mrinalini, *supra* note 14, at 490.

<sup>87</sup> Himanshu, Vijay Kumar, *supra* note 23, at 460.

<sup>88</sup> Basheer, Shamnad and Kochupillai, Mrinalini, *supra* note 14, at 493.

exhaustion, also permit national exhaustion, scholars are not united as to whether Section 107A(b) includes “national exhaustion” or not.<sup>89</sup> The judiciary also has not stepped in to remove this ambiguity. Thus, experts have persistently called for amending the provision, so as to explicitly include the exhaustion doctrine in clear terms and to include ‘right to repair’ within the purview of the rights exhausted on the event of first sale of the patented product.<sup>90</sup> Until such an amendment is promulgated, a purposive interpretation of section 107A(b) should be followed. And if such interpretation is followed, it can be implied that Indian patent law follows international patent exhaustion and thus, repair of the patented product (which does not amount to reconstructing or making a new patented product) should be allowed, without infringing on the patentee’s exclusive rights.

## **B. Post-sale restrictions prohibiting repair**

Other obstacles to ‘right to repair’ being exempted from patent infringement under the patent exhaustion doctrine, are post-sale restrictions or license restrictions imposed by the patentee to oust the application of the exhaustion doctrine. The manufacturers often license (and not sell) or impose post-sale restrictions to preclude exhaustion of their exclusive rights.<sup>91</sup> Such conditions attached to the sale (which explicitly or implicitly exclude the patent exhaustion), result in excluding the right of the consumer to repair his purchased patented product for its continued use.<sup>92</sup> However, range of remedies available against violation of these restrictions differ in countries that follow the “exhaustion model”, as against the countries which follow the “implied license model”. Under the exhaustion model, exclusive rights of the patentee are exhausted, and these post-sale restrictions (circumventing the exhaustion) can only be remedied under the contract law (for instance, breach of contract) and has no remedies under the patent law (for instance, patent infringement).<sup>93</sup> Whereas, under the implied license model, the exclusive rights of the patentee do not exhaust or disappear upon the sale of the patented product, but the patentee is deemed to provide an implied license to the purchaser to use or sell the product.<sup>94</sup> The patentee can explicitly contradict this implied license by putting these restrictions on using or selling the patented product.<sup>95</sup> If these post-sale restrictions, which can restrict the use or repair of the patented products, are violated, the patentee has remedies under both the patent law as well as the contract law.<sup>96</sup>

As the patentees often use such post-sale restrictions to curtail repair of the patented products and the scope of the enforceability of these restrictions is much wider under the implied license model, the countries around the world, notably Australia and USA, have started to move towards the exhaustion model and restricted remedies under the patent law for violation of such post-sale restrictions.<sup>97</sup> The recent landmark decisions of the higher judiciary of Australia and USA have brought a fundamental shift in their patent law related to patent exhaustion and thus, deserve a brief discussion.

Australia previously followed the implied license model, meaning thereby that the patentee could

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<sup>89</sup> Basheer, Shamnad and Kochupillai, Mrinalini, *supra* note 14, at 494; Pai, Yogesh, *The Hermeneutics of Patent Exhaustion Doctrine in India*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS 324 (Irene Calboli and Edward Lee, eds., Edward Elgar, 2016).

<sup>90</sup> See Basheer, Shamnad and Kochupillai, Mrinalini, *supra* note 14, at 494; Himanshu, Vijay Kumar, *supra* note 23, at 461.

<sup>91</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, *supra* note 17, at 101.

<sup>92</sup> *Ibid.*

<sup>93</sup> Lai, Jessica C, *The exhaustion of patent rights v the implied licence approach: untangling the web of patent rights*, 8 QUEEN MARY J. INTELL. PROP. 209, 215-216 (2018).

<sup>94</sup> *Id.*, at 218.

<sup>95</sup> *Id.*, at 219.

<sup>96</sup> *Id.*, at 215, 216.

<sup>97</sup> See *id.*, at 214-218. Also see Rimmer, Matthew, *The Right to Repair: Patent Law and 3D Printing in Australia* 20(1) SCRIPTed 130 (2023).



restrict the right of repair (among other rights), by explicitly putting conditions on sale.<sup>98</sup> However, the High Court of Australia in 2020 in the case of *Calidad Pty Ltd. v. Seiko Epson Corporation*<sup>99</sup> has fundamentally changed the Australian patent law and ruled that the exhaustion model applies to Australia, thereby replacing the ‘implied license’ model. The reasons for adopting the exhaustion model include consistency with the wording and objectives of the Australian patent statute, logical consistency, simplicity and legal coherence. It was also held to be consistent with the demands of trade and commerce and consumer expectations.<sup>100</sup> The implied license model was rejected for being too complicated, reliant on a legal fiction, and inconsistent with the larger economic and social objectives.<sup>101</sup>

Similarly, although USA followed national patent exhaustion model, prior to 2017, a patentee could contract out of exhaustion through post-sale restrictions (and the same were enforceable through remedies under patent law) and thus, the US exhaustion model had affinities with the implied license approach.<sup>102</sup> However, this position drastically changed in 2017 with the landmark ruling of the US Supreme Court in *Impression Products, Inc. v. Lexmark International, Inc.*<sup>103</sup> The court has held that the exhaustion of patent rights is automatic and the exhaustion of such rights cannot be circumvented through post-sale contractual restrictions. Such contractual restrictions cannot be enforced under the patent law as a case of patent infringement, and can only find remedy under the contract law. The court has also extended the patent exhaustion regime from national exhaustion to international exhaustion in this case. Thus, any authorized sale of a patented product in USA or outside USA, results in exhaustion of all patent rights (except to make the patented product) and if any contractual restrictions are attached to such sale to circumvent the exhaustion, the same will find no remedy under the patent law.<sup>104</sup>

Like the patent exhaustion, the Indian position on the validity of post-sale restrictions which seek to oust the application of the exhaustion of patentee’s exclusive rights (and thus, right to repair the patented product), is not clear. However, under section 140 of the Patents Act, 1970, certain restrictive conditions inserted in any contract of sale or lease of patented article are declared to be void. Such conditions include restricting or prohibiting the purchaser, lessee or licensee from acquiring or using any article other than the patented product, from a third party or making it compulsory to acquire or use the other article supplied only by the patentee (or his nominee) himself.<sup>105</sup> For instance, requiring the purchaser of the patented article to buy replacement parts only from the patentee or his authorised agent. However, nothing in section 140 will “affect a condition in a contract for the lease of, or licence to use a patented article, by which the lessor or licensor reserves to himself or his nominee the right to supply such new parts of the patented article as may be required or to put or keep it in repair”.<sup>106</sup> This rider suggests that a patent holder (or the vendor, manufacturer, licensor or lessor) can reserve the right to supply new replacement parts of the patented article required for its repair, if the contract is that of lease or license to use a patented article (and not that of sale of the patented article). However, neither the Patents Act, 1970, nor the judiciary provide any guidance regarding the status or validity of the post-sale restrictions ousting the exhaustion doctrine or the right to repair the patented product.

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<sup>98</sup> Rimmer, Mathew, Id., at 155.

<sup>99</sup> Case S329/2019.

<sup>100</sup> Rimmer, Mathew, supra note 43, at 154-156.

<sup>101</sup> Rimmer, Mathew, supra note 43, at 156.

<sup>102</sup> Lai, Jessica C, supra note 39, at 215.

<sup>103</sup> 137 S. Ct. 1523 (2017).

<sup>104</sup> Id., at 1335.

<sup>105</sup> See The Patents Act, 1970, Act 39 of 1970, § 140.

<sup>106</sup> The Patents Act, 1970 (Act 39 of 1970), § 140(4).

### III. Copyright and Right to Repair

Access to repair manuals and other information required for repair, which are protected as “literary works”, can be restricted under the Indian Copyright Act, 1957. Under section 14, only the copyright holder has the exclusive right to circulate, reproduce or communicate these literary works to the public.<sup>107</sup> If a third party infringes upon the copyright in these repair manuals, he can be made liable under section 51.<sup>108</sup> Fair dealing provisions under section 52, which carve out certain exceptions to copyright infringement under section 51, also do not provide any defence to the independent repair shops in circulating or distributing copyright protected repair information to the public.<sup>109</sup>

Further, the products ranging from electronics, machines or automobiles, have become technologically sophisticated and have software code embedded into them, which is essential to make these products operational.<sup>110</sup> In order to repair these software embedded products, it is essential that the consumers and repair shops have access to these software programmes. However, these software programmes are protected under the Copyright Act, 1957 and any unauthorised use can make them liable for infringement. As the copyrighted software is embedded into a greater diversity of consumer products, it is pertinent to study how copyright law affects the ability of the consumers (and repair shops) to effectively engage in repair of these products and also identify exceptions available against such copyright implications.

Section 13(1) signifies that copyright subsists in “literary works” among other works. “Literary work” includes computer programmes, tables and compilations including computer databases.<sup>111</sup> “Computer programme” is defined as “*a set of instructions expressed in words, codes, schemes or in any other form, including a machine readable medium, capable of causing a computer to perform a particular task or achieve a particular result*”.<sup>112</sup> Software is a set of instructions or programs used to operate the computer or cause the computer to do specific tasks. Thus, software is squarely covered under the copyright law as “literary works”. The owners of these original software programmes are given exclusive right to do certain acts or to authorise such acts.<sup>113</sup> Any attempt to repair these software embedded products can violate the following exclusive rights of the software copyright holders: -

1. To reproduce the work and issue copies of the work.<sup>114</sup> This right may be implicated when the copy of the software is made or reproduced by the repairer and is transferred into a test environment where it can be evaluated further in detail, which is quite common in the repair process.<sup>115</sup>
2. To make derivative works based on the original software.<sup>116</sup> If the repairer decides to modify the original software code in some aspects, add or delete lines or parts of the code, or develop a new programme altogether that interoperates with the existing software programme,

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<sup>107</sup> The Copyright Act, 1957 (Act 14 of 1957), § 14.

<sup>108</sup> The Copyright Act, 1957 (Act 14 of 1957), § 51.

<sup>109</sup> The Copyright Act, 1957 (Act 14 of 1957), § 52.

<sup>110</sup> Rosborough, Anthony D., et al., *supra* note 2.

<sup>111</sup> The Copyright Act, 1957 (Act 14 of 1957), §2(o).

<sup>112</sup> The Copyright Act, 1957 (Act 14 of 1957), §2(ffc).

<sup>113</sup> The Copyright Act, 1957 (Act 14 of 1957), §14.

<sup>114</sup> The Copyright Act, 1957 (Act 14 of 1957), §14 (a)(i) and (ii).

<sup>115</sup> Mirr, Nicholas A., *Defending the Right to Repair: An Argument for Federal Legislation Guaranteeing the Right to Repair*, 105 IOWA L. REV. 2393 (2020).

<sup>116</sup> The Copyright Act, 1957 (Act 14 of 1957), §14(a)(vi).

this right may be violated.<sup>117</sup>

3. To sell, rent, or offer to sell or rent any copy of the computer programme.<sup>118</sup> This right can potentially be implicated if the repairer decides to sell/rent the copy of the software, or the modified software (derivate of the original software) or the modified embedded product to a third party.

4. To communicate the work (software) to the public.<sup>119</sup> If the repairer communicates the code of the embedded software to the public by either posting it online or on a website or any other public platform, this right may be implicated.<sup>120</sup>

Notably, section 52 of the Copyright Act, 1957 crafts out certain exceptions to copyright infringement claims. It provides a closed list of acts which do not constitute infringement of copyright, which are commonly called the “fair dealing” provisions. Right to repair, specifically, is not recognised as a copyright exception under the said provision. However, some exceptions related to the embedded software programmes are enumerated under Section 52.

These exceptions include, firstly, making of copies or adapting a computer programme by the lawful possessor of a copy of such computer programme, for utilising the computer programme for the purpose for which it has been supplied.<sup>121</sup> Secondly, doing of any act necessary to obtain information essential for operating inter-operability of an independently created computer programme with other programmes by a lawful possessor of a computer programme provided that such information is not otherwise readily available.<sup>122</sup> Thirdly, observation, study or test of functioning of the computer programme in order to determine the ideas and principles which underline any elements of the programme while performing such acts necessary for the functions for which the computer programme was supplied.<sup>123</sup> Fourthly, making of copies or adaptation of the computer programme from a personally legally obtained copy for non-commercial personal use.<sup>124</sup>

From the foregoing, it can be contented that the computer programme/software embedded product is “supplied” for being used by the consumer. For the continued use, repair of the product is essential. Thus, a careful perusal of these exceptions suggests that if the consumer himself, makes copies or adaptations, does any act necessary to obtain information, observation, study or test of functioning of the software, for the purpose of repair and for non-commercial personal use, then the same can be exempted from copyright infringement. However, the interpretation of the above provisions cannot carve out an exception for the repair shops or independent repairers, as the above acts are required to be done only by the “lawful possessor” of the software (i.e. the buyer or consumer of the software embedded product). If the consumer engages the services of an independent repairer, then the act of tinkering with the software even for the purpose of repair, is neither done by the “lawful possessor” nor is done for a non-commercial personal use (as the repair by the independent repairer will be done for the remuneration provided by the consumer for repair). Thus, the right of repair cannot be exercised in its entirety without violating the copyright in the software code embedded in the product, as the exception under section 52 is only available to the consumer himself, and not to the repair shops.

On the other hand, jurisdictions like USA, have crafted out a specific copyright infringement

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<sup>117</sup> Mirr, Nicholas A., Supra note 61.

<sup>118</sup> The Copyright Act, 1957 (Act 14 of 1957), §14(b)(ii).

<sup>119</sup> The Copyright Act, 1957 (Act 14 of 1957), §14(a)(iii).

<sup>120</sup> Mirr, Nicholas A., Supra note 61.

<sup>121</sup> The Copyright Act, 1957 (Act 14 of 1957), §52(1)(aa).

<sup>122</sup> The Copyright Act, 1957 (Act 14 of 1957), §52(1)(ab).

<sup>123</sup> The Copyright Act, 1957 (Act 14 of 1957), §52(1)(ac).

<sup>124</sup> The Copyright Act, 1957 (Act 14 of 1957), §52(1)(ad).

exception against use of computer programme for the purpose of “repair or machine maintenance”. Section 117(c) of the US Copyright Act provides that, “*it is not an infringement for the owner or lessee of a machine to make or authorize the making of a copy of a computer program if such copy is made solely by virtue of the activation of a machine that lawfully contains an authorized copy of the computer program, for purposes only of maintenance or repair of that machine, if—*

*(1) such new copy is used in no other manner and is destroyed immediately after the maintenance or repair is completed; and*

*(2) with respect to any computer program or part thereof that is not necessary for that machine to be activated, such program or part thereof is not accessed or used other than to make such new copy by virtue of the activation of the machine.*”<sup>125</sup>

Under the provision, the owner of the software embedded product (the consumer) can either himself make or authorize another person (which may include an independent repairer or a repair shop) to make a copy of the software for the purposes of repair. A similar copyright exception in respect to embedded software for the purposes of repair, can be useful to protect the consumers and the repairers from infringing copyright, when they make copies of the software only for repair purposes.

Another possible hindrance under copyright law in exercising the right to repair is the use of Digital Rights Management (DRM) by the copyright proprietors. As discussed, all modern products have software embedded in them to make them functional and this software code is protected under copyright law. Moreover, as discussed, repair guides and manuals (known as diagnostic information) also are copyright protected as “literary works” and their distribution, reproduction and communication in the online medium is also prohibited. To prevent the unauthorised use or infringement of copyright protected software or repair manuals, manufacturers/ software proprietors use DRM tools and technologies, including digital locks to restrict sharing, illegal copying or modifying of this software.<sup>126</sup> For repairing the software embedded product, it is essential to have access to this software and the same cannot be accessed without breaking this digital lock or circumventing the DRM technology adopted by the manufacturers/ software owners.

Legal protection against such circumvention of digital locks or other TPM is provided under section 65 A of the Indian Copyright Act, 1957. This provision was added by the Copyright (Amendment) Act, 2012 and declares the circumvention of TPM adopted for copyright protection as a penal offence punishable with imprisonment for a maximum of 2 years and with fine.<sup>127</sup> However, certain exceptions to such legal liability are appended under clause 2 of section 65 A of the Copyright Act, 1957. The first exception allows circumvention of digital locks or other TPM for the acts not expressly prohibited under the Copyright Act, 1957<sup>128</sup>, thereby allowing the fair dealing provisions under section 52 be given effect to. However as discussed, presently under section 52, the exception to make copies or adaption of the software code is only available to consumer (for repair) and cannot be extended to the independent repairer. Moreover, circulation or distribution of copyrighted repair information is not exempted for the purpose of repair. Other exceptions permit circumvention for encryption research, lawful investigation, testing security of a computer system, identification or surveillance of the user and measures necessary for national security only, with no mention of “repair” whatsoever.<sup>129</sup> Thus, if the repair shop circumvents the digital lock of the protected software, in order to repair or diagnose the product or to access the copyrighted repair information, the liability under

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<sup>125</sup> 17 U.S.C. § 1201 (2012).

<sup>126</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, *supra* note 17, at 104-106.

<sup>127</sup> The Copyright Act, 1957 (Act 14 of 1957), §65A.

<sup>128</sup> The Copyright Act, 1957 (Act 14 of 1957), §65A(2).

<sup>129</sup> *Ibid.*

section 65A will be attracted. The independent repairer will not get any exception either under section 52, or under any other provision of the Copyright Act, 1957.

