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Government Law College

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Government Law College

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Message from the Honorary Editor

I have great pleasure in presenting these articles before the discerning readers. The subjects on which the students of the Government Law College of Law have written the articles have a wide spectrum. They do not deal with the dry bones of law. They expatiate upon various topics of contemporary relevance which touch life at many points. And, I say so with a measure of pride, that the articles reveal an uncommon degree of scholarship. The young writers have manifestly made an in-depth study of their subject, before setting their pens to paper. I am confident that these buds, one day not too distant, will flower into writers of repute. I wish them good luck in all their endeavours.

Mr. Justice Y. V. Chandrachud (Retd.)

Former Chief Justice of India

From the General Secretary's Desk

The vision of The Law Review 2001-02 is rooted in our College's tradition of providing a forum for learning rather than being taught. It seeks to expose and exploit the writers' true potential in scholarship and research.

The articles give a comprehensive coverage of contemporary as well as specialist areas of law. Each article has undergone successive rounds of editing by the Editorial Board which consists of seasoned practitioners with a distinguished record in their respective fields. Like every other initiative the Law Review has had its fair share of expectations, challenges and experiences.

The issue has been a collective effort of the Editorial Board, faculty members and students. Mention must be made of the members of the Students' Council and the Ad-hoc Committee who have worked untiringly towards its success. Such dedication and commitment will surely help the Law Review to grow in stature and depth in the years to come.

Ashish Aggarwal
General Secretary
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TADA TO POTO : FROM THE FRYING PAN ... INTO THE FIRE![†]

- Parish Sanjanwala*

Within hours of the September 11 attacks¹, legislators the world over were infused with a renewed vigour and worked overtime to produce anti-terrorism legislation. The mushrooming of such anti-terrorism legislation has contributed more to the smothering of individual liberties than to combating terrorism. Amidst the post-September 11 rhetoric and jingoism, the Indian government found an opportunistic alibi to push the *Prevention of Terrorism Ordinance* (POTO). It is indeed ironical that in their war against terror, governments the world over engage in 'state terrorism' and perpetuate the very same evil that they had set out to eliminate in the first place.

Even prior to the hysteria surrounding the September 11 attacks and the declaration of the 'War Against Terror'^{2 3}, there already existed worldwide legislation to counter such terrorism, e.g. *Convention For Suppression Of Financing Of Terrorism*, *Convention For Suppression Of Terrorist Bombings*, *Convention Against Taking Of Hostages* and the like⁴. India too has burnt its hands with the *Terrorist And Disruptive (Prevention) Activities Act*, (TADA) experiment. 76,036 people were detained under TADA, which were often so flimsy that the courts discharged two-thirds of them, as the government could not even make out a prima facie case. The rate of conviction under TADA was an appalling 0.9 per cent. The law was used extensively against college students, trade unionists and women's organisations - anyone considered 'inconvenient'. The largest number of arrests under the Act were made in Gujarat!⁵ Besides in two of the most celebrated cases tried under the Act - the murder of General A.K. Vaidya and the *Rajiv Gandhi Assassination Case* - the guilty were

† This article reflects the position of law as on January 28, 2002.

* The author is a student of Government Law College, Mumbai and is presently studying in the Second Year of the Three Year Law Course.

1 One of the most gruesome terrorist attacks in which approximately 5000 innocent people lost their lives when the twin towers of the World Trade Centre in New York were razed to the ground after two hijacked commercial airliners crashed into them. A watershed event which changed the world's perception of terrorism forever.

2 The use of terror as a means to achieve political ends is not alien either to the world or to India. As early as 66 - 72 A.D., Jewish resistance to Roman occupation was involved in the killing of Roman soldiers and destruction of Roman property through small resistance groups known as Zealots. - Arthur Garrison, "How the World Changed: A History of the Development of Terrorism" available at <http://www.terrorism.com/terrorism/basics.shtml>.

3 The term 'Assassin' comes from a Shi'ite Muslim sect (*Nizari Isma'ilis* - later called Assassins) fighting Sunni Muslims (1090 - 1275) and later during medieval Christendom resisting occupation during the Crusades. The Term 'terrorism' was coined during the French Revolution's Reign of Terror (1793 - 1794) - "Alamut Bastion of Peace and Information - The Secret Doctrines of the Assassins" available at <http://www.alamut.com/subj/ideologies/alamut/secDoctrines.htm>.

4 "World Anti-Terrorism Laws", available at <http://jurist.law.pitt.edu/terrorism/terrorism3a.htm>.

5 Stephen Rego, "TADA Lessons Not Learnt" January 19, 2001., available at <http://www.india-syndicate.com/polit/strg/strg.htm>.

actually absolved of offences under TADA and were only convicted under the ordinary criminal laws of the country.

POTO v. TADA

The advocates of POTO claim that POTO is TADA minus its draconian and highly misused provisions plus the missing safeguards in place. It is professed to be a more 'humane' version of 'TADA', if indeed these two contradictory terms may be used together! However, a careful analysis of POTO shall reveal that POTO is simply the same old wine in a new casket. Not only are a vast majority of the provisions of the POTO a replica of the provisions of the TADA but they go much beyond TADA and are potentially even more lethal and dangerous.

Scope of Application

The first and primary difference between TADA and POTO lies in their scope of application. Under TADA, which is notorious for its misuse, an area had to be declared as a 'disturbed area' before its provisions could be made applicable. However, POTO has been made applicable to the whole country.

Defining and Punishing Terrorist Acts

The gravest concern regarding POTO emanates from the very definition of 'terrorism'. While on the one hand, it discards the widely misused and controversial definition of 'disruptive activities', it also expands the scope of the definition of 'terrorist act' as under TADA. To have committed a 'terrorist act' under POTO, the accused needs to have carried out an act:

1. With the intent to threaten the unity, integrity, security or sovereignty of India, or to strike terror in the people or any section of people
2. By using bombs, dynamite or other explosive substances or, inflammable substances, or firearms, or other lethal weapons, or poisonous or noxious gases or other chemicals, or by any other substances (whether biological or otherwise) of a hazardous nature or by any other means whatsoever,
3. In such a manner as to cause or likely to cause
 - (i) death of or
 - (ii) injuries to any person or persons or
 - (iii) loss of or damage or destruction of property or
 - (iv) disruption of any supplies or services essential to the life of the community or,
 - (v) or damage or destruction of any property or equipment used or intended to be used for the defence of India or in connection with any other purposes of the Government of India, any State Government or any of its agencies, or
 - (vi) detains any person and threatens to kill or injure such person in order to compel the Government or any other person to do or abstain from doing any act; [Section 3(1)(a)]
4. Whoever is or continues to be a member of an association declared unlawful under the *Unlawful Activities (Prevention) Act, 1967* or voluntarily does an act

aiding or promoting in any manner the objects of such association and in either case is in possession of any unlicensed firearms, ammunition, explosive or other instrument or substance capable of causing mass destruction and commits any act resulting in loss of human life or grievous injury to any person or causes significant damage to any property, also commits a terrorist act. [Section 3(1)(b)]

This section, though based on Section 3(1) of TADA, differs from it on several subtle but important grounds:

- a) The terms 'with the intent to overawe the Government as by law established' and 'to alienate any section of the people or to adversely affect the harmony amongst different sections of the people' have been replaced with 'with the intention of threatening the unity, integrity, security or sovereignty of India'.
- b) The term 'destruction of any property or equipment used or intended to be used for the defence of India or in connection with any other purposes of the Government of India, any State Government or any of its agencies' has been added.
- c) A 'terrorist act' includes the act of raising funds intended for the purpose of terrorism: Explanation to Section 3(1) of POTO.