On the contrary, repair exemptions to anti-circumvention laws, under other jurisdictions like USA deserve a special mention. The anti-circumvention laws in USA owes their origin to the Digital Millennium Copyright Act, 1998 (DMCA). Section 1201 of the DMCA provides extensive protection to TPM against not only circumvention activities, but also from the sale, manufacture, import, etc. of the devices, technologies, products or parts thereof, that are primarily designed to give effect to circumvention of the TPM. Furthermore, various permanent exceptions are available against the anti-circumvention laws. Other than these permanent exceptions, a rather flexible exception finds its place under section 1201(a)(1)(C) of the DMCA.<sup>130</sup> It empowers the Register of Copyrights to suggest exemptions on a case-by-case basis to the US Copyright Office, which can adopt the exemption.<sup>131</sup> The exemption is provided for a period of 3 years and can be renewed further. The robust repair movement in the USA achieved a huge victory in 2018, by successfully persuading the US Copyright Office to recognise repair as an exception to these anti-circumvention laws.<sup>132</sup> The exception allows circumventing digital locks of software embedded in products such as motorized land vehicles, smartphones, home appliances and home systems for the purpose of repair, diagnosis or maintenance of the said product.<sup>133</sup> However, trafficking in such circumvention tools (which are primarily designed to circumvent TPM) is not allowed, which means that these tools cannot be lawfully distributed or sold or information about how to disable the digital lock cannot be distributed and the repairer has to develop his own circumvention tool to lawfully break open the digital lock for the purpose of repair.<sup>134</sup> The importance of such an exemption can be understood by the fact that the US Copyright Office has renewed the said exemption in 2021 for a period of another 3 years.<sup>135</sup>

The Indian Copyright Act, 1957 does not have such a flexible provision like its US counterpart to exempt the application of anti-circumvention laws for a specific purpose for 3 years (and an option to renew further). However, since the importance of repairing one's product does not appear to be an ephemeral issue, there is an immediate need to amend section 52 of the Copyright Act, 1957 to add a permanent exemption for the purpose of repair. Such an exemption under section 52 will allow repair to act as an exception against copyright infringement of the software code under section 51 and also against circumvention liability under section 65A of the Copyright Act, 1957.

Another major stumbling block to repair is the use of End User License Agreement (EULA).

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<sup>130</sup> 17 U.S.C. § 1201(a)(1)(C) (2012): "During the 2-year period described in subparagraph (A), and during each succeeding 3-year period, the Librarian of Congress, upon the recommendation of the Register of Copyrights, who shall consult with the Assistant Secretary for Communications and Information of the Department of Commerce and report and comment on his or her views in making such recommendation, shall make the determination in a rulemaking proceeding for purposes of subparagraph (B) of whether persons who are users of a copyrighted work are, or are likely to be in the succeeding 3-year period, adversely affected by the prohibition under subparagraph (A) in their ability to make non-infringing uses under this title of a particular class of copyrighted works".

<sup>131</sup> Ibid. Section 1201(a)(1)(C) provides the factors to be taken into consideration by the Librarian in conducting such rulemaking as:

"(i)the availability for use of copyrighted works;  
(ii)the availability for use of works for nonprofit archival, preservation, and educational purposes;  
(iii)the impact that the prohibition on the circumvention of technological measures applied to copyrighted works has on criticism, comment, news reporting, teaching, scholarship, or research;  
(iv)the effect of circumvention of technological measures on the market for or value of copyrighted works; and  
(v)such other factors as the Librarian considers appropriate."

<sup>132</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, *supra* note 17, at 105.

<sup>133</sup> 37 C.F.R. § 201.40 (2019). (accessed 23 July 2023).

<sup>134</sup> Grinvald, Leah Chan and Tur-Sinai, Ofer, *supra* note 17, at 106.

<sup>135</sup> Robertson, Adi, *The US Copyright Office just struck a blow supporting the right to repair*, THE VERGE (2021), (accessed 23 July 2023).

Even if an exemption under the Copyright Act, 1957 is provided for the purpose of repair, still the manufacturers can curb the repair by enforcing EULA. EULA is a contract between the software proprietor and the end users which governs how the software can be used by the user. This tool is used by the software owners to prohibit almost all repair or modification to the software embedded product and allow repair only through authorised repair shops. Such agreements even restrict the legitimate activities (that are not restricted under the copyright law) related to the software embedded products. The US courts in the landmark cases of *ProCD, Inc. v. Zeidenberg*<sup>136</sup>, *Architectronics, Inc. v. Control Sys., Inc.*<sup>137</sup>, and *Bowers v. Baystate Techs., Inc.*<sup>138</sup>, have constantly upheld the validity of such EULAs which restricted users even from activities not prohibited by the copyright law,<sup>139</sup> and some authors believe that such an approach is likely to be followed by the Indian courts also.<sup>140</sup> However, the author contends that the Indian courts should not enforce such EULAs which have the power to expand the copyright protection beyond what is allowed under the copyright statute through the backdoor of contract law, to restrict the consumer's right to repair the software embedded product. Also, the consent and bargaining power of the consumer shall not be ignored while interpreting and enforcing such contracts. In this regard, the approach of the Australian Productivity Commission in its 'Inquiry Report on Repair' is noteworthy.<sup>141</sup> The Productivity Commission acknowledged the fact that some manufacturers enter into EULAs and include terms which prohibit repair related activities, even when they are allowed under the copyright law exceptions.<sup>142</sup> The Commission thereby suggested that the Australian Copyright Act should be amended to include a provision that invalidates any agreement or provision seeking to limit the application of any copyright exception.<sup>143</sup> It was recommended that a new "contracting out" prohibition will be crucial to fully realise the benefits of copyright exceptions, including those relating to repair.<sup>144</sup> A similar prohibition under the Indian Copyright Act, 1957 could be helpful in restraining the OEMs in restricting repair through these EULAs.

#### IV. Trademark and Right to Repair

Trade mark (hereinafter, "TM") is protected in India to serve two important purposes. Firstly, to protect the public from confusion and deception by acting as a source identifier and secondly, to protect the TM owner's business and goodwill.<sup>145</sup> The statutory protection to TM is afforded under the Trade Marks Act, 1999 (hereinafter "TM Act") in India. The TM registration under the TM Act gives the exclusive right to use the registered mark and also provides the right to seek relief in respect to infringement of the registered mark. Section 29 stipulates various ways in which a registered TM may be infringed. Using a mark, which is identical or deceptively similar to that of the owner, in respect of the same goods or services, amounts to infringement.<sup>146</sup> For the purposes of infringement of TM as envisaged under section 29(1) of the Act, a registered mark is said to be used if the infringer affixes the registered mark on his goods or packaging, offers for sale, stocks, imports or exports these goods,

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<sup>136</sup> 86 F.3 d 1447, 1455 (7 th Cir. 1996).

<sup>137</sup> 9 3 5 F. Supp. 425, 438 (S.D.N.Y. 1996).

<sup>138</sup> 320 F.3 d 1317, 1321-22 (Fed. Cir. 2003).

<sup>139</sup> See Mirr, Nicholas A., supra note 61, at 2409-2413.

<sup>140</sup> Nagpal, Megha, *Copyright Protection through Digital Rights Management in India: A Non-Essential Imposition*, 22 J. INTELL. PROP. RTS. 224, 229 (2017).

<sup>141</sup> Right to Repair, Inquiry Report no. 97, Productivity Commission, Canberra (2021). (accessed 23 July 2023).

<sup>142</sup> Id., at 18-20.

<sup>143</sup> Ibid.

<sup>144</sup> Ibid.

<sup>145</sup> Ahuja, V.K., *Law Relating to Intellectual Property Rights* 278 (Lexis Nexis, Noida, 2<sup>nd</sup> edn., 2013).

<sup>146</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 29(1).

or used the registered mark on business papers or in advertising.<sup>147</sup> The use of the TM should be in the “course of trade”, which means that the use shall be for commercial purposes and not for private or personal use.<sup>148</sup> Such use should also be likely to create confusion in the minds of the public regarding the origin of the goods and their association with the registered proprietor of the concerned TM.<sup>149</sup>

Further, the TM Act permits some defences to TM infringement, including exhaustion of TM rights. Under the exhaustion principle, a person lawfully acquiring the goods with registered TM is allowed to sell those goods in the market or otherwise deal with those goods.<sup>150</sup> However, further dealing with these goods shall not be in such a manner so as to provide legitimate reasons to the proprietor to oppose such dealings.<sup>151</sup> Such legitimate reasons include changing or impairing the conditions of these goods after they have been put on the market.<sup>152</sup> Other legitimate reasons that have been identified in the *Kapil Wadhwa v. Samsung Electronics*<sup>153</sup> case are- causing difference in services and warranties, advertising and promotional efforts, packaging, quality control, pricing and presentation, and differences in language of the literature provided with the product.

Against this general background of TM infringement and possible defences under the TM Act, some specific aspects of right to repair in juxtaposition with the Indian TM Act need to be delineated. The repair may entail two scenarios. Firstly, repairing may require an altogether new replacement part. The independent repairer may acquire the same from an unauthorised dealer or procure a counterfeited part, bearing the counterfeited TM of the OEM. For claiming infringement under section 29(1) of the TM Act, the “use” of the TM shall be in the “course of trade”. Under section 29(6)(b), the registered TM is “used” if someone “*offers or exposes goods for sale, puts them on the market, or stocks them for those purposes under the registered trade mark, or offers or supplies services under the registered trade mark*”. The repairer may also be regarded as a person who offers for sale or stocks them for the purposes of selling them to consumers.<sup>154</sup> This “use” by the repairer is in the “course of trade” as he gets paid by the consumer for repairing his product. Therefore, if the repairer uses the new replacement part, on which the TM is affixed in such a way that it acts as a source identifier, then the independent repairer can be held liable for infringement under section 29(1) of the TM Act.

Under the second scenario, the repairer may modify or repair an existing part. Normally, if the independent repairer repairs an existing part of the product, which results in minor changes or alterations to the product bearing the TM, the repairer should not be liable for infringement.<sup>155</sup> However, two instances can be identified where the independent repairer can be held liable for TM infringement. Firstly, if the trademarked product is altered or modified to an extent that it results in reconstructing an altogether new and different product. In such a case, if the independent repairer retains the original manufacturer’s TM on these modified products (which have resulted in a different product altogether), the transaction is not merely that of “repair”, but will amount to “sale”. Such a modification, which amounts to “offering for sale”, will fall under the purview of “use” under section 29(6)(b). The other two ingredients of section 29(1) which include the “use” to be “in course of trade” and the registered TM to be used in such a way that it acts as a source identifier, also seem to be

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<sup>147</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 29(6).

<sup>148</sup> *Pepsi Co. Inc. v. Hindustan Coca Cola* 2001 PTC 699.

<sup>149</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 29(2).

<sup>150</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 30(3).

<sup>151</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 30(4).

<sup>152</sup> The Trade Marks Act, 1999 (Act 47 of 1999), § 30(4).

<sup>153</sup> 2013 (53) PTC 112 (Del).

<sup>154</sup> Arora, Himanshu, “*Right to Repair*” vis-à-vis Indian trade mark law: A comparative analysis, 24 J. WORLD INTELLECT. PROP. 41, 47 (2021).

<sup>155</sup> *Ibid.*

fulfilled in this case and thus, independent repairer may be held liable for TM infringement.

It is interesting to note that the courts of USA have also recognised such acts as TM infringement. For instance, in *Karl Storz Endoscopy-Am., Inc. v. Surgical Techs., Inc.*,<sup>156</sup> the United States Court of Appeals, Ninth Circuit ruled that if the trademarked product in the process of repair is so altered that the substance of the transaction is a sale, it would be misleading to sell such product without noting the alterations and the repairer would infringe on the TM by retaining the manufacturer's TM on these goods and using them in commerce. The court further enumerated various factors to be considered in determining whether the modification or repair has resulted in an altogether different product. These factors include, "*the nature and extent of the alterations, the nature of the device and how it is designed (whether some components have a shorter useful life than the whole), whether a market has developed for service and spare parts and, most importantly, whether end users of the product are likely to be misled as to the party responsible for the composition of the product*".<sup>157</sup>

Secondly, in the process of repairing, the modification done by the independent repairer may impair or change the condition of the existing part (bearing a TM) or it may impair or change the normal functioning or condition of the entire product itself (also bearing a TM). The combined reading of sections 30(3) and 30(4) of the TM Act suggests that if any person "further deals" with the product (bearing a TM) in such a manner that impairs or changes the condition of the product, the TM owner will have a legitimate reason to oppose it.<sup>158</sup> Thus, the independent repairer can be held liable for TM infringement in this scenario also.

Some other scenarios can also be identified wherein the TM can effectively be used to obscure the right to repair. For instance, right to repair cannot be exercised in a meaningful manner without giving an opportunity to the independent repairers to effectively conduct their businesses, which is possible only if they are allowed to advertise their services. While advertising, the repairers often use brand names or OEM's TMs to designate and inform the consumers that they offer repair services for the particular brand. This may hold them liable for TM infringement under section 29(1) read with 29(6)(d) of the TM Act, which includes the use of registered TM in advertising and business descriptions. For instance, many mobile repairers use 'iPhone', 'iPad' etc. to designate that they repair Apple products. Fortunately, section 30(2)(a) of the TM Act provides an exception in this case, as the use of registered TM is essential to describe the intended purpose of the services provided. To successfully avail this exception, the use should not be in a manner that indicates any commercial connection between the TM proprietor and the repairer.

Additionally, repair shops or independent manufacturers or resellers of repair parts may also use registered TMs to indicate that such spare or repair part is compatible or adapted to form part for the main product. For instance, an independent manufacturer may advertise or indicate that its battery is compatible with Samsung phones by using the Samsung TM. This use of registered TM can again be a subject of TM infringement, however, if it can be proved that it is "reasonably necessary" to use the registered TM to indicate that the goods are compatible with the main product, it will be a valid defence under section 30(2)(d) of the TM Act. This defence is known as "nominative use" and the courts have identified the following important factors to decide whether the defence of nominative fair use would be available or not:

1. The use is *bona fide* and reasonably necessary to identify the user's goods and services.
2. The use is not in a manner that shows commercial connection or endorsement by the

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<sup>156</sup> 285 F.3d 848, 856 (9th Cir. 2002).

<sup>157</sup> Ibid.

<sup>158</sup> See Arora, Himanshu, *supra* note 100 at 48.



registered proprietor.

3. The use shall not deceive the public or cause confusion about the origin of the good or service.
4. The use shall not amount to copying the same style, font, colour, etc. of the registered TM.<sup>159</sup>

Evidently, certain aspects of right to repair can fall prey to the TM and other IP infringement claims. Therefore, there is a clear need to balance the monopoly IP rights of the OEMs in favour of the sustainable right to repair.

## V. Conclusion

Right to repair is a novel consumer right seeking to advance the sustainable consumption of products, presently retrained by the anti-competitive activities of the OEMs. The web of IP rights provide succour to these OEMs in successfully restricting repair through the exclusive rights granted under the patent, copyright and trademark regimes. Like other countries, India is in the introductory phase in developing a regulatory framework to provide the right to repair to one of the largest consumer markets in the world. Though a laudable step towards achieving the SDGs and a more circular economy, the legislative reform should not ignore the adeptness of these IP rights in restricting this new right. The legislature (and the judiciary) needs to address the ambiguities under the Indian IP regime in accommodating the right to repair. The article, thus, seeks to recommend that there is an urgent need to rebalance the monopoly rights of the OEMs under the patent, copyright and trademark IP regime (which seek to curtail or impede repair) in favour of the consumer's right to repair. Such a reconciliation will ensure that the consumers, independent repairers, and small to medium businesses could repair their products, without fear of litigation.

As discussed, the Indian patent regime does not explicitly allow repair of the patented products. Moreover, the applicability and contours of the doctrine of patent exhaustion, which allows repair of patented products without triggering patent infringement, remains ambiguous in the Indian scenario. Although various authors have interpreted section 107A(b) of the Patents Act, 1970 as allowing exhaustion of patent rights, there is no explicit mention of the same under the statute. To resolve this, the author recommends that firstly, an explicit provision shall be added to the Patents Act, 1970 to allow exhaustion of patent rights and consequently allowing the repair of patented products for their continued use. Secondly, the Indian law shall make a clear distinction between repair (which is permitted) and reconstruction (which is not permitted). Thirdly, post-sale restrictions and contractual stipulations seeking to circumvent or oust the exhaustion doctrine (and consequently, the right to repair) shall be declared null and void.

Furthermore, it is evident from the preceding discussion that copyright law can inhibit the access to repair related information (like manuals and schematics) and anti-circumvention laws can further be troublesome in accessing the software code needed to repair technological devices. Section 52 of the Copyright Act, 1957, which lays down the exceptions to copyright infringement, should be amended and a repair-specific exception shall be added to provide independent repairers enough certainty that using or sharing of repair related information is lawful. Such an exception would also

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<sup>159</sup> Madras High Court in *Consim Info Pvt. Ltd v. Google India Pvt. Ltd* (2010(6) CTC 813). Delhi High Court in *Hawkins Cookers v. Murugan Enterprises* (2008) 36 PTC 290 (Del) and *Prius Auto Industries Ltd. v. Toyota Jidosha Kabushiki Kaisha* CS(OS) No. 2490/2009 and I.A. No. 14981/2014 decided on July 8, 2016.

allow the repairers to circumvent the TPMs or digital locks, which block the access to software codes needed for repair, without the fear of inviting penal liability. Moreover, a new provision should be added in the Copyright Act, 1957, whereby “contracting out” provisions present in the EULAs be invalidated. These provisions are one-sided restrictive terms and conditions, which could circumvent the new repair-specific exception or restrict other activities needed for repair, which are allowed under the copyright regime, through the backdoor of contract law.

Other than patent and copyright, as delineated above, possible infringement of TMs could also refrain the independent repairers from freely exercising the right to repair. TMs are often granted registration for “*internal parts like batteries, processors, and cables*” that users never see and “*logos . . . no bigger than a grain of rice*”<sup>160</sup>. Such microscopic TMs are hardly visible to the consumers and their use in products is against policy justifications of TM law, as it hardly fulfils TM’s purpose of preventing customer confusion. In case of repair, consumers will be well aware of the fact that the independent repairer has repaired the product and not the manufacturer (or his authorised agent). Therefore, the author suggests that the TMs registry shall conduct a more circumspect examination before registering such microscopic TMs.

Moreover, in some cases the shape of the replacement part is itself registered as a TM and even the production or manufacturing of the part *per se* could amount to TM infringement and as a result, the TM proprietors can claim monopoly over the replacement parts.<sup>161</sup> Thus, the shape of any product which is supposed to be a part of other product, should only be granted TM registration after a careful examination of all the qualifying conditions for registration of a shape mark. Such TMs shall only be granted registration if clear evidence is produced that the consumers consider these individual parts as a source identifier in itself (and not merely a part of the whole product).

These adjustments in the IPR regime in India are pertinent to achieve the United Nations SDGs, as right to repair promotes not only responsible consumption and production of articles, but also is an important step towards reducing e-waste, promoting recycling and achieving a more circular economy. Besides formulating a regulatory framework on the right to repair, the policy makers should not ignore the capability of IP rights in impeding the implementation of the right to repair in India.

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<sup>160</sup> Perzanowski, Aaron, *Consumer Perceptions of the Right to Repair*, 96 Ind. L. J. 361, 369 (2021).

<sup>161</sup> See Arora, Himanshu, *supra* note 100 at 48, 51.