Hence under Section 3(1) of POTO, violence becomes terrorism only when the Government feels that the unity and integrity of the country is threatened or feels that the people are terrorised. Hence a violent demonstration or strike may fall under the purview of POTO while a ruthless massacre of *dalits* or communal riots may not come under the sweep of terrorism. These decisions rest purely on the whims and caprices of the police officers, district administration, the state government, and more so, with persons capable of exerting influence on such persons and agencies, be it legitimately or illegitimately. Such is the breadth of this definition that anyone and anything can be read as having the 'intent', as subjectively understood by the Executive, and mere perception can be used to crack down on political opponents, trade union activists, etc.

Section 3(2) of POTO, which is identical to its counterpart in TADA, stipulates a minimum punishment of five years for a terrorist act and extends it to death. However, under ordinary criminal law, punishments for many such actions are much lower. Thus it provides for a different treatment of similar crimes and could be challenged on the ground of violation of Article 14 of the Constitution of India, i.e. equality before law⁶.

Section 3(3) of POTO, which has been lifted from Section 3(3) of TADA, makes conspiring, attempting to commit, advocating, abetting, advising or inciting such acts, or acts preparatory to such acts punishable with a term ranging from five years to life. The use of such vague terms could result in the arrest and punishment of individuals even remotely connected to a person charged with a terrorist act.

Section 3(4) of POTO, which deals with the harbouring of terrorists, digresses from

⁶ Article 14 of the Constitution of India: The State shall not deny to any person equality before the law or the equal protection of the laws within the territory of India.

the relevant provision of TADA in two respects:

1. The minimum period of imprisonment has been reduced to three years from five years.
2. The spouse of the offender has been exempted from the application of this provision.

Even so, the immediate members of an individual charged with a terrorist act e.g. children, parents, siblings, etc can be targeted, and this provision may be exploited as a tool for coercing confessions.

Section 3(5) of POTO is a classic example of the total lack of application of mind in the drafting of the provisions of this Ordinance. It makes the mere membership to 'a terrorist gang or terrorist organisation, which is involved in terrorist acts', punishable with imprisonment for a term which may extend to imprisonment for life or with fine which may extend to rupees ten lakhs or with both. The explanation to the subsection fails to give a lucid definition of 'terrorist organisation' and simply echoes the words of Section 3(5) by restating that it means any "organisation which is concerned with or involved in terrorism". The conspicuous absence of the definition of the term 'member' is also a serious flaw in its legal scheme as a large majority of terrorist organisations do not require any formal membership and hence gives rise to several ambiguities.

Further, a person is 'deemed to be guilty of a terrorist act' simply by virtue of unauthorised possession of any -

- (a) arms or ammunition specified in columns (2) and (3) of Category I or Category III (a) of Schedule I to the *Arms Rules, 1962*, in a notified area,
- (b) bombs, dynamite or hazardous explosive substances or other lethal weapons capable of mass destruction or biological or chemical substances of warfare in any area, whether notified or not [Section 4].

Significantly, 'intent' finds no place in the prosecution of a person under this section. This section corresponds to Section 5 of TADA, and while it does away with the stipulation for a minimum period of imprisonment of five years it extends the fine to rupees 10 lakhs.

Press(ure) Tactics⁷ Fail!

Section 3(8) of POTO bore the brunt of maximum criticism and condemnation for its blatant attack on journalistic freedom. Under this section, a person could be targeted on the mere suspicion that such a person is withholding information that could result in the apprehension of someone accused of a terrorist act. The resultant public outcry led to the deletion of this reprehensible provision when the Ordinance was re-promulgated on December 31, 2001. However, it retains Section 14, which empowers an investigating officer to require anyone to furnish information, and makes its non-compliance punishable with imprisonment extending up to three years or with fine or both. An identical provision exists under Section 39 of the *Code of Criminal*

7 Priya Sahgal, Priyanka Kakodhar, "POTO Press(ure) Tactics", *Outlook*, November 19, 2001 pg. 20.

Procedure, 1974 (CrPC), which imposes an obligation on every citizen to give information to the police on any offence covered under the *Indian Penal Code, 1860* (IPC). Non-compliance is punishable under the IPC. But the distinction between Section 39 of the CrPC read with the provisions under the IPC and POTO is obvious: while the former has enough safeguards against abuse, the latter does not. POTO's safeguards come into operation only after the damage is done.