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## **The Nature and Ownership of Copyright for AI-Generated Works**

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### **ABSTRACT**

With the advancement of Artificial Intelligence (AI) deep learning capabilities, an increasing number of AI applications are being used in the creation of literary and artistic works. This has led to intense debates regarding the legal nature and ownership of AI-generated works. The first question being discussed is whether AI-generated works can be granted copyright. This issue revolves around whether AI can be considered as the subject of copyright like a natural person and whether AI-generated works can be deemed original works. Secondly, if AI-generated works can be considered as the carrier of copyright or other rights, the question arises as to whom these rights should belong to. This article analyzes the laws and precedents of various countries, engaging in discussions and research on the two main questions mentioned above. It argues that AI-generated works can be considered as copyrightable works. Furthermore, through considering the purpose and historical development of copyright, it suggests that a dual protection approach through copyright and neighboring rights within the existing copyright legal system is more feasible and adaptable.

**Keywords:** AI-generated works; Copyright of AI; Ownership of copyright; Neighboring right.

## I. Raising the question: Anxiety caused by AI

The concept of AI was initially proposed by various individuals, and there are different viewpoints regarding its definition. As WIPO suggests, "Artificial intelligence has no universally accepted definition." Setting aside the debates on its concept, let's begin the discussion based on WIPO's definition: AI is generally considered to be a discipline of computer science that is aimed at developing machines and systems that can carry out tasks considered to require human intelligence. Machine learning and deep learning are two subsets of AI. In recent years, with advancements in neural network technologies and hardware, artificial intelligence is often regarded as synonymous with "supervised deep machine learning"<sup>162</sup>.

It's a clear understanding that many important figures and events in the development of AI:

In 1943, Warren McCulloch and Walter Pitts published *A logical calculus of the ideas immanent in nervous activity*<sup>163</sup> presenting the first mathematical model for building neural networks.

On February 14, 1946, at the Moore School of Electrical Engineering at the University of Pennsylvania, the world's first modern electronic computer, the "ENIAC" (Electronic Numerical Integrator and Computer), was invented.

In 1950, Alan Turing published *Computing Machinery and Intelligence*<sup>164</sup> and introduced the famous "Turing Test" to determine whether a machine exhibits intelligence.

In 1969, "the father of artificial intelligence", John McCarthy, and Marvin Minsky initiated the AI project at the Massachusetts Institute of Technology (MIT).

In 1997, IBM's Deep Blue defeated the world chess champion, Garry Kasparov.

In 2011, IBM's computer Watson, defeated human opponents on the America game show "Jeopardy!"

In 2012, the founder of Google's Deep Learning Project, Andrew Ng, trained a neural network using deep learning algorithms with a dataset of 10 million YouTube videos. The network learned to recognize cats without being explicitly told what a cat is, marking a groundbreaking milestone for neural networks and deep learning.

In 2016, Google's AlphaGo defeated the world champion Go player, Lee Sedol.

In November 2022, OpenAI developed ChatGPT, which utilizes the Transformer neural network architecture. ChatGPT is capable of engaging in conversations with humans at a level nearly indistinguishable from a real person. It can also generate

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<sup>162</sup> AI and Copyright.(n.d.). Retrieved July 3, 2023, from [https://www.wipo.int/about-ip/zh/frontier\\_technologies/ai\\_and\\_ip.html](https://www.wipo.int/about-ip/zh/frontier_technologies/ai_and_ip.html).

<sup>163</sup> McCulloch, W. S., & Pitts, W., *A logical calculus of the ideas immanent in nervous activity*, 5 BULL. MATH. BIOPHYSICS 115, 115-33 (1943).

<sup>164</sup> Turing, A.M., *Computing Machinery and Intelligence*, 59 MIND 433,433-60 (1950).

various types of documents, perform translations, and even write code.

On July 15, 2023, Hollywood witnessed the largest strike in history to resist the threat of "AI invasion" on actors and screenwriters.

On December 11, 2023, the U.S. Copyright Office's Review Board rejected Ankit Sahni's request for reconsideration of the Copyright Office's earlier refusal to register an image created using generative AI, which is a 2D artwork generated using AI software RAGHAV by fusing Sahni's photos with Van Gogh's "The Starry Night".<sup>165</sup>

On March 13, 2024, the European Parliament formally adopted the *EU Artificial Intelligence Act* ("AI Act") with a large majority of 523-46 votes in favor of the legislation. The AI Act is the world's first horizontal and standalone law governing AI, and a landmark piece of legislation for the EU.<sup>166</sup>

The history of AI's development spans less than a century. Each breakthrough and "defeat" by humans brings about joy, excitement, disappointment, and fear. This journey is filled with the desire for self-replication and self-transcendence, accompanied by endless anxiety and debates.

In the field of literature and art, especially in the past decade, with the application of neural network frameworks, high-quality AI-generated works has become difficult to distinguish from human creations. The anxiety in the literary and artistic domain primarily stems from the powerful generative capabilities of AI, its lower cost, the higher quality of generated works and its incomparable speed of production compared to humans. These pose significant challenges to human creators and may have a substantial impact on the value and future development of literary and artistic works. Deeper concerns arise from the dreams and traditions of authors to establish themselves, gain fame, and pass down their works to future generations, as well as more immediate commercial interests. Apart from authors, investors, companies, legislators, judiciary bodies, scholars, and others engage in fierce discussions from their respective interests and positions regarding whether AI-generated works can be protected by copyright and to whom the rights should belong.

## II. AI-generated works and copyright

### A. *Conditions for granting copyright in existing laws and cases in various countries*

On September 9, 2018, Beijing Feilin Law Firm published an article titled *Judicial Big Data Analysis Report on the Film and Entertainment Industry: Film Volume · Beijing Edition* for the first time on the internet. The article was generated through AI software. On September 10, 2018, Beijing Baidu Wenxun Technology Co., Ltd. copied and published the article without permission. As a result, both parties engaged in litigation, with Beijing Feilin Law Firm claiming to be the copyright owner of the article and seeking compensation for infringement from Beijing Baidu Wenxun Technology Co., Ltd.

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<sup>165</sup> The United States Copyright Office. (2023, December 11). Re: Second Request for Reconsideration for Refusal to Register SURYAST(SR #1-11016599571; Correspondence ID: 1-5PR2XKJ).

<sup>166</sup> Long, William Rm, & Cuyvers, L. (2024, March 21). EU Formally Adopts World's First AI Law. Sidley. <https://datamatters.sidley.com/2024/03/21/eu-formally-adopts-worlds-first-ai-law/>

On April 26, 2019, the Beijing Internet Court issued *The (2018) Beijing 0491 Min Chu 239 Civil Judgment*<sup>167</sup>, stating that the article was "AI-generated and not created by the plaintiff through their own intellectual labor", concluding that the article lacks originality and cannot be considered a work. The court further emphasized that being created by a natural person is a necessary condition for copyright protection under the Copyright Law. Since the analysis report was not created by a natural person, even if the analysis report generated by the Wolters Kluwer's Information Library exhibits originality, it still does not qualify as a work under the Copyright Law, and therefore, "Wolters Kluwer's Information Library cannot be recognized as the author enjoying the rights stipulated by the Copyright Law."

According to the Copyright Law of the People's Republic of China, "The natural person, legal entity, or unincorporated organization credited on a work shall be deemed as the author, and corresponding rights exist on that work." In China, the current law primarily grants copyright to natural persons, legal entities, and other organizations as virtual entities, but the true authors are still considered to be natural persons.

Currently, there are similar cases in various countries around the world, such as the well-known case *Zarya of the Dawn*<sup>168</sup> in the United States. "Zarya of The Dawn" is a comic book created by Kristina Kashtanova, in which the artwork was partially created using AI drawing tool called Midjourney. On February 21, 2023, the United States Copyright Office stated in an email sent to Kashtanova's lawyer,

*"We conclude that Ms. Kashtanova is the author of the Work's text as well as the selection, coordination, and arrangement of the Work's written and visual elements. That authorship is protected by copyright. However, as discussed below, the images in the Work that were generated by the Midjourney technology are not the product of human authorship. Because the current registration for the Work does not disclaim its Midjourney-generated content, we intend to cancel the original certificate issued to Ms. Kashtanova and issue a new one covering only the expressive material that she created."*

This document indicates that under the current legal system in the United States, it is still maintained that the subject of copyright should be humans, and AI-generated works cannot be granted copyright.

On 1 December 2021, Sahni filed an application to register SURYAST with the US Copyright Office. The application was rejected by the Office: initially, on 29 June 2022, on the basis that SURYAST lacked the requisite human authorship; and subsequently, on reconsideration, on the basis that it was a derivative work, being a digital adaptation of a photograph, and that the new aspects of the work were generated by RAGHAV and therefore not the result of human creativity or authorship.

A large part of The United States Copyright Office's analysis was devoted to the discrepancies between Sahni's narrative of the creative process and the functionality of his tools. The Copyright Office focused on the extent of Sahni's control over RAGHAV, noting that the description in the second reconsideration application "naccurately

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<sup>167</sup> The (2018) Beijing 0491 Min Chu 239 Civil Judgment (Beijing Internet Court September 25, 2019) .

<sup>168</sup> The United States Copyright Office. (2023, February 21). Re: Zarya of the Dawn (Registration # VAu001480196) .



minimizes RAGHAV's role in the creation of the work and conflicts with other information in the record.”

In its decision, USCO reiterated the principled view clearly stated in the "Copyright Registration Guidelines: Works Containing Material Generated by Artificial Intelligence"<sup>169</sup>, namely that a work can only be protected by copyright if it contains sufficient human creative elements; if all the "traditional author elements" of a work (expression, selection or arrangement in the literary, artistic or musical fields, etc.) are generated by artificial intelligence, it lacks human authorship.

From the cases in recent years, and from the perspective of laws and administrative, and judicial practices on intellectual property rights in various countries, it can be observed that the United States and civil law countries tend to have stricter conditions for copyright. They generally require works to be original and created by natural persons. On the other hand, common law countries such as the United Kingdom, South Africa, and New Zealand have a more open attitude towards granting copyright to AI-generated works.

The Article 15 of the *European Parliament resolution of 20 October 2020 on intellectual property rights for the development of artificial intelligence technologies*<sup>170</sup> states that,

*"Technical creations generated by AI technology must be protected under the IPR legal framework in order to encourage investment in this form of creation and improve legal certainty for citizens, businesses and, since they are among the main users of AI technologies for the time being, inventors; considers that works autonomously produced by artificial agents and robots might not be eligible for copyright protection, in order to observe the principle of originality, which is linked to a natural person, and since the concept of 'intellectual creation' addresses the author's personality.....stresses the importance of facilitating access to data and data sharing, open standards and open source technology, while encouraging investment and boosting innovation."*

The *AI Act* adopted by European Parliament on March 13, 2014 is consistent with the main points of this *European Parliament resolution of 20 October 2020 on intellectual property rights for the development of artificial intelligence technologies*. Under the relatively unified legal system in Europe, although the European Union has made rapid progress in the practice and legislation of artificial intelligence, it still maintains a cautious attitude. While encouraging investment and boosting innovation, the EU remains cautious when it comes to granting copyright, emphasizing that it should be granted to natural persons who demonstrate originality and link the intellectual creation with the author's personality traits.

In contrast, the common law countries such as the United Kingdom provided a legal basis for granting copyright to AI works earlier, as stipulated in Article 9(3) of the *Copyright, Designs and Patents Act 1988*<sup>171</sup>, "In the case of a literary, dramatic, musical

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<sup>169</sup> Copyright Registration Guidance: Works Containing Material Generated by Artificial Intelligence, 88 FR 16190 (Mar. 16, 2023) (to be codified at 37 C.F.R. § 202). <https://copyright.gov/ai/ai-policy-guidance.pdf>.

<sup>170</sup> Intellectual property rights for the development of artificial intelligence technologies, European Parliament resolution. (20 October 2020)

<sup>171</sup> Copyright, Designs and Patents Act 1988, UK Public General Acts. (1988).

or artistic work which is computer-generated, the author shall be taken to be the person by whom the arrangements necessary for the creation of the work are undertaken."

With a broad understanding, for AI-generated works under the British legal system, copyright is likely to be granted to the writer of the AI program or the person who uses the AI program to create the work.

***B. More reasonable conditions for granting copyright: taking the origin and development of copyright as a reference***

1 · The origin and development of copyright.

The legal systems for protecting works in various countries in the world can be roughly divided into copyright system and authorship system. Among them, the copyright system originated in the United Kingdom, based on the utilitarian philosophy of the British philosopher Locke's *Labor Theory of Property*<sup>172</sup>, which considers the object of the work property right to be a kind of labor result. The focus of copyright is to protect the author's economic rights. Works are simply regarded as the property of the author, and have little to do with the author's spirit and personality. The copyright system is mainly adopted by the common law countries. The authorship system originated in France and Germany, based on Kant and Hegel's *Theory of Personality*<sup>173</sup>, and believes that "works are the externalization of personality", which is mainly adopted by countries with civil law systems.

As France, where the literary development was extremely dazzling in the 18th and 19th centuries, after the French Revolution, romantic literature, realism literature, naturalism literature, and impressionism literature all produced important representatives and works. Victor Marie Hugo (1802-1885, *Les Miserables*, *Notre Dame de Paris*), Stendhal (1783-1842, *Red and Black*), Honoré de Balzac (1799-1850, *The Human Comedy*), Charles Baudelaire (1821-1867, *The Flowers of Evil*), Gustave Flaubert (1821-1880), and Christian Johann Heinrich Heine (1797-1856), etc. The writers are famous all over the world.

After the Enlightenment and the Great Revolution, attention paid to human rights has greatly increased. In this context, *the 1791 decree* and *the 1793 decree* focused on people and established an author-centered copyright protection system<sup>174</sup>. As mentioned in the aforementioned EU resolution "the concept of 'intellectual creation' addresses the author's personality", personality traits are regarded as the elements of intellectual achievements, and then the concept of the unity of the subject and object of copyright is required, that is, the subject should be a natural person, and the object should be a natural person. It should be an original intellectual achievement. This concept can be traced back

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<sup>172</sup> Locke, J. (1988). *Locke: Two Treatises of Government* (Cambridge Texts in the History of Political Thought) (P. Laslett, Ed.). Cambridge: Cambridge University Press. doi:10.1017/CBO9780511810268.

<sup>173</sup> Alexander, G., & Peñalver, E. *An Introduction to Property Theory* (Cambridge Introductions to Philosophy and Law). Cambridge: Cambridge University Press. (2012). doi:10.1017/CBO9780511978548.

<sup>174</sup> There is an alternative view about the decree for human right. See Ginsburg, J.C., *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, 64 TUL. L. REV. 991 (1990). The decree thus was designed to break the Comdie Francaise's monopoly on the works of Corneille, Moliere, and Racine. Seen in its overall context, the decree's recognition of authors' rights principally was a means to terminate that monopoly.

to the civil law country, France.

Furthermore, *The Berne Convention*, the most important landmark of the international copyright law system was also gradually formed under the initiative of France. Therefore, whether it is the subsequent *TRIPS* or other treaties, natural persons are regarded as the subject of copyright. This is a historical tradition and reasonable.

However, with the constantly development of literature, art, science and technology. In the field of literature, from the 1850s to the 1960s, western literature theory experienced three stages: Author-Centred, Text-Centred and Reader-Centred. After 1960, Semiotics, Reception Theory, and Deconstruction reconstructed the position of the reader. In 1968, Roland Barthes stated in his essay *The Death of the Author*<sup>175</sup>, "The death of the author, the birth of writing", which is a typical representation of Reader-Centred thinking. It makes several bold but important claims about the relationship between author and literary text: that works of literature are not original; and that the meaning of a work of literature cannot be determined simply by looking to the author of that work. In the development of literature and literary theory into the postmodern stage, the position of the reader has been elevated to the center. This also means that after the work is completed, people no longer care about the authorship. Each reader carries their own "Hamlet" within their heart, creating a complete work by excluding the interference of the author and adding their own interpretation.

## 2 · The new concept of copyright empowerment from the perspective of pure object.

Based on the history and development of copyright mentioned above, nowadays the granting of copyright is no longer tightly linked to the subjective factors but relies on the creative aspect of the work as an object.

It should be noted that the originality of AI-generated works currently possess, which can be fully accepted by readers and fulfill the purposes of cultural dissemination and providing spiritual enjoyment that works are intended for. If that's the case, who would care about the identity of the author?

There is a tendency to understand and grant copyright from a purely objective perspective. In the case of the Chinese court mentioned above, the Chinese court recognized the originality of the articles created by AI. Although it did not grant copyright to natural persons, it granted copyright protection to the business entities using AI. Although the Resolution of EU is conservative on AI copyright, it also proposes, "where AI is used only as a tool to assist an author in the process of creation, the current IP framework remains applicable." Implicitly, if AI surpasses the control of the author and creates works with a certain degree of originality, the existing legal framework would need to be adjusted to accommodate this.

There is another perspective that supports this viewpoint: What is the purpose of the design of copyright systems? In civil law countries, led by France, the protection is people-centered and focus on protecting the author's personality rights to stimulate their creativity. This includes both economic rights and a strong emphasis on moral rights, such as the right of authorship and the right of alteration, which are inherited by

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<sup>175</sup> BARTHES, R., *The death of the author*, in IMAGE-MUSIC-TEXT 142, 142-48 (1977), doi:<https://sites.tufts.edu/english292b/files/2012/01/Barthes-The-Death-of-the-Author.pdf>

international treaties like *The Berne Convention*. On the other hand, common law countries, led by the UK, place greater emphasis on protecting the economic value of works. The actual owners of this economic value are not only the authors, but also stakeholders involved in the publishing and printing industries, such as investors and publishers. Nowadays, the design of copyright system in different countries tends to balance multiple purposes. It aims to protect the motivation of natural person creator, safeguard the economic interests of investors and participants in the copyright publishing chain, and promote the development of artificial intelligence. The above-mentioned EU resolution also referred, "encouraging investment and boosting innovation."

Currently, the difficulties faced by the copyright law is the balance of various interests<sup>176</sup>. When adjusting legal systems, it is important to consider not only the personality rights and economic interests of creators as natural persons, but also the interests of AI developers, investors (including those investing in AI and the works themselves), publishers, printers, distributors, and other stakeholders. Therefore, one possible relatively fair and reasonable choice could be to separate the subjective factors of copyright and focus solely on the standard of originality of the work when granting copyright.

The third reason is that existing international treaties and domestic laws generally stipulate that copyright protection only extends to expression and not to ideas. For example, Article 9(2) of the *TRIPS* Agreement states, "Copyright protection shall extend to expressions and not to ideas, procedures, methods of operation or mathematical concepts as such." From a legal perspective, as AI-generated works increasingly go beyond the control of the author, if the author only provides simple ideas, the AI-generated works should possess independence. However, the existing legal framework, which protects expression rather than ideas, does not adequately address this situation. When the expression of AI-generated works exhibits a certain degree of originality, and neither the creators of AI nor the users of AI can be granted copyright. If the subjective factors are not set aside and independent copyright is not granted to AI-generated works, the legal nature of such works would be challenging to ascertain, leading to suspended rights and potential infringements.

### **III. Ownership of Copyright for AI-Generated Works**

#### ***A. Two perspectives on the ownership of copyright for AI-generated works***

This study does not discuss the extent to which a work possesses originality. Currently, most countries maintain a relatively low threshold for determining originality, as having copyright does not necessarily imply a high level of literary or artistic merit. Of course, it is also important to encourage creators at all levels to engage in creative endeavors. Only through continuous creation can works progress from a lower level to a higher level.

Based on the above discussion, it can be reasonably determined that when AI-generated works exhibit a certain degree of original expression, they should be granted independent copyright. However, this leads to a more complex question: to whom should

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<sup>176</sup> Kasap, A., Copyright and Creative Artificial Intelligence (AI) Systems: A Twenty-First Century Approach to Authorship of AI-Generated Works in the United States, 19 WAKE FOREST J. BUS. & INTELL. PROP. L. 335 (2019), Available at SSRN: <https://ssrn.com/abstract=3597792>

AI copyrights be granted?

Some scholars tend to grant AI copyrights to the creators or users of AI programs to protect their labor in developing and training AI<sup>177</sup>. These creators of AI programs could be natural person themselves, but more likely they could be business entities or investors.

However, this approach presents some challenges. Firstly, whether in the civil law system or the common law system, a considerable number of people still support the viewpoint that the right holders of copyright should be natural persons. Furthermore, this remains the mainstream legislative status quo at present, both in the domestic laws of various countries and in international treaties.

Secondly, due to the low cost and high productivity characteristics of AI-generated works, particularly when the creators of AI are business entities or investors, their profit-oriented motives become more apparent. This approach may result in a flood of homogeneous or low-quality works in the market (unless AI programs are continuously improved). It not only disrupts the existing market order but also potentially leads to an inflation of cultural works, posing a rude shock to cultural creations and genuine human authors.

Finally, there is a legal barrier concerning the principle of "protecting expression rather than ideas". Its essence still requires human intellectual input, making a decisive and creative contribution to the formation of the work. Since the creator or users of AI program may only invest in ideas, or even no ideas, it is not reasonable and legal to grant copyright to them.

Some scholars propose granting the copyright of AI-generated works to all of humanity, considering it as a shared wealth of humankind. For example, The article *AI & Intellectual Property: Towards an Articulated Public Domain*<sup>178</sup> stated that, "The introduction of the legal concept of Public Property from the Machine is a Pareto improvement; many actors benefit from it while nobody—at least no legal person—will suffer from it." However, this approach lacks incentives for both the creators of AI programs and the users of AI for creative purposes. From the perspective of labor value, it also lacks fairness.

### ***B. Using neighboring rights to protect AI-generated works***

Taking the above perspectives into account, this study explores solutions within the existing legal framework, considering its economic and stable aspects. At the same time, it is also necessary to make reasonable adjustments based on new developments and changes. Without impacting the current legal system, it aims to balance the interests of investors, natural person creators, publishers, and business entities, while ensuring fairness and making more reasonable copyright empowerment designs. Within the existing legal framework, two situations can be considered for institutional choices or designs:

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<sup>177</sup> Matulionyte, R., & Lee, J., Copyright in AI-generated works: Lessons from recent developments in patent law, 19 SCRIPT-ED 5 (2022).

<sup>178</sup> Kop, M., *AI & Intellectual Property: Towards an Articulated Public Domain*, 28 TEX. INTELL. PROP. L. J. 297 (2020). Retrieved from [https://tiplj.org/wp-content/uploads/Volumes/v28/Kop\\_Final.pdf](https://tiplj.org/wp-content/uploads/Volumes/v28/Kop_Final.pdf) (in English).

1. When AI-generated works lack originality and only reach the level of compilation and deduction (translation & adaptation) of other works, and the AI program designer has put in a certain amount of effort, the natural persons who design, train, and use the AI can be granted copyright protection for the compiled and deducted works in the field of authorship.

*The Berne Convention* and domestic laws of various countries generally stipulate that compilation and deduction works should not infringe upon the rights of original works<sup>179</sup>, and in such cases, the role of AI is more akin to that of a tool. Granting copyright protection for compiled and deducted works to natural persons does not have a significant impact on existing rights holders and the market. It ensures the economic rights of AI program designers who have put in labor and is also reasonable to some extent. As for the scenario where the natural persons involved in designing, training, and using AI are different individuals, the allocation of interests can be determined by agreements of contract or market factors.

2. When the originality of AI-generated works reach a high level, although AI designers, trainers, and users have paid labor, it is not decisive for the production of creative intellectual achievements.

In this case, the subject factor of copyright can be put aside, and AI can be given copyright (whether to restrict the right of authorship and the right of alteration is not considered for the time being). And as AI designers, trainers, and users, although they haven't invested in decisive creative factors, while certain financial and material resources have been invested. Therefore, it is more logical and operable to protect it as a new type of neighboring right and enjoy certain property rights.

This situation is the focal point of our discussion and also the most controversial issue at present. Almost all discussions in this article revolve around this situation. The use of neighboring rights to protect AI-generated works is supported by the following arguments:

Firstly, considering the origin and historical development of neighboring rights as a supplement to copyright, its primary purpose was to address the emergence of new technologies, especially those related to dissemination. With the development of recording, filming, and radio broadcasting technologies, new ways of using and disseminating works emerged. This led to the emergence of more rights holders and claims.

When *The Berne Convention* was first established, it explicitly excluded protection for sound recordings, broadcasts, and live performances. The reasons behind this were mainly that sound and video recordings were considered products of an "industrial nature" and did not qualify as literary or artistic creations. Broadcasts were often produced by large public institutions, making it difficult to determine the authors, and live performances were frequently based on works of others, raising doubts about their originality<sup>180</sup>. However, the core issue remains rooted in the continental legal tradition, where copyright subjects should be natural persons, and the objects should be original

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<sup>179</sup> The Berne Convention for the Protection of Literary and Artistic Works, Article 2(3), Article 2(5).

<sup>180</sup> Ricketson, Sam and Ginsburg, Jane C., *International Copyright and Neighboring Rights: The Berne Convention and Beyond* (2022). *Faculty Books*. 96.

works. Over the years, with *The Rome Convention* coming into effect in 1964, the first international treaty to regulate neighboring rights was established. Subsequently, various international treaties continually supplemented and expanded neighboring rights<sup>181</sup>.

From the origin and historical development of neighboring rights, it can be observed that the rights protected, such as those of sound and video recording makers and performers, have historically faced situations where their subjects or objects did not fully fall under the protection of copyright. However, they have gradually been included within the scope of protection for "rights related to copyright." In response to the development of new technologies, neighboring rights act like a basket, encompassing neighbors that don't entirely meet copyright requirements but still need protection, and providing protection to all.

Secondly, for AI-generated works that do not entirely fulfill the requirements for copyright, there is a legal necessity for protection: First, AI-generated works, like the rights of performers and other neighboring rights, involve significant labor input, making it reasonable for them to receive certain compensation. Next, AI-generated works objectively demonstrate a certain level of originality and share the same expression as works created by natural persons, aligning with the legislative purposes of *The Berne Convention* and other copyright protection laws concerning "originality" and "expression". Finally, as AI works, they face the risk of unauthorized replication and distribution, similar to works created by natural persons.

Thirdly, from the perspective of the current legal system, whether in civil law countries or common law countries, the requirements for copyright subjects and objects have not been relaxed, as mentioned in the cases and laws of the United States and the European Union. However, regarding neighboring rights, there have been many attempts in international treaties to introduce such rights, subject to certain limitations, and to adapt them promptly according to changing circumstances in the future. This approach is considered a good practice to maintain legal stability and avoid significant controversies.

### ***C. The protection scheme for the neighboring right of AI-generated works***

From the historical development and current protection status of the rights of performers, producers of phonograms and videograms, and it is evident that recognizing them as "rights related to copyright" protection, there are certain limitations on their rights and protection duration, while maintaining openness and the possibility of change. Therefore, this article proposes that it is possible to establish an "AI creator's right" and grant it to the person who uses AI to create AI works<sup>182</sup>. The following rules can be set:

1 · To avoid disputes, the AI creator should be the person who directly uses AI to create the work. If the AI user, AI program developer, and AI program trainer are not the same person, the allocation of rights and obligations (benefit distribution) shall in accordance with the contract. And in the absence of a contract, market value principles

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<sup>181</sup> For example, Article 7 of *The Beijing Treaty on Audiovisual Performances* has expanded the scope of protection compared with *The Rome Convention*. Some updates have also been made to the rights of performers in the production of audio and video recordings, further expanding the scope of neighboring rights.

<sup>182</sup> The term "generated works" is no longer used here, as it has been confirmed that AI-generated works can be considered as AI works, as discussed above.

shall apply automatically.

2 · Grant the AI creator the four economic rights: publication right, reproduction right, the right of rental, and the right of performance (other rights may be added depending on the situation or be set out as general principles, like *The Berne Convention*, and the specific rights can be determined by the domestic laws of each country). As the right of authorship and the right of integrity are moral rights, and AI creators have limited intellectual input, granting them moral rights may not be appropriate at the moment.

3 · The protection duration of the rights of AI works can refer to the treatment of neighboring rights in *The Rome Convention*, setting a relatively short protection period, as the production and dissemination speed of artificial intelligence is faster than any previous neighboring rights subjects. A protection period of around five years may be reasonable. In the future, the protection period can be adjusted based on actual circumstances.

4 · AI creators have a higher obligation to review AI works. If a work is found to infringe upon the law by a court or administrative agency, or the work violates a country's or international laws and moral rules, the AI creator should bear legal responsibilities similar to the traditional natural creators.

5 · Considering the practices of patent rights and trademark rights, it may be worth exploring the use of technical means to manage AI works. Mandatory registration of AI works can be implemented in the copyright field<sup>183</sup>.

## IV. Conclusions and Outlook

The original intention behind the design of neighboring rights was to establish complementary copyright regulations specifically addressing the lack of creative elements. It has gradually gained recognition in international treaties. The establishment of a legal system is fundamentally an arena for various interests. By combining copyright and neighboring rights to protect AI works, it not only safeguards the economic interests of non-intellectual investors but also provides a basis for intellectual investors to obtain copyright. It is a relatively reasonable solution.

There is an old saying in China, "the predecessors plant trees and the descendants enjoy the shade". No matter how forward looking the law of an era is, it is difficult to adapt to the uncertainty of the future. With the rapid development of science and technology, the law can only be like an unresponsive old man.

Regarding the issue of the identification and ownership of copyright for AI-generated works, there are still some problems that have not been discussed in the above solutions. Write them here and discuss them with experts and scholars:

1 · Due to the low cost and fast production speed of AI works, if they are protected by copyright or neighboring rights, will they have a great impact on traditional natural creators?

2 · Is it feasible to try other protection modes of AI copyright, such as commissioned

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<sup>183</sup> However, it may face adverse selection (for example, users may not choose to admit that the work is generated by AI), and more technical means will be needed.



works or works made for hire?

3 · At the level of current international copyright law, how do countries coordinate to form a unified protection rule for AI-generated works?

4 · The European Union issued *The Artificial Intelligence Act*, proposing risk classification for AI. For example, the European Union increased the CE mark for high-risk AI in the act<sup>184</sup>. And the United State issued *The National Artificial Intelligence Research and Development Strategic Plan*, which proposed to understand and solve the ethical, legal and social impact of artificial intelligence. Both are forward-looking and enlightening. In that way, does the copyright field face more risks, ethical considerations, and legal factors?

5 · It may be difficult to identify AI works by technical means, while is it technically feasible to register and manage AI works?

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<sup>184</sup> Veale, M. & Zuiderveen Borgesius, F., Demystifying the Draft EU Artificial Intelligence Act — Analysing the good, the bad, and the unclear elements of the proposed approach, 22 COMPUT. L. REV. INT'L 97 (2021), <https://doi.org/10.9785/cr-2021-220402>

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Veale, M. & Zuiderveen Borgesius, F., *Demystifying the Draft EU Artificial Intelligence Act — Analysing the good, the bad, and the unclear elements of the proposed approach*, 22 COMPUT. L. REV. INT'L 97 (2021), <https://doi.org/10.9785/cr-2021-220402>

## **OPTIMIZING TAXATION ON COPYRIGHT ROYALTIES IN FRANCHISE BUSINESS IN INDONESIA**

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### **ABSTRACT**

Intellectual property has become an essential aspect of Indonesian economic development. One form of business closely related to intellectual property is Franchise Business. As a franchisee or recipient of a franchise, individuals are essentially granted permission to use the intellectual property owned by the franchisor. This includes the use of trademarks, logos, industrial designs, technology patents, and trade secrets. Through this, the franchisor can obtain royalties for the use of their intellectual property. However, franchise agreements, as part of civil agreements involving commercial aspects, are inevitably bound by

tax regulations. The implementation of taxes on franchise business royalties poses a unique challenge for Indonesia to optimize, particularly in the context of copyright royalties. This research adopts a normative juridical method, considering primary legal materials such as legislation, secondary legal materials in the form of legal literature reviews, and tertiary legal materials such as legal dictionaries and other supporting literature. The aim is to understand the phenomenon in question based on applicable laws.

Keywords: Copyright, Intellectual Property, Tax, Royalty, Franchise

## I. Introduction

Article 1 number 1 of Law Number 28 of 2014 on Copyright states that Copyright is the exclusive right of a creator that arises automatically based on a declaratory principle. In this sense, copyright essentially encompasses principles aimed at providing legal protection and incentives for creators to produce new works and ensuring that these works are valued and utilized appropriately. The followings are several important principles that need to be understood:

1. Exclusive Rights

It affirms that copyright grants exclusive rights that are solely owned by the creator or copyright holder to use, reproduce, distribute, publish, and sell their copyrighted works. These exclusive rights protect the interests of the creator in controlling and benefitting from their copyrighted works.

2. Automatic Protection

Copyright is automatically granted to the creator as soon as a work is expressed in a tangible form. This means that creators immediately acquire copyright without the need for registration or any other actions. This provides direct and automatic protection for copyrighted works.

3. Declaratory Principle

The legal protection of copyright is recognized from the moment a work is created and expressed in a tangible form. Registration or other identifying marks may be used to demonstrate/prove the existence of the copyright, even though formal registration or other formalities are not mandatory.

4. Recognition and Appreciation

Copyright grants recognition and appreciation to the creator as the rightful owner of the copyrighted work. This includes moral rights, such as the right to be recognized as the creator and to claim authorship of the work, as well as the right to protect the integrity and dignity of the copyrighted work.

Legal protection for intellectual works generally grants rights to the works to be used and enjoyed for a specified period of time, allowing them to be exploited according to the granted rights.<sup>185</sup> Referring to Article 4 of the Copyright Law, the exclusive rights of the creator consist of two types: economic rights and moral rights. Economic rights are closely related to the royalties that the creator deserves from the commercialization of their creations, while moral rights are connected to the creator's personal identity and recognition as the rightful owner and responsible party for the creation of the work.

Based on this understanding, copyright, as part of intellectual property rights, has become a major priority in Indonesia's current economic progress. Copyright has entered the economy and business sector, similar to the franchise system. In general, franchisees have the right to use the Intellectual Property owned by the franchisor as part of their obligation to comply with the applicable regulations. In return, the franchisor receives royalties for the use of the Intellectual Property.<sup>186</sup> As it is regulated in article 3 paragraph (1) PP on Management of Song and/or Music Copyright Royalties which reads:

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<sup>185</sup> Tasya Safiranita, et al., *Copyright in Over The Top Media*, (PT. Refika Aditama, 2022).

<sup>186</sup> Gunawan Widjaja, *Business Law Series: Licensing*, (Rajawali Pers, 2001).

"Everyone can commercially use songs and/or music in the form of commercial public services by paying royalties to creators, copyright holders and/or related rights owners through LMKN."

Through the provisions regulated under Indonesian positive law, it can actually be understood that the awarding of royalties for music creators is mandatory. This is because royalties are economic rights that are exclusively owned by creators. Thus, it is absolute for creators to get royalties for the commercial use of their copyrighted work. Contextualized in the era of society 5.0 where technology lives side by side with humans. Digital transformation is part of the presence of high technological processes and is correlated with changes related to all aspects of life.<sup>187</sup>

The speed of information is a challenge for the copyright regime to be able to maintain the protection of exclusive rights for creators. The existence of digital platforms as a forum for people's activities to exchange information in the virtual world, makes music a creative work that can be easily accessed and enjoyed by everyone. However, the tendency for technology to continue to develop certainly has an impact that must be anticipated and watched out for immediately,<sup>188</sup> the inaccessibility of regulations related to the implementation of the use of copyrighted works on digital platforms makes this a new problem that needs to be given attention in order to maintain copyright values as they should.