Enhanced Penalties

Section 5 of POTO which provides for enhanced penalties for contravention of the provisions or rules made under *The Arms Act, 1959, The Explosives Act, 1884, The Explosive Substances Act, 1908* or *The Inflammable Substances Act, 1952* has also been borrowed from Section 6 of TADA.

Attachment and Forfeiture of Property

Sections 6 to 17 of POTO deal with the seizure of property, and have incorporated sub-sections (1), (2) and (4) of Section 8 of TADA almost verbatim. Under the general law, forfeiture of property is a punishment, which can be imposed by a court after a person is convicted. However, POTO provides that proceeds of terrorism (including property of all kinds) can be forfeited whether or not the accused is convicted or even prosecuted [Sections 6 and 8]. Similarly, under the ordinary criminal law, property can only be attached if a person is absconding to ensure his presence for trial. However, POTO provides for attachment of all property, movable and immovable, of the accused while proceedings are on, and forfeiture of the same on conviction. These properties need not have any relation to the proceeds of terrorism. Thus, an ancestral home in which a family may have been living for years can be attached and forfeited.

Banning Organisations

POTO further enters uncharted territory that even TADA did not dare to explore by providing for the declaration of an organisation as 'terrorist' by a mere publication of its name in the Official Gazette [Section 18(2)]. Such an organisation may be removed from the Schedule by the Central Government on receipt of an application for the exercise of its powers under Section 18(2)(b). Where such an application has been refused, the aggrieved party may apply for a review to the Review Committee constituted under Section 59(1) [Section.19]. This committee is not a judicial body and is to consist of a chairperson and such other members, not exceeding three and possessing such qualifications as may be prescribed by the government. Only the chairperson is required to be a person who is or has been the judge of a High Court [Section 59].

In the case of *State of Madras v. V.G. Row*⁸, Chief Justice Patanjali Sastri pointed out that an association is banned on grounds which are factual and not anticipatory or based on suspicion. "The factual existence of these grounds is amenable to objective

8 *State of Madras v. V.G. Row* (1952) SCR 597.

determination by the Court.” A provision, which in effect, denies judicial review of an order banning an association cannot be regarded as a ‘reasonable restriction’ on the precious fundamental right. The statute in question was therefore held to be ‘unconstitutional and void’.

This is precisely why the *Unlawful Activities (Prevention) Act, 1967* (UAPA) provides for a tribunal to determine “whether or not there is sufficient cause for declaring the association unlawful” as defined in the Act. This tribunal is a judge of the facts as well as the law. Only a sitting judge of a High Court can be appointed to the tribunal. It has “the same powers as are vested in a civil court” in regard to summoning persons, requisitioning records, etc. The tribunal may receive oral testimony and is not confined to affidavits.

Far from prescribing a ‘dilatory’ procedure, the UAPA binds the Central government to refer the ban notification within 30 days of its publication to the tribunal, which in turn, is bound to decide the case within six months of the ban. POTO consciously departs from this model and, in glaring contrast, deliberately provides a dilatory procedure ending with a kangaroo court, called a Review Committee, which unlike the tribunal, cannot sit in appeal on the facts. Its remit is narrow - whether the decision to refuse was flawed when considered in the light of the principles applicable on an application for judicial review; that is, the High Court’s writ powers exercised broadly, to correct only errors of law [Section 19 (5)] and not errors of fact or misappreciation of evidence. It is to act on affidavits. It cannot receive oral evidence tested by cross-examination. It has none of the judicial powers which a Tribunal possesses⁹. Incidentally, it is this committee which also reviews orders for phone-tapping [Section 45].