If you examine it, basically there are things that justify the reason for the need for a digital platform to share the benefits it gets 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 of the utilization of these economic benefits through income from incoming advertisements. When a channel owner uploads and gets advertisements on the content he uploads, YouTube monetizes as a vehicle for allocating economic benefits, which in this case are creators and/or copyright holders, as referred to in Article 1 point 21 of the Copyright Law. In order to obtain monetization and protect their economic rights, creators must register monetization and meet the standard requirements on YouTube Partners Program.<sup>189</sup>

This provision is a form of implementation of the protection of economic rights because YouTube also has a partnership relationship with publishers or labels as well as the Collective Management Institution which regulates copyright. The combination of the two is an optimal effort because digital platforms have the direction of collaborating with official non-profit legal entity institutions that have been authorized by the Creator, Copyright

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<sup>187</sup> Tasya Safiranita, et al., *Principles of Cyber Law in Over The Top E-Commerce Based on Digital Transformation in Indonesia* 16 (3) Jurnal Legislasi, (2019). URL: <https://garuda.kemdikbud.go.id/documents/detail/1266782>

<sup>188</sup> Ahmad M Ramli, *Dynamics of Telematics Law Convergence in National Legal Systems*, 5 (6) Journal Legislasi Indonesia (2008). URL: <https://e-jurnal.peraturan.go.id/index.php/jli/article/view/302/187>

<sup>189</sup> Susanne Kopf, *Rewarding Good Creators: Corporate Social Media Discourse on Monetization Schemes for Content Creators*, 6(4) Social Media + Society (2020). URL: <https://journals.sagepub.com/doi/full/10.1177/2056305120969877>

Holder, and/or related rights owner to manage economic rights in the form of collecting and distributing royalties.<sup>190</sup>

As for covers, in accordance with YouTube's provisions regarding copyright, channel owners are not permitted to create content that violates copyright. In this case, digital platforms have fulfilled their responsibilities in utilizing economic rights, while repressive efforts towards copyright violations on digital platforms also have sanctions against violators. For example, YouTube will take down videos that are suspected of violating and if the channel owner continuously violates copyright up to three times within 90 days, then YouTube has the authority to terminate his account and related channels.<sup>191</sup>

In relation to taxation, copyright royalty payment by franchise companies will be considered as part of their taxable income. Franchise companies are required to report their income and pay taxes according to the applicable rates. The royalties received by the copyright owners are also considered income and are subject to the applicable taxes. The Indonesian government implements tax regulations that govern the taxation of copyright royalties in franchise businesses. Franchise companies are obliged to comply with tax obligations as stipulated in the tax laws, including reporting and paying taxes related to the payment of copyright royalties. Copyright and royalties are important factors in determining income and tax payments in the franchise business in Indonesia. It is an integral part of franchise business operations to fulfil tax obligations on copyright royalties to ensure tax compliance and support fair tax revenues for the government.

The concept of royalties in taxation can be found in the explanation of Law Number 7 of 2021 on Tax Regulations Harmonization, which amends Law Number 36 of 2008 on the Fourth Amendment to Law Number 7 of 1983 on Income Tax (Income Tax Law). Article 4 Paragraph (1) Letter h of the law describes royalties as the amount to be paid as compensation for the use of certain rights, including the use of copyrights in literature, art, scientific works, patents, designs, plans, formulas, and trade secret, trademarks, and other forms of intellectual property.

However, it is not easy to determine these compensations as a tax object. Nevertheless, franchise agreements, as civil agreements that involve business aspects, are certainly subject to tax regulations. In the context of income tax imposition according to the Income Tax Law, royalty payments to franchisors are subject to a 15% withholding tax rate (Article 23 Income Tax). However, if the franchisor is from abroad, the royalty will be subject to a 20% withholding tax rate (Article 26 Income Tax).

Franchise royalties' taxation can face several challenges. One of them is the classification of taxes. The classification depends on the origin of the franchisor and the type of intellectual property rights used. Errors in tax classification can lead to mistakes in tax payments. Additionally, tax rates also pose an issue that needs to be clearly determined. Tax rates can vary depending on the type of intellectual property rights and the origin of the

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<sup>190</sup> Article 1 Paragraph 22 Copyright Law

<sup>191</sup> YouTube, YouTube Copyright & Fair Use Policies - How YouTube Works. (accessed 20 May 2023)

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

franchisor. Uncertainty in determining tax rates can lead to ambiguity in tax calculations. Determining the royalty value is also an important challenge. The royalty value should be fair and reasonable according to the use of intellectual property rights granted by the franchisor. Inconsistency between the royalty value and the actual market value can result in disputes. Transfer pricing practices also require attention, especially in cases of franchising with foreign-based franchisors. Optimal supervision is necessary to ensure fairness and compliance in determining transfer prices. Lastly, tax audits conducted by tax authorities can pose issues if there is a discrepancy between the reported royalty by the franchisee and the franchisor.

The taxation aspects related to franchise business transactions in Indonesia can refer to the provisions of the Income Tax Law, particularly Articles 23 and 26. However, in practice, the taxation of franchise royalties for intellectual property rights has not been optimally implemented. Therefore, further research is needed on "Optimizing Taxation on Copyright Royalties in Franchise Business in Indonesia" to determine the legal concepts that need to be applied to optimize the taxation of franchise royalties for intellectual property rights in Indonesia. The followings are the problems identified in this research.

1. What is the potential tax revenue from copyright royalties in franchise businesses in Indonesia?
2. What are the required regulations to optimize the taxation of copyright royalties in franchise businesses in Indonesia?

## **II. Theoretical Review on Copyright, Tax Revenue, and Franchise**

### **A. Copyright**

#### **1. Theory of Intellectual Property Right**

The emergence of the theory of Intellectual Property Rights can be understood through the theory proposed by John Locke,<sup>192</sup> who stated that something owned by a person, whether tangible or intangible, but resulting from their intellect, automatically becomes their property. Locke argued that the purpose of ownership rights is to encourage hardwork, creativity, and innovation. By granting exclusive rights to creators or owners of intellectual property, the government can provide the necessary incentives and legal protection to foster creativity and innovation.

The theory of intellectual property also relies on the concept that intellectual property can be traded and considered as assets that can provide competitive advantages to individuals or companies. Legal protection of intellectual property is seen as crucial in promoting innovation, technological development, and economic growth. In the business context, intellectual property can be a significant source of income and can provide long-term competitive advantages for companies.

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<sup>192</sup> Locke, *Two Treatises of Government*, cited in Syafrinaldi, *History and Theory of Intellectual Property Protection*, Universitas Riau, (2003).



Furthermore, the theory of intellectual property also emphasizes the importance of fairness in the use and exploitation of intellectual works or innovations. Through legal protection, this theory aims to prevent copyright infringement, trademark counterfeiting, or other illegal use of intellectual property. It ensures that copyright owners or innovators are given proper recognition and prevents the misuse or appropriation of works or innovations by others. Overall, the theory of intellectual property provides a conceptual and legal foundation for understanding the inherent value and protection of creative works, innovations, and other forms of intellectual property. By providing incentives for innovation, legal protection, and fair recognition, this theory plays a role in fostering the development of knowledge, the economy, and social progress.

## 2. Theory of Personal Rights and the Rights to Intangible Property

Immanuel Kant<sup>193</sup> explains the theory of personal rights, stating that every individual has the right to be respected and treated as an individual with moral worth. This includes the right to develop their potential, make free choices, and be respected as moral subjects. Kant's concept of personal rights refers to the dignity and freedom of individuals to pursue a worthwhile life and express themselves in ways they deem appropriate.

On the other hand, John Stuart Mill elaborates on the rights to intangible property, particularly in the context of intellectual property, as rights that should be recognized and protected by the law. Mill believes that individuals have both moral and legal rights to the products of their intellectual labor. According to Mill, rights to intangible property such as copyrights, trademarks, and patents provide incentives for individuals to continue innovating and creating new works. By providing legal protection for these rights, society benefits as there is encouragement to share knowledge and produce beneficial innovations.

## B. Tax Revenue

Approaches to understanding taxation can be seen from various perspectives, but the primary and the most relevant to the author's research are from the perspective of the economic and legal approaches. P.J.A. Adriani, an economist, views taxation as the collection made by the state from individuals or legal entities based on the law. Taxes are used by the government to generate revenue for financing various governmental activities, such as providing public services, infrastructure development, and meeting societal needs.<sup>194</sup>

From an economic perspective, Rochmat Soemitro states that taxation is related to its economic impact on society, including its influence on individuals' income, consumption patterns, cost prices, demand and supply, and other economic aspects.<sup>195</sup> From a legal perspective, the approach to taxation emphasizes aspects of agreements, rights and obligations of taxpayers, and the relationship between taxpayers and legal subjects. This includes the

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<sup>193</sup> *Ibid*

<sup>194</sup> Dewi kania Sugiharti, et.al, *Tax Law*, (PT. Remaja Rosdakarya, 2021)

<sup>195</sup> Rochmat Soemitro, *Introduction to Tax Law*, (PT. Eresco, 1988).

government's right to enforce taxation, administrative and criminal sanctions, investigations, filing objections, appeal applications, fairness provisions, validity periods, and other legal aspects related to taxation. One theory related to taxation is the Optimal Tax Theory or the Theory of Optimal Taxation, which was developed by Frank Ramsey (1927). This theory discusses the optimal design of a tax system, meaning that an optimal tax policy needs to align with the participation of taxpayers in a country.

Tax revenue is an essential aspect of a country's finances and economic development. Various theories and expert views have been developed to understand and optimize tax revenue. Ben Langford provides an explanation of tax potential as the maximum amount of tax revenue that can reasonably be increased by a country at a particular point in time, depending on the prevailing characteristics.<sup>196</sup> Additionally, economists also present their perspectives on the impact of tax policies on tax revenue. They argue that the imposition of fair and transparent tax rates can enhance taxpayers' compliance. In this regard, the Trust Theory becomes relevant. This theory states that taxpayers' trust in the government and the tax system can influence their level of compliance. If taxpayers believe that their taxes will be used appropriately by the government for the public interest, they are more likely to be compliant in paying taxes. Therefore, building trust and strengthening transparency in tax policies can increase tax revenue.<sup>197</sup>

In addition to the aforementioned theories, experts also emphasize the importance of effective law enforcement, strict oversight, and tax policies that are fair and provide legal certainty in order to enhance tax revenue. They also highlight the significance of tax education and socialization among the public to ensure a good understanding of tax obligations and the benefits they bring to national development. Overall, these theories and expert perspectives provide a foundation and guidance for governments in designing tax policies aimed at optimizing tax revenue. By considering these aspects, governments can achieve optimal and sustainable tax revenue goals while promoting sustainable economic development and societal well-being.

### C. Franchise

Franchise is a form of business collaboration between two parties, namely the franchisor (the grantor of the franchise) and the franchisee (the recipient of the franchise). In the franchise business model, the franchisor grants the franchisee the right to use its trademark, operational system, knowledge, and other support that has been developed and owned by the franchisor. In exchange for these rights, the franchisee is expected to pay royalties or licensing fees to the franchisor. PH. Collin, in the Law Dictionary, defines a franchise as a license to trade using a brand name and paying royalties for it and franchising as the act of selling a trading license as a franchisee. This definition emphasizes the importance of a brand name

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<sup>196</sup> Ben Langford, *Tax revenue potential and effort*, International Growth Centre (2016)

<sup>197</sup> Fardan Maruf Z, et al., *The Influence of Trust in Government on Tax Compliance with Tax Fairness Perception as an Intervening Variable* 6 (1) Jurnal Pajak Indonesia (2022). URL: <https://jurnal.pknstan.ac.id/index.php/JPI/article/view/1616>

in granting a franchise license with royalties as compensation.<sup>198</sup>

Quoting the perspective of Amir Karamoy, a franchise in the legal context can be understood as a legal agreement that grants rights or privileges to another party to market products or services of the owner, governed by certain rules of the game. Franchise law involves an agreement between two parties who collaborate in the process of production, assembly/formulation, sales, and marketing of products or services. From a legal perspective, franchise involves aspects such as licensing agreements, regulations on brand names, trademarks, patents, models, and designs. These legal aspects can be categorized under the fields of contract law and intellectual property. In the legal context, legislation related to intellectual property rights, such as trademark rights, patent rights, and copyright, also provides protection for intellectual property in franchise businesses.<sup>199</sup>

In the franchise business, an 'agency theory' is known and recognized. This theory focuses on the relationship between the brand owner or parent company as the principal and the party running the franchise business as the agent. The agency theory explains the importance of effective control mechanisms and incentives to minimize conflicts of interest between the two parties. It underscores the significance of dividing responsibilities, transparency, and implementing appropriate incentive systems to ensure the sustainability and success of the franchise business.<sup>200</sup>

Within the context of intellectual property, franchise businesses accommodate the assets of intellectual property owned by the franchisor and granted to the franchisee for use in business operations. The intellectual property assets that can be found in franchise businesses include:

1. Trademarks

It encompasses registered and well-known trademarks within the industry. Franchisees utilize these trademarks to establish a consistent and beneficial brand identity.

2. Copyrights

It includes copyrights over logos, designs, operational manuals, and marketing materials used in the franchise. Franchisees utilize these copyrights in accordance with the guidelines set by the franchisor.

3. Patents

Some franchise businesses involve the use of patented technology or innovation. Franchisees can utilize these patents to operate their businesses in accordance with the established provisions.

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<sup>198</sup> Sri Redjeki, *Franchise in Indonesia*, 8 (2) Lex Jurnalica (2011). URL: <https://ejurnal.esaunggul.ac.id/index.php/Lex/article/view/325>

<sup>199</sup> Ibid., pg. 662-663

<sup>200</sup> Jensen, M. and Meckling, W. Theory of the firm: managerial behavior, agency costs and ownership structure, 3 (4) Journal of Financial Economics (1976), URL: <https://www.sciencedirect.com/science/article/pii/0304405X7690026X>

#### 4. Trade Secrets

It includes knowledge, operational processes, marketing strategies, and other business practices that constitute the franchisor's trade secrets. Franchisees are granted access to and the use of this knowledge to support their business operations.

### **III. The Potential Tax Revenue from Copyright Royalties in the Franchise Business in Indonesia**

The potential tax revenue from copyright royalties in the franchise business in Indonesia is significant. With the rapid growth of the franchise industry, both foreign and local companies have adopted this business model. Copyright royalties are payments made by franchise owners to copyright have been transferred.<sup>201</sup>

The Indonesian government views copyright royalties as a potential source of revenue and has implemented strict taxation policies in this sector. Tax revenue from copyright royalties involves Income Tax (PPh) on franchise business income, including royalties, which are subject to a tax rate of 25 percent. The increase in the number of franchise businesses in Indonesia automatically has a positive impact on tax revenue. Each time there is an addition of franchise units, whether in the form of restaurant outlets, retail stores, or other services, the government will receive a larger tax revenue. Additionally, whenever there is a contract extension or an increase in copyright rights within a franchise agreement, the paid royalties will also increase, further contributing to tax revenue.

Furthermore, the Indonesian government also continues to strive for increased transparency and monitoring of copyright royalty payments in the franchise business. This is done to ensure that franchise companies comply with their tax obligations and pay taxes in accordance with the applicable regulations. With strict oversight in place, tax revenue from copyright royalties is expected to be optimized. Overall, the potential tax revenue from copyright royalties in the franchise business in Indonesia is promising. The rapid growth of the franchise industry and the government's efforts to enhance tax monitoring create good opportunities for the government to optimize tax revenue from this sector.

One example of a franchise business in Indonesia that has been optimal in terms of taxation is well-known fast food restaurants such as McDonald's or KFC. Franchise companies like McDonald's or KFC have an obligation to pay royalties to their copyright and trademark holders. Additionally, they must fulfil other tax obligations, including Income Tax (PPh) on their business income. McDonald's and KFC are not uncommon to receive appreciation from local governments, such as the "compliant taxpayer 2022" appreciation given by the Batam City Government<sup>202</sup> and the exemplary taxpayer appreciation given by the Tanjungpinang City Government<sup>203</sup>

Franchise businesses like McDonald's or KFC are known for their high level of tax compliance. They consistently adhere to the rules and regulations of taxation in Indonesia. Through collaboration with local tax authorities, they accurately report their income and pay taxes according to the applicable rates. Moreover, these franchise businesses often maintain good communication with the government regarding their tax obligations. They

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<sup>201</sup> Arif Effendy, *Legal Protection for Franchisors and Franchisees in Franchise Business from the Perspective of Intellectual Property Rights*, 4 (2) Jurnal Inovasi Penelitian, (2021). URL: <https://stp-mataram.e-journal.id/JIP/article/view/713>

<sup>202</sup> Edisi.co, *List of Winners of the Night of Appreciation for Tax-Compliant Taxpayers 2022* URL: <https://edisi.co/2022/06/24/daftar-pemenang-malam-apresiasi-wajib-pajak-taat-pajak-2022/> (accessed 20 May 2023).

<sup>203</sup> Keprinews, "Setting an Example, KFC Restaurant Tax at Batu 9 Reaches Rp1.2 Billion Every Year" URL: <https://keprinews.co/16/09/2022/jadi-percontohan-pajak-restoran-kfc-batu-9-capai-rp12-miliar-setiap-tahun/> (accessed 20 May 2023).

strive to cooperate with the authorities in fulfilling their tax obligations and ensure that all their financial transactions are subject to strict supervision.

The success of franchise businesses like McDonald's or KFC in tax compliance not only benefits the government in terms of optimal tax revenue but also sets a good example for other franchise businesses. This encourages high standards of tax compliance in the franchise industry in Indonesia. However, it is important to note that this is a general example, and there are many other franchise businesses in Indonesia that have also been optimal in fulfilling their tax obligations. Upholding good tax compliance is a principle emphasized by many franchise companies operating in Indonesia to maintain the sustainability of their businesses and contribute to the country's development.

One potential example of a franchise business in Indonesia that is subject to royalty copyright tax is the fast food industry, such as renowned fast-food restaurants. In this business, the brand owner or parent company holds the copyright to the business concept, trademark, recipes, and operational systems that form the basis of each franchise outlet's operations. Franchise companies seeking a license to use the brand and business concept must pay royalties to the copyright owner as a form of recognition and the use of exclusive rights.

In general, royalty copyright tax is applied to these royalty payments. The Indonesian government imposes taxes on royalty copyright as a contribution from franchise companies to the state's tax revenue. The tax imposed may vary depending on the applicable rates and relevant tax regulations. In this case, franchise companies will report the amount of royalties they pay to the copyright owner and pay taxes on that amount in accordance with the prevailing tax provisions. This is an important aspect to ensure tax compliance and fair contribution to national development.

The optimization of tax revenue in franchise businesses has a significant impact on the economy and the state's finances. The following are the positive impacts of tax optimization in franchise businesses:

1. Increased State Revenue

By optimizing tax revenue, the government can generate higher revenues. Taxes play a crucial role in the state's revenue, contributing to approximately 75% of the total revenue. This percentage has been steadily increasing over the years. However, despite this, Indonesia's tax ratio remains low at 11%, which is the lowest ratio in the world.<sup>204</sup> Significant tax receipts from franchise businesses will enhance the state's income sources, which can then be utilized to finance infrastructure development programs, education, healthcare, and other public sectors.

2. Promoting Tax Fairness

The optimization of tax revenue from royalties in franchise businesses ensures that these businesses fulfil their tax obligations correctly. This promotes tax fairness, especially regarding incentives related to intellectual property in franchise businesses, ensuring that all stakeholders contribute fairly according to their abilities.