While the wide definition of terrorist act under POTO suggests that it intends to bring in all the terrorist organisations within its ambit, its Schedule of terrorist organisations reveals exactly the opposite. Of the 25 organisations notified under POTO, four belong to Punjab, some of them already defunct, and six belong to Jammu and Kashmir, many of whom had been banned under the UAPA, which suggests that the existing laws could have been sufficient to secure their proscription, seizure of their properties, and stoppage of the flow of funds to them. The *Student’s Islamic Movement of India* (SIMI) and the *Deendar Anjuman*, both banned under the UAPA, have been notified under POTO. At the same time, failure to notify the *Bajrang Dal* exposes the deep political considerations and hidden agendas that have been at work. While the *National Socialist Council of Nagalim (Isaac-Muivah)*, with whom the Centre is holding talks, has been left out in the Schedule, six organisations espousing the ethnic cause in Manipur, where there is no visible separatist movement, have been included. Two organisations each in Assam and Tripura have been notified¹⁰. None of these organisations could be expected to maintain any membership records; a mere suspicion that an individual might belong to or sympathise with these organisations could lead to action under POTO. Further, while banning the *Peoples*

9 Gautam Navlakha, “POTO taking the lawless road”, *Economic and Political Weekly*, Vol. XXXVI No 49 Pg. 4520.

10 A.G. Noorani, “The Truth about POTO” *Frontline*, Volume 18 - Issue 25, Dec. 08 -21, 2001.

War Group (PWG) and the Maoist Communist Centre (MCC) and “all their affiliated formations and front organisations”, the Union Home Ministry refused to specify exactly which groups and organisations had now been banned. One of the reasons given for the non-disclosure of the names of the front organisations was that “often front organisations of terrorists change their names to avoid being booked under law”¹¹. However, the real solution to this lies in the constant updating of these lists of terrorist organisations as followed by the U.S. Justice Department. Banning organisations without naming them is patently unconstitutional and provides a lot of scope for the police to misuse the law. Banning affiliated organisations without naming them is peremptory, and wholly arbitrary. Members of such ‘front organisations’ - which could include a students’ federation, trade union or cultural troupe - can be jailed for 10 years under POTO even if they are not themselves involved in any violent activity. Under POTO’s circular definition, ‘terrorist activity’ includes membership in an organisation the government believes to be terrorist even though it does not formally name the organisation concerned.

Interestingly, even the U.S. *Anti-terrorism and Effective Death Penalty Act, 1996* of the United States of America empowers the Secretary of State (Section 302) “to designate an organization as a foreign terrorist organization”. But even this foreign organisation “may seek judicial review of the designation in the United States Court of Appeals in for the District of Columbia Circuit”. One of the grounds of challenge is that the designation was “arbitrary, capricious, an abuse of discretion...” But, the draftsmen of POTO mindlessly copied Sections 3 to 6 of the *Terrorism Act, 2000* of the United Kingdom. Section 19 (5) of POTO speaks of “the principles applicable on an application for judicial review”. No such procedure exists in the Indian legal system. The writ powers of the Supreme Court and High Courts (Articles 32¹² and 226¹³ of the Constitution of India) comprise mainly issuance of what were known in the United Kingdom as prerogative writs (certiorari, mandamus, quo warranto and so on). They were replaced in the United Kingdom by a simpler ‘application for judicial review’. It therefore makes sense that the expression is used in Section 5 (3) of *Terrorism Act, 2000* of the United Kingdom to use the expression; but its use in Section 19(5) of POTO is incomprehensible.

Further, support to terrorist organisations is defined to include inviting support for such organisations, assistance in arranging a meeting to further the activities of such organisations or one, which would be addressed by a person belonging to such organisation. All speakers at such meetings are also deemed to have committed an

11 Bishweshwar Mishra, “Terror Law: Government does not name banned groups”

12 Article 32(2) of the Constitution of India: The Supreme Court shall have the power to issue directions or orders or writs, including writs in the nature of *habeas corpus*, *mandamus*, prohibition, *quo warranto* and *certiorari*, whichever may be appropriate, for the enforcement of any of the rights conferred by this Part.