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<sup>204</sup> Amelia Cahyadi, et al., *Optimization Policy of Income Tax in E-Commerce Activities*, 2(2) Journal Veritas et Justitia (2018). URL: <https://journal.unpar.ac.id/index.php/veritas/article/view/3071/2613>

### 3. Enhancing Tax Monitoring and Compliance

Efforts to optimize tax revenue in franchise businesses also entail improving monitoring and supervision of royalty payments for intellectual property. This can encourage franchise companies to comply more diligently with tax regulations and accurately report their income. With increased tax compliance, the government can obtain more reliable data for economic planning and decision-making.

### 4. Stimulating Investment and Economic Growth

If Indonesia successfully enforces tax regulations effectively, it creates a stable and reliable investment climate. Optimizing tax revenue in franchise businesses will enhance investor confidence in conducting business in Indonesia. This can stimulate higher investment in the franchise sector, create new job opportunities, and drive overall economic growth.

Overall, optimizing tax revenue from royalty payments for intellectual property in franchise businesses has positive impacts on the economy and national finances. In addition to increasing government revenue, it also contributes to tax fairness, economic growth, and recognition of the creator's intellectual property.

## **IV. Required Legal Framework to Optimize Taxation on Copyright Franchise Royalty in Indonesia**

Although Indonesia has a legal framework to regulate taxation on franchise royalty, there are several shortcomings that can hinder tax optimization, which can be understood as follows:

### 1. Complexity of Regulations

Tax regulations in Indonesia are often complex and difficult to comprehend, especially for franchise companies entering the Indonesian market. Uncertainty with regard to the interpretation of tax regulations can pose challenges for franchise companies in understanding and complying with applicable tax obligations. With regards to royalty taxation, there is ambiguity about whether these royalties are subject to Value Added Tax (PPH) or not.

### 2. Ineffective Monitoring

Despite efforts to enhance tax monitoring, particularly through cooperation with the home countries of copyright holders, monitoring royalty payments in franchise businesses can still be challenging. There are loopholes that allow franchise companies to avoid or reduce tax obligations, particularly through transfer pricing or the use of complex corporate structures.

### 3. Lack of Tax Awareness and Education

Awareness of the importance of tax obligations and adequate understanding of the tax system often remains low among franchise business owners and franchise partners. The lack of specific tax education and training in the field of franchising can hinder ensuring proper tax compliance.

#### 4. Challenges in Law Enforcement

Enforcing tax laws against violations or tax avoidance practices in the franchise business still poses challenges. Ineffective tax audits and law enforcement can lead to some franchise companies not properly complying with their tax obligations.

To address these shortcomings, several measures are required, such as simplifying tax regulations, enhancing supervision and law enforcement, increasing awareness and tax education among franchise owners, and ensuring consistency in tax treatment. Additionally, close collaboration between the government, tax authorities, and relevant stakeholders will be key to optimizing franchise royalty taxation in Indonesia.

Based on the research conducted by the author to respond to legal regulatory deficiencies in Indonesia regarding the optimization of copyright royalty taxation in franchise businesses, the following legal concepts are deemed necessary for Indonesia:

1. Indonesia needs clear legal foundations with regard to the imposition of taxes on copyright royalties in franchise businesses. Considering that generally, the Income Tax Law does not extensively regulate the imposition of taxes on copyright royalties in franchise businesses, more detailed government regulations are required to address technical aspects of taxation in franchise businesses, including copyright royalties. A government regulation (Explaining the Income Tax Law) can provide further clarification on tax rates, payment procedures, tax deduction arrangements, and other relevant matters.
2. The franchise agreement between franchise owners and copyright holders should include clear provisions on the payment of copyright royalties and the tax obligations to be fulfilled by all parties. This agreement must comply with positive Indonesian law and ensure compliance with tax obligations.
3. Clear legal provisions are needed to enable tax authorities to supervise and examine franchise companies with regard to tax reporting and payment. This is crucial to ensure tax compliance and prevent tax avoidance practices.
4. A legal framework is required to facilitate information exchange and cooperation between the Indonesian government and the home country of foreign copyright holders, ensuring transparency and tax compliance.

A robust and comprehensive legal framework will provide a clear and secure foundation for optimizing tax on copyright royalties in franchise businesses in Indonesia. This will create a stable business environment, promote tax compliance, and ensure fair and optimal tax revenue for the government. A Clear legal framework plays a crucial role in optimizing tax on copyright royalties in franchise businesses. Clear and comprehensive legal provisions provide certainty for franchise companies and copyright holders regarding their tax obligations. With a clear legal framework, they can accurately determine tax assessments, royalty calculations, and reporting requirements.

Through effective legal regulations, franchise companies and copyright holders are obligated to comply with applicable tax obligations. These regulations create incentives for them to report their income accurately, pay taxes according to the prevailing rates, and avoid unlawful tax avoidance practices. The government can ensure optimal tax revenue from copyright royalties in franchise businesses. Fair and effective tax imposition guarantees that



franchise companies contribute appropriately to the state and assist in financing various development programs.<sup>205</sup>

A good legal provision also plays a role in preventing tax evasion practices or tax deviations. With clear legal provisions, the government can limit loopholes that allow franchise companies to unlawfully avoid or reduce their

tax obligations. Strong and comprehensive legal regulations serve as an important foundation in optimizing taxation on copyright royalties in franchise businesses.<sup>206</sup> They create legal certainty, transparency, and tax compliance, ensuring optimal tax revenue for the government. With good legal regulations in place, franchise businesses can operate legally and contribute fairly to the country's development.

## V. Conclusion

- a. In the context of franchise businesses in Indonesia, copyright royalties have great potential to become a significant source of tax revenue for the country. Through the optimization of taxation on copyright royalties, Indonesia can experience positive implications such as increased government revenue, enhanced innovation and creativity among the public, and accelerated investment in intellectual property through the development of the franchise industry. Referring to the income tax imposition in the Income Tax Law, franchise providers are subject to a 15% tax rate under Article 23 for royalty payments. However, if the franchisor is a foreign entity, the royalty is subject to a 20% tax rate under Article 26. With the growing number of franchise businesses in various sectors, including food and beverage, retail, entertainment, and more, royalty payments have become an important component of franchise companies' income. With comprehensive tax regulations and effective supervision, the government can optimize tax revenue from copyright royalties. This contributes significantly to Indonesia's economy and benefits society.
- b. Comprehensive legal frameworks are crucial to optimize taxation on copyright royalties in franchise businesses in Indonesia. Indonesia requires a more comprehensive legal framework, clear provisions with regard to the payment of copyright royalties and tax obligations to be complied with by both parties, legal provisions enabling tax authorities to supervise and examine franchise companies' tax reporting and payments, and a legal framework allowing information exchange and cooperation between the Indonesian government and the home country of foreign copyright holders to ensure transparency and tax compliance. The government can ensure optimal tax revenue, promote tax fairness in contributions, and stimulate economic growth through the rapid development of franchise businesses.

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<sup>205</sup> Esthar Oktavi, *Legal Protection for Franchisees in Franchise Agreements in Indonesia*, Thesis, Universitas Islam Indonesia, (2013).

<sup>206</sup> *Ibid.*

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This journal represents the output that we have been able to produce through the research we conducted, aiming to make a positive contribution to society and stakeholders, as well as to contribute to the development of knowledge in the field of copyright in the digital domain.

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# Charting the Uncharted: Exploring Intellectual Property in the Era of Generative AI

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## ABSTRACT

Generative artificial intelligence (AI) has brought about a paradigm shift in creative expression, unleashing transformative potential. Recent advancements have enabled machines to produce striking images across artistic styles. Text generators demonstrate remarkable proficiency, albeit with occasional factual embellishments. AI-generated works have received recognition in esteemed exhibitions. In instances where original pieces being are loaned, AI replicas serve as substitutes. This phenomenon has multifaceted legal ramifications, particularly regarding intellectual property rights. Potential copyright infringement, complex ownership, and the need for clear guidelines necessitate thorough examination and evaluation.

Generative AI is derived from large datasets carefully selected from extensive archives. Fundamental model training relies on data lakes and question snippets - billions of processed parameters. During training, the models identify patterns, correlate, and develop predictive, responsive rules for prompts. Despite seemingly miraculous novelty, AI-generated content combines pre-existing knowledge and expressions, channelled through human ingenuity in innovative ways.

Legal ownership complexities transcend AI developers and instructors. Resolving intricacies necessitates unambiguous terms, agreements, and licensing to ensure fair rights/obligation allocation. This paper thoroughly investigates the intellectual property terrain regarding generative AI. Comprehensive analysis of frameworks, cases, and discourse elucidates copyright, patent, trademark complexities pertaining to AI-generated content. The Objective is to provide significant insights, facilitating ethical AI adoption while mitigating risks. Responsible adoption and, meticulous IP rights consideration enable

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human creativity-AI collaboration, harnessing transformative capabilities consistently with ethical and legal standards.

**Keywords:** Generative Artificial Intelligence, Intellectual Property, Patent, Copyright, Infringement

## 1. Introduction

The advent of Generative Artificial Intelligence (AI) has brought about a paradigm shift in the realm of creative expression, thereby unleashing its transformative potential. This development has engendered a sense of fascination and intrigue among scholars and practitioners alike. Recent advancements in algorithmic technology have enabled machines to produce visually striking images across a range of artistic styles, including watercolours, vintage photographs, pencil sketches, and pointillism. Notable examples of such algorithms include the Stability AI,<sup>1</sup> Midjourney,<sup>2</sup> and DALL-E 2.<sup>3</sup> Text generators demonstrate remarkable proficiency in reproducing various forms and styles, albeit with occasional embellishments of factual information. The AI-generated creations have received significant recognition, if they have been featured in esteemed art exhibitions. In instances where the original pieces are loaned to other museums, AI-generated replicas serve as substitutes.<sup>4</sup> The phenomenon in question is accompanied by a multifaceted network of legal ramifications, particularly in the domain of intellectual property rights. The issue of potential copyright infringement, the complexities surrounding ownership, and the necessity for unambiguous guidelines necessitate a thorough examination and meticulous evaluation.

The emergence of Generative AI platforms can be traced back to the use of large datasets, which are carefully selected from extensive archives of images and texts. The fundamental basis for training AI models is established through the use of data lakes and question snippets. These resources comprise vast amounts of parameters derived from software processing, amounting to billions of data points.<sup>5</sup> During the training phase, the aforementioned models engage in the identification of patterns, establishment of correlations, and formulation of rules that inform their predictive and responsive capabilities in relation to specific prompts. The generative AI process, despite its seemingly miraculous ability to produce novel content, is actually a product of the combination of pre-existing knowledge and artistic expressions.<sup>6</sup> These elements are sourced from a vast repository of past creations and are expertly channelled through the ingenuity of human

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<sup>1</sup> Robert A. Gonsalves, *Digital Art Showdown: Stable Diffusion, DALL-E, and Midjourney*, MEDIUM (Nov. 22, 2022), <https://towardsdatascience.com/digital-art-showdown-stable-diffusion-dall-e-and-midjourney-db96d83d17cd> (last visited Sept. 3, 2023).

<sup>2</sup> Ibid.

<sup>3</sup> Thomas H. Davenport & Nitin Mittal, *How Generative AI Is Changing Creative Work*, HARVARD BUSINESS REVIEW (Nov. 14, 2022), <https://hbr.org/2022/11/how-generative-ai-is-changing-creative-work> (last visited Sept. 20, 2023).

<sup>4</sup> Gil Appel et al., *Generative AI Has an Intellectual Property Problem*, HARVARD BUSINESS PUBLISHING EDUCATION (Apr. 7, 2023), <https://hbsp.harvard.edu/product/H07K15-PDF-ENG?activeTab=overview&itemFindingMethod=> (last visited Sept. 20, 2023).

<sup>5</sup> McKinsey & Company, *What Is Generative AI?*, MCKINSEY & COMPANY (Jan. 19, 2023), <https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-generative-ai> (last visited Sept. 20, 2023).

<sup>6</sup> Thomas H. Davenport & Nitin Mittal, *How Generative AI Is Changing Creative Work*, HARVARD BUSINESS REVIEW (Nov. 14, 2022), <https://hbr.org/2022/11/how-generative-ai-is-changing-creative-work> (last visited Sept. 20, 2023).

creators, who reimagine them in innovative ways.

The convergence of human creativity and AI algorithms in the field of creativity has prompted legal apprehensions, particularly about intellectual property. The emergence of AI-generated content that mimics established patterns raises concerns about potential copyright violations, which serve as a crucial protection for original works historically attributed to human authors.<sup>7</sup> The exceptional abilities of generative AI platforms have resulted in instances where AI-generated replicas of celebrated artworks, such as Vermeer's "Girl with a Pearl Earring,"<sup>8</sup> have been showcased in museums as replacements for the authentic pieces, which were temporarily lent to other establishments.<sup>9</sup> The utilisation of AI-generated replicas as substitutes accentuates the necessity to scrutinise the limitations of copyright legislation within this particular sphere. The complex interplay between generative AI and copyright necessitates a continuous dialogue aimed at developing frameworks that can effectively balance the promotion of innovation with the protection of creators' rights.<sup>10</sup>

The domain of patent law, which aims to safeguard innovative inventions and procedures, confronts distinct challenges in the context of Generative AI. The patentability of content generated by algorithms may not meet the criteria for patent protection, despite the algorithms themselves being eligible for such protection as technical inventions. The emergence of generative AI may give rise to scenarios in which it integrates innovative technical advancements, thereby requiring a more in-depth analysis of the interrelationship between this nascent technology and patent law. Comprehending the intricacies and ramifications of patent law in relation to Generative AI is of utmost importance for legal professionals and interested parties alike, as they endeavour to navigate this rapidly developing terrain.<sup>11</sup>

The existence of trademarks, which function as indicators of source and uniqueness, adds an additional layer of complexity to the realm of AI-generated content. The inclusion of trademarks in Generative AI outputs poses a significant risk of trademark infringement. The degree of infringement, in the context of AI-generated content, may be contingent on the level of commercial

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<sup>7</sup> Kalin Hristov, *Artificial Intelligence and the Copyright Dilemma*, 57 IDEA 431 (2017).

<sup>8</sup> NL Times, *Mauritshuis Hangs Artwork Created by AI in Place of Loaned-Out Vermeer*, NL TIMES (Feb. 22, 2023), <https://nltimes.nl/2023/02/22/mauritshuis-hangs-artwork-created-ai-place-loaned-vermeer> (last visited Sept. 20, 2023).

<sup>9</sup> Refik Anadol, *Refik Anadol on AI, Algorithms, and the Machine as Witness | Magazine | MoMA*, THE MUSEUM OF MODERN ART (Dec. 20, 2022), <https://www.moma.org/magazine/articles/821> (last visited Sept. 20, 2023).

<sup>10</sup> Gil Appel et al., *Generative AI Has an Intellectual Property Problem*, HARVARD BUSINESS PUBLISHING EDUCATION (Apr. 7, 2023), <https://hbsp.harvard.edu/product/H07K15-PDF-ENG?activeTab=overview&itemFindingMethod=> (last visited Sept. 20, 2023).

<sup>11</sup> Paul Sweeting, *Generative AI & Intellectual Property Law: A Special Report*, VARIETY (May 1, 2023), <https://variety.com/vip-special-reports/generative-ai-intellectual-property-law-a-special-report-1235582691/#!> (last visited Sept. 20, 2023).



exploitation. The examination of trademark law in the context of Generative AI necessitates a nuanced approach that effectively safeguards existing trademarks while concurrently fostering innovation in this emerging creative sphere.<sup>12</sup>

In the context of exploring new frontiers, the precise demarcation of property rights becomes a critical factor of utmost significance. The issue of content ownership arising from Generative AI entails a complex set of considerations that transcend the purview of the creators or entities accountable for the development or instruction of AI models.<sup>13</sup> The resolution of legal intricacies of ownership necessitates the establishment of unambiguous terms, agreements, and licencing arrangements that, guarantee the fair allocation of rights and obligations among all stakeholders.

This research paper undertakes a thorough investigation of the intellectual property terrain within the context of generative artificial intelligence. Through a comprehensive analysis of legal frameworks, case studies, and scholarly discourse, we elucidate the complexities of copyright, patent, and trademark laws as they pertain to AI-generated content.<sup>14</sup> The objective of our work is to provide enterprises with significant insights and direction, thereby facilitating their adoption of generative AI and concurrently mitigating potential legal risks. The coexistence of human creativity and generative AI currently can be facilitated by the responsible adoption and meticulous consideration of intellectual property rights. This requires a concerted effort to ensure that the transformative capabilities of generative AI are harnessed in a manner consistent with ethical and legal standards. By doing so, we can create an environment that fosters harmonious collaboration between human creativity and generative AI.

## **2. Where Generative AI Fits into Today's Legal Landscape**

The emergence of Generative AI has constituted a noteworthy advancement, introducing a revolutionary technology with extensive prospects across various fields. The utilisation of the aforementioned is contingent on the influence of existing legal regulations. This section examines the impact of legal considerations on the deployment of Generative AI, specifically focusing on copyright, fair use, ownership disputes, and the complex issues that arise in relation to these aspects. Through a thorough examination of extant litigation, legal cases, and established legal precedents, a more profound comprehension of the intricate legal frameworks that govern the

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<sup>12</sup> Yogesh K. Dwivedi et al., "So What if ChatGPT Wrote It?" *Multidisciplinary Perspectives on Opportunities, Challenges and Implications of Generative Conversational AI for Research, Practice and Policy*, 71 INTERNATIONAL JOURNAL OF INFORMATION MANAGEMENT 102642 (2023), <https://doi.org/10.1016/j.ijinfomgt.2023.102642>.

<sup>13</sup> J.E. (Hans) Korteling et al., *Human- Versus Artificial Intelligence*, 4 FRONT. ARTIF. INTELL. (2021), <https://doi.org/10.3389/frai.2021.622364>.

<sup>14</sup> Gyandeep Chaudhary, *Artificial Intelligence: Copyright and Authorship/Ownership Dilemma?*, 13 INDIAN J.L. & JUST. 212 (2022).

acceptable utilisation of Generative AI can be attained.

## ***2.1 Legal Considerations in Generative AI***

The advent and use of Generative AI systems have resulted in noteworthy legal ramifications that require careful examination. The emergence of content-generating systems, which involve various forms of media such as images, music, and text, has prompted a plethora of legal and ethical issues.<sup>15</sup> The employment of such systems may give rise to conflicts concerning intellectual property rights, generate inquiries regarding accountability, and involve considerations of privacy and data protection legislation. The issue of content ownership arising from the use of generative AI is a notable legal concern. The matter at hand holds significant significance within the realm of intellectual property rights, given the complexity surrounding the ownership of the produced content.

### ***2.1.1 Copyright Violation and Usage Rights***

The topic of copyright infringement and usage rights is a multifaceted and intricate matter that demands meticulous examination. Copyright infringement pertains to the unauthorised utilisation of protected intellectual property, which may result in legal ramifications for the offending individual or entity. Furthermore, it prompts inquiries regarding the ethical ramifications of utilising another individual's work without obtaining their consent or providing appropriate attribution. Hence, it is imperative to scrutinise the diverse facets of this matter to acquire a holistic comprehension of its ramifications.

An important concern related to Generative AI is the potential infringement of copyright regulations. The act of utilising copyrighted materials without obtaining appropriate permissions gives rise to legal apprehensions in the domain of training artificial intelligence models, which are heavily reliant on extensive datasets. The matter under consideration concerns the utilisation rights associated with innovations generated by AI. The problem of unauthorised utilisation of artistic works by individuals or entities without the permission of the original creators has been a matter of concern for artists and content creators. The aforementioned actions possess the capacity to compromise the ownership rights of the creators and could result in the production of unauthorised derivative works.

The advent of Generative AI has given rise to a sense of uncertainty regarding the legitimate proprietorship of AI-generated artefacts. The utilisation of copyrighted and trademarked works by users within the prompts of these tools, absent prior authorization, poses ethical and legal dilemmas. This phenomenon presents a challenge to the established boundaries of fair use and has

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<sup>15</sup> Marcelo Luis Barbosa dos Santos, *The "So-Called" UGC: An Updated Definition of User-Generated Content in the Age of Social Media*, ahead-of-print ONLINE INFO. REV. 95 (2021), <https://doi.org/10.1108/oir-06-2020-0258>.

the capacity to transform the way copyrighted materials are integrated into artistic expressions.

### **2.1.2 Litigation: *Andersen v. Stability AI et al.***<sup>16</sup>

To gain a more comprehensive comprehension of the legal ramifications, an analysis is conducted on the lawsuit of *Andersen v. Stability AI et al.* This particular case involves a group of three artists who filed a lawsuit against various generative AI platforms. The artists have claimed that certain platforms have utilised their original works without obtaining prior authorization for training their artificial intelligence models. This has led to the development of derivative works that have not undergone sufficient transformation from the original protected works. The artists posited that the Generative AI platforms transgressed their copyright and ownership rights, thereby engendering substantial apprehensions regarding the ethical employment of AI technology.

This particular legal case establishes a precedent that underscores the potential ramifications of employing AI to generate unlicensed and derivative works. If AI-generated works are treated as unauthorised derivatives, courts have the authority to levy substantial penalties for infringement. The ongoing legal dispute underscores the necessity for unambiguous directives and legal structures that safeguard the rights of artists and creators among the advent of generative AI.

### **2.1.3 Training Data and Unlicensed Works**

A noteworthy legal issue pertains to the data employed for training Generative AI models. The legal actions initiated in the year 2023<sup>17</sup> bring to the fore the issue of data lakes that comprise unauthorised works, which are estimated to be in the range of thousands or even millions. It is imperative for both companies and individuals who furnish training data to ensure that they possess the requisite licences and permissions for the copyrighted materials incorporated within the datasets. Neglecting to adhere to this requirement may result in legal conflicts and possible breaches of copyright and trademark privileges.<sup>18</sup>

Getty, a corporation that specialises in the licencing of images, has taken legal measures against Stability.AI,<sup>19</sup> alleging that they have engaged in the unauthorised utilisation of photographs that are protected by copyright.<sup>20</sup> The assertion made by Getty highlights the significance of

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<sup>16</sup> Andersen et al v. Stability AI Ltd. et al, District Court, N.D. California, 3:23-cv-00201, (N.D. Cal.), (United States of America), <https://www.courtlistener.com/docket/66732129/andersen-v-stability-ai-ltd/> (last visited Sept. 21, 2023).

<sup>17</sup> Anirudh VK, *Is the Big Data Lake Era Fading?* ANALYTICS INDIA MAGAZINE (May 12, 2023), <https://analyticsindiamag.com/is-the-big-data-lake-era-fading/> (last visited Sept. 21, 2023).

<sup>18</sup> Ibid

<sup>19</sup> Getty Images (US), Inc. v. Stability AI, Inc., US District Court for the District of Delaware, 1:2023cv00135, (United States of America), <https://dockets.justia.com/docket/delaware/dedce/1:2023cv00135/81407> (last visited Sept. 21, 2023).

<sup>20</sup> Getty Images (US), Inc. v. Stability AI, Inc., US District Court for the District of Delaware, 1:2023cv00135, (United States of America), <https://dockets.justia.com/docket/delaware/dedce/1:2023cv00135/81407> (last visited Sept. 21,

acquiring appropriate licences and permissions for the data used in the training of AI.<sup>21</sup> This particular case highlights the importance of conscientiousness on the part of businesses and individuals who employ generative AI, particularly in terms of procuring and utilising training data that adheres to copyright laws.

#### ***2.1.4 Fair Use Doctrine and Transformative Use***

The Fair Use Doctrine is a legal concept that permits the restricted utilisation of copyrighted material without the need to acquire authorization from the copyright owner.<sup>22</sup> The aforementioned principle is founded on the notion that specific applications of copyrighted material, such as critique, analysis, journalistic coverage, pedagogy, erudition, or investigation, are advantageous to the community and ought to be permitted, despite the possibility of encroaching upon the copyright proprietor's exclusive entitlements.<sup>23</sup> The notion of transformative use has surfaced in contemporary times as a means of determining the fairness of a specific utilisation of copyrighted material. The crux of this notion centres on the extent to which the derivative work generated from the copyrighted material introduces novel and distinct elements to the source material, as opposed to merely replicating or mimicking it. The likelihood of a work being deemed fair use increases if it is transformative in nature, meaning that it fulfils a distinct purpose from the original work and does not pose a threat to its market competition.

The fair use doctrine is a crucial aspect in defining the boundaries that establish the qualification of a derivative work within the scope of intellectual property legislation.<sup>24</sup> The fair use doctrine allows the use of copyrighted material for specific purposes, including criticism, commentary, news reporting, teaching, scholarship, or research, without requiring explicit permission from the copyright holder. The doctrine mentioned above permits the potential for transformative use, which involves utilising the material in a way that differs from its original intent, thus introducing new meanings or importance.<sup>25</sup>

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2023).

<sup>21</sup> Blake Brittain, *Getty Images Lawsuit Says Stability AI Misused Photos to Train AI*, REUTERS (Feb. 6, 2023), <https://www.reuters.com/legal/getty-images-lawsuit-says-stability-ai-misused-photos-train-ai-2023-02-06/> (last visited Sept. 21, 2023).

<sup>22</sup> Jai Vignesh K, *Doctrine of Fair Dealing in Indian Copyright Law – SURANA & SURANA*, SURANA & SURANA – INTERNATIONAL ATTORNEYS, <https://suranaandsurana.com/2022/09/02/doctrine-of-fair-dealing-in-indian-copyright-law/> (last visited Sept. 21, 2023).

<sup>23</sup> Olaf Zawacki-Richter et al., *Systematic Review of Research on Artificial Intelligence Applications in Higher Education – Where Are the Educators?*, 16 INT J EDUC TECHNOL HIGH EDUC (2019), <https://doi.org/10.1186/s41239-019-0171-0>.

<sup>24</sup> BRENDAN RYAN, *OPTIMIZING ACADEMIC LIBRARY SERVICES IN THE DIGITAL MILIEU: DIGITAL DEVICES AND THEIR EMERGING TRENDS* 51-59 (Chandos Publishing 2013).

<sup>25</sup> Ishan Sambhar, *Concept of Fair Use and Fair Dealing in Copyright - Copyright - India*, WELCOME TO MONDAQ (May 13, 2020), <https://www.mondaq.com/india/copyright/930556/concept-of-fair-use-and-fair-dealing-in-copyright> (last visited Sept. 21, 2023).

The discourse within the legal realm of works generated by AI is focused on the analysis of their capacity for transformation. In the legal realm, it is crucial for courts to conduct a comprehensive examination to determine whether the output produced by AI represents a significant alteration or a mere replication of previously safeguarded materials.<sup>26</sup> The evaluation holds significant importance in determining the legal standing and probable violation of AI-generated creations. The definition of transformative use in the context of Generative AI will be impacted by the outcome of legal disputes and the development of legal precedents.<sup>27</sup>

## ***2.2 Legal Precedents and Interpretations***

The academic pursuit of legal precedents and interpretations entails a comprehensive scrutiny and evaluation of prior judicial rulings and their subsequent interpretations and applications in subsequent cases. The aforementioned procedure necessitates a meticulous and evaluative methodology to comprehend the legal tenets and dogmas that serve as the foundation for these verdicts, alongside the wider societal, governmental, and financial frameworks within which they were rendered. Through the analysis of legal precedents and interpretations, scholars and practitioners can acquire a more profound understanding of the development of legal doctrine and its transformation influenced by shifting social norms, political pressures, and economic forces.<sup>28</sup>

### ***2.2.1 Technology and Copyright Law: Google's Défense<sup>29</sup>***

The confluence of technology and copyright law has been a subject of considerable controversy in recent times, with Google occupying a prominent position in the discourse. Google has encountered many of legal disputes on its use of copyrighted content, specifically in relation to its search engine and video-sharing platform, YouTube. Google has put forth a defence based on the concepts of fair use and the Digital Millennium Copyright Act (DMCA<sup>30</sup>) in reaction to the aforementioned issue. The approach adopted by Google has elicited varying responses from legal scholars and content producers. While some contend that Google's actions amount to copyright

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<sup>26</sup> A.D. (Dory) Reiling, *Courts and Artificial Intelligence*, 11 INT'L J. for CT. ADMIN. (2020), <https://doi.org/10.36745/ijca.343>.

<sup>27</sup> John Quinn, *Council Post: The Clash of Generative AI and Intellectual Property Law: What It Means for Businesses*, FORBES (May 3, 2023), <https://www.forbes.com/sites/forbesbusinesscouncil/2023/05/03/the-clash-of-generative-ai-and-intellectual-property-law-what-it-means-for-businesses/?sh=2479e47f6c01> (last visited Sept. 21, 2023).

<sup>28</sup> Mark L. Howe & Lauren M. Knott, *The Fallibility of Memory in Judicial Processes: Lessons From the Past and Their Modern Consequences*, 23 MEMORY 633 (2015), <https://doi.org/10.1080/09658211.2015.1010709>.

<sup>29</sup> Authors Guild v. Google, Inc., UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT, Oct. 16, 2015, Docket No. 13-4829-cv, (United States of America), <https://law.justia.com/cases/federal/appellate-courts/ca2/13-4829/13-4829-2015-10-16.html> (last visited Sept. 12, 2023).

<sup>30</sup> The Copyright Act of 1976, copyright law No. Pub. L. 94-553, Jan. 1, 1978, (United States of America).

infringement, others assert that the company's practises are lawful. The final outcome of this matter will have noteworthy consequences for the advancement of copyright law and the influence of technology in shaping its development.

The intersection of technology and copyright law has been a subject of contention. Google successfully utilised the legal doctrine of transformative use in a prominent legal dispute as a means of defence. According to Google, the process of extracting textual content from books for building its search engine can be categorised as a transformative use framework. The judicial system acknowledged the significance and revolutionary character of Google's search engine, thereby setting a crucial legal standard that reconciles technological progress with safeguarding copyright.<sup>31</sup>

### ***2.2.2 Non-Technological Scenarios: The Warhol Foundation v. Goldsmith***<sup>32</sup>

The legal dispute between the Warhol Foundation and Goldsmith is an example of a non-technological scenario that involves intellectual property rights. This case centres around the question of whether or not Goldsmith's photograph of the musician Prince, which was based on a photograph taken by another photographer, constitutes fair use or copyright infringement.<sup>33</sup> This case highlights the complexities of copyright law and the challenges of determining what constitutes transformative use in the context of visual art.

In addition to technology-related cases, it is important to consider non-technological scenarios that may affect the management of Generative AI outputs. The U.S. Supreme Court is currently deliberating a legal matter that involves the Andy Warhol Foundation and photographer Lynn Goldsmith.<sup>34</sup> The focal point of this case pertains to the extent of deviation necessary in a work of art from its original source material to qualify as "transformative." Furthermore, the court will evaluate the pertinence of the derivative work interpretation when determining the degree of alteration. The resolution of this particular legal matter can significantly influence the development of U.S. copyright law, particularly as it pertains to artistic works generated through artificial intelligence. It stands to reason that a definitive ruling could offer valuable insights into the criteria that must be met for such works to be considered transformative in nature.

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<sup>31</sup> Gil Appel et al., *Generative AI Has an Intellectual Property Problem*, HARVARD BUSINESS REVIEW (Apr. 7, 2023), <https://hbr.org/2023/04/generative-ai-has-an-intellectual-property-problem> (last visited Sept. 21, 2023).

<sup>32</sup> Andy Warhol Foundation for Visual Arts, Inc. v. Goldsmith, U.S. Supreme Court, May 17, 2023, Docket No. 21-869, (United States of America), <https://supreme.justia.com/cases/federal/us/598/21-869/> (last visited Sept. 21, 2023).

<sup>33</sup> Colin Moynihan, *Why Warhol Images Are Making Museums Nervous*, THE NEW YORK TIMES (Mar. 1, 2023), <https://www.nytimes.com/2023/03/01/arts/design/warhol-prince-goldsmith-museums.html> (last visited Sept. 21, 2023).

<sup>34</sup> Andy Warhol Foundation for Visual Arts, Inc. v. Goldsmith, U.S. Supreme Court, May 17, 2023, Docket No. 21-869, (United States of America), <https://supreme.justia.com/cases/federal/us/598/21-869/> (last visited Sept. 21, 2023).

### ***2.3 Business Implications and Legal Risks***

The implementation of generative AI tools poses potential hazards and obstacles for enterprises. The absence of explicit provisions regarding the use of generative AI in contracts may result in legal infringements, whether unintentional or intentional. To minimise potential legal liabilities, it is imperative for businesses to establish unambiguous contractual terms that delineate the scope of AI deployment. The aforementioned terms ought to encompass pivotal facets such as the procurement and utilisation of training data, the ownership of outputs generated by AI, and compliance with copyright laws.

It is crucial for enterprises to recognise that the training data employed in artificial intelligence models may comprise unlicensed materials or can generate unauthorised derivative works that fall beyond the scope of fair use safeguards. Intentional infringement can result in significant monetary damages, as the possible penalties may reach up to \$150,000 per occurrence of infringement.<sup>35</sup> Undertaking due diligence, conducting comprehensive copyright research, and acquiring appropriate licences and permissions are crucial measures that businesses must implement to protect themselves against potential legal disputes.

The use of Generative AI tools poses a potential hazard of inadvertently disclosing confidential corporate data or proprietary trade secrets while inputting data. Implementing robust data protection measures, such as data anonymization and encryption, is imperative for businesses to safeguard their valuable intellectual property.

The practical implementation of Generative AI is subject to significant influence from legal regulations, despite its considerable potential. The development and implementation of Generative AI are influenced by the legal frameworks that govern its use. The matters of copyright infringement, fair use, ownership disputes, and licencing considerations are of paramount importance and necessitate meticulous deliberation. The implementation of Generative AI in a responsible and ethical manner will be influenced by continuous legal proceedings, established legal principles, and developing understandings of transformative application.<sup>36</sup> The aforementioned factors are of paramount importance in establishing the parameters and protocols governing the utilisation of Generative AI. Effective implementation of transformative technology requires businesses to navigate complex legal intricacies, comply with regulatory requirements, and protect their interests. Facilitation of innovation and safeguarding of intellectual property can be accomplished through compliance with legal frameworks and optimal methodologies. This methodology guarantees the preservation of content creators' entitlements while adhering to the

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<sup>35</sup> Yasuhiro Arai, *Civil and Criminal Penalties for Copyright Infringement*, 23 INFO. ECONS. & POL'Y 270 (2011), <https://doi.org/10.1016/j.infoecopol.2011.08.001>.

<sup>36</sup> Eduardo Vyhmeister et al., *A Responsible AI Framework: Pipeline Contextualisation*, 3 AI & ETHICS 175 (2023), <https://doi.org/10.1007/s43681-022-00154-8>.

tenets of intellectual property legislation.

### **3. Mitigating Risk and Building a Way Forward**

Rapid advancements in the realm of AI have led to the emergence of a developing paradigm that necessitates innovative approaches to protect the business interests of corporations in both the short and long term. Ensuring legal compliance and safeguarding intellectual property are pivotal considerations in this specific domain. This section explores the imperative for AI developers to comply with legal regulations in the acquisition of data, the ethical considerations surrounding the use of intellectual property, responsibilities of developers, importance of methodologies in preserving the origin of AI-generated content, and proactive engagement of content creators and enterprises in protecting their intellectual property.

#### ***3.1 Legal Compliance and Data Procurement***

The field of AI development places considerable emphasis on compliance with legal regulations, particularly regarding the procurement of data for model training purposes. Ensuring adherence to relevant legal frameworks, including copyright and data protection regulations, is of utmost importance for AI developers to ensure the appropriateness of the data used for training their models. To guarantee ethical and legal adherence during the creation of AI, it is recommended that AI developers establish formal licencing agreements or revenue-sharing arrangements with intellectual property proprietors. The proposed course of action involves providing remuneration to the intellectual property proprietors for the use of their exclusive information in the instruction of AI algorithms.<sup>37</sup> Such measures would serve to promote fair and equitable distribution of benefits among stakeholders, while also mitigating potential legal disputes and ethical concerns that may arise from the unauthorised use of IP. Through this action, software developers not only adhere to legal mandates but also exhibit ethical deliberations concerning the utilisation of intellectual property.

To ensure transparency and responsible utilisation of AI, it is recommended that individuals utilising AI tools request their providers for information on to the training of their models with protected content. It is advisable for users to conduct a thorough examination of the terms of service and privacy policies that are linked with the use of these tools. It is recommended that individuals refrain from employing Generative AI tools that lack the ability to authenticate the veracity of their training data. The mitigation of risks associated with unintentional infringement of intellectual property can be achieved by AI companies through the enforcement of proper licencing

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<sup>37</sup> Rowena Rodrigues, *Legal and Human Rights Issues of AI: Gaps, Challenges and Vulnerabilities*, 4 J. RESPONSIBLE TECH. 100005 (2020), <https://doi.org/10.1016/j.jrt.2020.100005>.



from content creators or adherence to open-source licences, as mandated.<sup>38</sup>

### ***3.2 Developers' Responsibilities in Data Sourcing***

The procurement of data is of utmost significance in the field of software engineering, and developers bear significant responsibilities in this area. The process of data sourcing involves the identification and procurement of relevant data from various sources such as databases, APIs, and web scraping. Ensuring the precision, dependability, and pertinence of the data obtained in alignment with the project's goals is of utmost importance for developers. Furthermore, it is crucial for developers to consider the ethical implications related to data acquisition. It is crucial for individuals to ensure that the information they obtain is acquired through lawful and ethical means, while upholding the privacy rights of individuals. Furthermore, it is crucial for developers to ensure appropriate utilisation of the data they obtain and to prevent the perpetuation of any biases or discriminatory practises. The participation of developers in the process of obtaining data is crucial, and it is essential that they approach this duty with a robust ethical framework and a sense of responsibility. By adopting this methodology, individuals can ensure the accuracy, reliability, and ethicality of the data they obtain, all of which are essential for the success of any software development project.

AI developers must adopt a proactive approach in addressing their data sourcing methodologies while ensuring transparency for their investors and stakeholders. The utilisation of vast datasets, as demonstrated by the LAION-5B dataset, has emerged as a widespread and conventional methodology.<sup>39</sup> It is imperative to acknowledge that datasets of this nature frequently comprise a significant quantity of copyrighted materials. Given this challenge, developers should contemplate the adoption of an opt-out strategy, which would enable artists and content creators to exercise their discretion in determining whether their work can be leveraged by AI platforms.

One example of a concept that can be analysed is stability. The developers of Stable AI,<sup>40</sup> an artificial intelligence technology, have recently disclosed that their upcoming iteration of the image generator will offer artists the ability to decline participation. The aforementioned approach entails a transfer of the onus of preserving intellectual property to the creators of content, thereby endowing them with the ability to safeguard their works. The adoption of an opt-in approach is crucial for corporations and developers to ensure the protection of intellectual property for

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<sup>38</sup> Afzana Anwar, *IP Challenges in the Data-Fueled AI World*, ACC DOCKET (Sept. 15, 2021), <https://docket.acc.com/ip-challenges-data-fueled-ai-world> (last visited Sept. 20, 2023).

<sup>39</sup> Christoph Schuhmann et al., *LAION-5B: An Open Large-Scale Dataset for Training Next Generation Image-Text Models*, ARXIV.ORG (Oct. 16, 2022), <https://arxiv.org/abs/2210.08402> (last visited Sept. 20, 2023).

<sup>40</sup> Melissa Heikkilä, *Artists Can Now Opt Out of the Next Version of Stable Diffusion*, MIT TECHNOLOGY REVIEW (Dec. 16, 2022), <https://www.technologyreview.com/2022/12/16/1065247/artists-can-now-opt-out-of-the-next-version-of-stable-diffusion/> (last visited Mar. 29, 2023).

creators. This approach allows creators to exercise their agency in proactively safeguarding their IP by providing them with the option to opt-in.

### ***3.3 Safeguarding the Provenance of AI-Generated Content***

Preservation of the origin and authenticity of AI-generated content is a crucial concern in contemporary digital media. Ensuring the origin of such content is essential maintaining its credibility and reliability.<sup>41</sup> The rapid advancement of AI technology has made it possible to create content that is virtually indistinguishable from human-generated content, which poses a significant challenge to the authentication of digital media. Therefore, safeguarding the origin of AI-generated content is a pressing issue that requires careful consideration and effective solutions.<sup>42</sup>

The establishment of transparency and accountability within the domain of AI-generated content is a matter of utmost importance. It is imperative for developers to prioritise the development of methodologies that are specifically designed to safeguard the origin of AI-generated content. Transparency of training data can be improved by developers through various means. First, by documenting the development platform utilised and specifying the settings employed, developers can provide a clear understanding of the environment in which the data was created. Second, monitoring the metadata of the seed data can help ensure that the data are accurate and reliable. Finally, integrating tags to facilitate AI reporting can enhance the transparency of the materials contained within the training data.<sup>43</sup>

To ensure the credibility of content generated by AI, it is advisable to incorporate tags that delineate the generative seed and the precise prompt employed to produce the content. This approach can facilitate the verification of the origin and accuracy of the AI-generated material. The replication of a visual depiction serves a twofold function by enabling the reproduction of the original work and serving as proof of the user's intention.<sup>44</sup> This practise can be especially advantageous for corporate users who may require a means to refute accusations of violating intellectual property rights. The incorporation of data can enhance the verification of AI-generated content, thereby fostering dependability and ethical application.

### ***3.4 Audit Trails and Equitable Compensation***

The implementation of audit trails and equitable compensation are two crucial aspects in

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<sup>41</sup> Pamela Samuelson, *Possible Futures of Fair Use*, 90 WASHINGTON LAW REVIEW 815 (2015).

<sup>42</sup> Annemarie Bridy, *Coding Creativity: Copyright and the Artificially Intelligent Author*, 5 STANFORD TECHNOLOGY LAW REVIEW 1 (2014).

<sup>43</sup> Heike Felzmann et al., *Towards Transparency by Design for Artificial Intelligence*, 26 SCI. & ENG'G ETHICS 3333 (2020), <https://doi.org/10.1007/s11948-020-00276-4>.

<sup>44</sup> Amanda Levendowski, *How Copyright Law Can Fix Artificial Intelligence's Implicit Bias Problem*, 93 WASH. L. REV. 579 (2018).

ensuring accountability and fairness in organisational operations.<sup>45</sup> Audit trails provide a comprehensive record of all activities and transactions within an organisation, enabling transparency and traceability of actions. Equitable compensation ensures that employees are remunerated fairly and justly for their contributions to the organisation. These two practises are essential in promoting ethical behaviour, preventing fraud, and enhancing organisational performance.<sup>46</sup>

The implementation of audit trails can provide organisations with a mechanism for preparedness, particularly in situations where clients mandate their incorporation into agreements as a precautionary measure against illicit derivation of intellectual property.<sup>47</sup> In the coming years, insurance providers may mandate the submission of reports as a prerequisite for granting traditional insurance policies to business entities that possess assets generated by AI. Undertaking an examination of the discrete contributions rendered by each artist who is showcased in the image production training dataset could promote fair remuneration for the contributors and conceivably permit the integration of the original artist's copyright into the resultant creation.<sup>48</sup>

The integration of audit trails and contribution analysis within AI-generated content can serve for companies to safeguard their interests while simultaneously promoting equity and acknowledging creators. The aforementioned practises are instrumental in fostering an ecosystem of AI-generated content that is characterised by equity and sustainability.

### ***3.5 Content Creators' Role in Protecting Intellectual Property***

Safeguarding intellectual property is an indispensable aspect of the contemporary digital era. The protection of intellectual property rights is a crucial responsibility of content creators. The objective of this study is to scrutinise the function of content creators in safeguarding their intellectual property. The concept of "intellectual property" encompasses the creations of the human mind, such as literary and artistic works, inventions, and commercial symbols, names, and images.<sup>49</sup> The protection of intellectual property is a critical aspect that plays a significant role in promoting innovation and creativity, which are essential drivers of economic progress.<sup>50</sup> The term "content creators" pertains to persons or entities who produce original and distinctive materials, encompassing various forms such as music, videos, photographs, and written work. The works mentioned above are protected by copyright laws, which provide creators with exclusive rights to

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<sup>45</sup> Kristelia Garcia, *Monetizing Infringement*, 54 U.C. DAVIS L. REV 265 (2020).

<sup>46</sup> Mark A. Lemley & Bryan Casey, *Fair Learning*, 99 TEXAS L. REV 743 (2021).

<sup>47</sup> Sonia K. Katyal, *Private Accountability in the Age of Artificial Intelligence*, 66 UCLA L. REV 54 (2019), <https://www.uclalawreview.org/private-accountability-age-algorithm/>.

<sup>48</sup> Pamela Samuelson, *Possible Futures of Fair Use*, 90 WASHINGTON LAW REVIEW 815 (2015).

<sup>49</sup> Edward Lee, *Technological Fair Use*, 83 S. CAL. L. REV. 797 (2010).

<sup>50</sup> Dan L. Burk, *Algorithmic Fair Use*, 86 U. CHI. L. REV. 283 (2019), <https://chicagounbound.uchicago.edu/uclrev/vol86/iss2/10>.

use and distribute their artistic creations. The act of registering creative works with the relevant governing bodies and implementing measures to protect against infringement are crucial steps for content creators to preserve their intellectual property.<sup>51</sup> Content creators face a notable challenge in protecting their intellectual property because of the ease with which digital content can be replicated and distributed without permission. The widespread occurrence of digital piracy has led to significant economic consequences for content creators. To tackle this matter, content creators may opt to use digital rights management techniques and pursue legal action against infringers. It is vital to recognise the crucial role that content creators fulfil in protecting their intellectual property rights. The protection of intellectual property is a fundamental aspect in promoting innovation and creativity, which are significant drivers of economic progress.<sup>52</sup> To ensure the protection of their intellectual property, creators of content may choose to register their works, use digital rights management tools, and pursue legal action against any instances of infringement.

It is crucial for content creators, including both independent artists and corporate organisations involved in content creation, to conduct a proactive evaluation of potential threats to their intellectual property portfolios and establish protective measures.<sup>53</sup> The analysis of content data in terabytes or petabytes through manual means is not a viable option, thus requiring the automation of this process through the use of existing search tools. The aforementioned tools possess the capability to effectively examine compiled datasets or extensive data collections, which include both visual characteristics, such as logos and artwork, and textual properties, such as image tags.<sup>54</sup>

It is recommended that individuals responsible for generating content engage in vigilant surveillance of digital and social media platforms to detect occurrences of unauthorised derivation of their intellectual property. It is recommended that the scope of monitoring be expanded to encompass not only the identification of individual components, but also the analysis of aesthetic characteristics present in derivative works that are created using a brand's proprietary images. The existence of resemblances in stylistic characteristics may indicate a deliberate effort to exploit the positive perception of a specific brand. To ensure the protection of their intellectual property rights, content creators must possess the necessary knowledge and resources to pursue legal action, including the issuance of cease and desist notices or the filing of claims for trademark infringement.

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<sup>51</sup> Amanda Levendowski, *How Copyright Law Can Fix Artificial Intelligence's Implicit Bias Problem*, 93 WASH. L. REV. 579 (2018).

<sup>52</sup> Annemarie Bridy, *Coding Creativity: Copyright and the Artificially Intelligent Author*, 5 STAN. TECH. L. REV. 1 (2014).

<sup>53</sup> Kristelia Garcia, *Monetizing Infringement*, 54 U.C. DAVIS L. REV. 265 (2020).

<sup>54</sup> Dan L. Burk, *supra* note 50.

### 3.6 Protective Measures in Contracts for Enterprises

Incorporation of protective provisions in contractual arrangements for businesses is a pivotal facet of risk mitigation. The aforementioned measures are specifically developed to alleviate probable hazards and ensure the protection of the stakeholders engaged in the contractual agreement. The implementation of safeguarding provisions in contractual agreements holds significant significance in scenarios where the organisation is vulnerable to substantial financial, legal, or reputational hazards.<sup>55</sup> Contracts may incorporate diverse protective measures such as indemnification clauses, warranties, and representations. Indemnification clauses are contractual stipulations that mandate one party to provide compensation to the other party for any losses or damages incurred because of a breach of the agreement.<sup>56</sup> Warranties refer to commitments made by one party to another party with respect to the standard or state of the commodities or amenities being dispensed. Representations refer to assertions made by one contractual party to the other contractual party regarding the precision or entirety of the information furnished in the agreement. The efficacy of safeguarding measures in contractual agreements is contingent upon several factors, such as the perspicuity of the contractual verbiage, the enforceability of the clauses, and the capacity of the involved parties to adhere to the stipulations of the agreement. Hence, it is imperative for organisations to meticulously evaluate the potential hazards associated with a contractual arrangement and to deliberate on precautionary measures that effectively tackle those hazards.<sup>57</sup>

To sum up, the implementation of safeguarding provisions in contractual agreements is an essential element of enterprise risk mitigation. Implementation of these measures can effectively reduce potential risks and protect the interests of all parties engaged in the contractual agreement. The efficacy of said measures is contingent upon a multitude of factors,<sup>58</sup> and a judicious assessment and deliberation are imperative to ensure that the precautionary measures sufficiently mitigate the associated hazards.

It is advisable for businesses to conduct an evaluation of their transactional circumstances to

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<sup>55</sup> Clifton L. Smith, David J. Brooks, Chapter 3 - Security Risk Management (Security Science, Butterworth-Heinemann, 2013,).

<sup>56</sup> Krishnapriya Agarwal, *Effective Contract Risk Management: Top Tips & Strategies*, CONTRACT MANAGEMENT FOR TEAMS OF ALL SIZES | SPOTDRAFT (Apr. 14, 2023), <https://www.spotdraft.com/blog/contract-risk-management> (last visited Sept. 20, 2023).

<sup>57</sup> INTERNATIONAL LABOUR ORGANIZATION, SAFETY AND HEALTH IN THE USE OF MACHINERY (ILO Publications 2013), [https://www.ilo.org/wcmsp5/groups/public/@ed\\_protect/@protrav/@safework/documents/normativeinstrument/wcms\\_164653.pdf](https://www.ilo.org/wcmsp5/groups/public/@ed_protect/@protrav/@safework/documents/normativeinstrument/wcms_164653.pdf) (last visited Sept. 1, 2023).

<sup>58</sup> European Parliament, Directorate-General for Parliamentary Research Services, Boucher, P., Artificial intelligence – How does it work, why does it matter, and what we can do about it?, EUROPEAN PARLIAMENT, 2020, <https://data.europa.eu/doi/10.2861/44572>.

integrate protective measures into their contractual arrangements.<sup>59</sup> It is advisable for individuals who use generative AI platforms to take steps to ensure that the terms of service in place offer verification for the suitable licencing of the training data employed to develop their AI. It is imperative for stakeholders to assertively request comprehensive indemnification considering potential IP infringements that may arise due to insufficient data acquisition or inadequate reporting of outputs by AI companies.<sup>60</sup>

To achieve lucidity and comprehensiveness in contractual agreements, it is advisable for businesses to incorporate disclosures on to the utilisation of Generative AI in customised services and the distribution of goods. The act of inclusion in this context serves to ensure that all involved parties possess knowledge of and are capable of safeguarding their respective intellectual property rights.<sup>61</sup> Contracts may include provisions for confidentiality, which may extend to language of AI. These provisions serve to prohibit recipients from inputting confidential information belonging to the disclosing parties into the text prompts of AI tools.

To address the potential unintended consequences that may arise from the use of AI, several prominent companies have devised checklists to evaluate the likely AI-related ramifications of each contractual provision. Conducting assessments can enable organisations to mitigate potential legal and intellectual property hazards that may arise from the implementation of AI. Owing to the swift and ongoing development of legal frameworks of Generative AI, it is imperative for organisations that employ or partner with vendors in this domain to maintain open lines of communication with their legal counsel. This will enable them to remain informed of the full scope and distinguishing features of such engagements.<sup>62</sup>

The ascent of artificial intelligence poses distinctive prospects and predicaments for corporations, programmers, and content producers of content in protecting their intellectual property. Ultimately, it can be inferred that the implications of this technological advancement are multifaceted and require careful consideration. Successful navigation of the evolving landscape necessitates the implementation of legal compliance, ethical considerations, transparency, and proactive measures. The adoption of prescribed tactics, including the verification of lawful adherence during data acquisition, preservation of the origin of AI-produced material, and proactive

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<sup>59</sup> Magaonkar Revati, *Business Law and Its Effects on Commercial Transactions and Licensing - iPleaders*, iPLEADERS (Nov. 5, 2021), <https://blog.ipleaders.in/business-law-and-its-effects-on-commercial-transactions-and-licensing/> (last visited Aug. 19, 2023).

<sup>60</sup> Ibid.

<sup>61</sup> Amine Anoun, *Balancing Generative AI's Benefits for Contracts with Data Privacy Risks*, LEGAL DIVE (May 13, 2023), <https://www.legaldive.com/news/generative-ai-contracts-data-privacy-ChatGPT-legal-tech-CLM/650229/> (last visited July 19, 2023).

<sup>62</sup> Shlok Sharma, *Generative AI and the Copyright Conundrum – The Leaflet*, THE LEAFLET – AN INDEPENDENT PLATFORM FOR CUTTING-EDGE, PROGRESSIVE, LEGAL, AND POLITICAL OPINION. (May 16, 2023), <https://theleaflet.in/generative-ai-and-the-copyright-conundrum/> (last visited July 19, 2023).

defence of proprietary rights, can enable invested parties to safeguard their valuable resources in the epoch of AI. The effective management of the challenges and benefits associated with AI while preserving intellectual property rights necessitates that all stakeholders remain apprised of the legal and technological advancements in the field.

#### **4. Conclusion**

In the future, individuals who produce content and possess a substantial collection of their own original creations may contemplate constructing their own sets of data to educate and advance artificial intelligence systems. Generative AI models can be developed by leveraging existing open-source generative AI that has been trained on legally obtained content, thereby eliminating the need for training from scratch. The proposed solution would facilitate the production of content by content creators in a manner consistent with their own style, while also providing an audit trail to their proprietary data lake. Furthermore, it is possible for interested parties to acquire licences for the use of these tools, subject to their possession of a cleared title to both the training data and AI outputs. Similarly, individuals who have garnered a substantial online audience through their content creation endeavours may contemplate engaging in co-creation with their followers as an additional avenue for procuring training data. It is important to acknowledge that these co-creators must be granted explicit consent for the utilisation of their content, and that the terms of service and privacy policies should be revised in accordance with any legal modifications.

The advent of Generative AI is poised to revolutionise the landscape of content creation, democratising the ability to produce high-quality output at a rapid pace that was previously limited to a select few with specialised expertise or access to advanced technological resources. As this emerging technology advances, it is imperative for users to acknowledge and uphold the rights of the content creators who have facilitated its development, and who may face displacement because of its proliferation. The potential impact of generative AI on the creative class's livelihood is acknowledged, as well as the risk it poses to brands that have painstakingly developed their identity through visual means. Simultaneously, individuals in the creative field and corporate entities have a significant prospect to construct collections of their creations and branded resources, annotate them with metadata, and educate their respective Generative AI systems to generate authorised, exclusive, and monetized products, thereby serving as immediate sources of revenue.

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