13 Article 226(1) of the Constitution of India: Notwithstanding anything in article 32 every High Court shall have powers throughout the territories in relation to which it exercises jurisdiction, to issue to any person or authority, including in appropriate cases, any Government, within those territories directions, orders, or writs, including writs in the nature of *habeas corpus*, *mandamus*, prohibition, *quo warranto* and *certiorari*, or any of them, for the enforcement of any of the rights conferred by Part III and for any other purpose.

offence. But the most shocking blow is provided by the explanation to Section 21, which clarifies that a 'meeting' refers to a meeting of three or more persons whether or not the public are admitted! In this way, even simple academic research, sharing of views, ideas and the like may be brought under the sweep of the Ordinance and deemed to be crimes punishable with imprisonment up to a period of 10 years.

Reversing the Tenets of Criminal Jurisprudence

The Union Home Minister, Mr. L.K. Advani, in an interview to a newspaper said that the cutting edge of POTO lay in its provisions relating to evidence that enable convictions. However, it is significant to note that POTO overturns the basic tenet of criminal jurisprudence and the *Indian Evidence Act, 1872* (IEA) that a person is innocent until proved guilty. It directs the court to make adverse inferences pertaining to guilt, if an individual refuses to give a blood sample, handwriting or fingerprint [Section 27]. Like Section 21 of TADA, Section 52 of POTO provides that when the arms or explosives believed to have been used commit offences under the Ordinance are found in the possession of a person, or if the person's fingerprints are found anywhere at the site of such an offence, the Special Court shall draw adverse inference against the Accused. Subject to the right to recall a witness for cross-examination, the trial may be proceeded with even in the absence of the accused or his pleader [Section 29(5)]!

Confessions

Like Section 15 of TADA, Section 32 of POTO allows the confessions made by a person before a police officer not lower in rank than a Superintendent of Police to be admitted in the trial. However, some of the safeguards recommended by the Supreme Court concerning Section 15 of TADA in the *Rajiv Gandhi Assassination Case*¹⁴ have been incorporated to a certain extent. The following safeguards have been introduced :

1. Confession must be made before a police officer not lower in rank than a Superintendent of Police. (However, past experience has shown that such a safeguard has not proved to be of any protective value against the use of third degree methods.)
2. Before recording the confession, the police officer must explain to such person in writing that he is not bound to make any confession and that it may be used against him.
3. A police officer cannot compel or induce any person to make a confession.
4. The confession must be recorded in an atmosphere free from threat or inducement and must be in the same language in which the person makes it.
5. The person from whom a confession has been recorded must be produced before the court of a Chief Metropolitan Magistrate or the court of a Chief Judicial magistrate within 48 hours.
6. The Chief Metropolitan Magistrate must record the statement of the person so produced before him and in the event of a complaint of torture, such a person is

to be directed to be produced for medical examination before a Medical Officer and thereafter sent to judicial custody. [Section 32]

However, POTO does not empower a judge to reject the admissibility of a confession if the Medical Officer sustains the complaint of torture. Even if such a power is held to be implicit, relief under POTO may be available only after 180 days of police custody, and the threat of further police custody after a brief spell of judicial custody is not entirely ruled out. Hence it is very unlikely that confessions may actually be retracted before the Court.

Both the Union Home Minister, Mr. L.K. Advani, and the Union Minister for Law and Justice, Mr. Arun Jaitley, have gone on record to state that without the provision to admit confessions by the accused before the police officers as valid evidence, which has now been adopted by POTO, none of the accused would have been convicted in the *Rajiv Gandhi Assassination Case*. In the light of these statements, it is worth examining how crucial Section 15 of TADA was in securing the conviction of the accused in the aforementioned case. The Supreme Court, while disposing off the appeals in May 1999 by the 26 accused in the *Rajiv Gandhi Assassination Case* against the death sentence awarded to them by the Designated Court in Chennai, had held that none of the accused had committed any offence under TADA. But it confirmed death sentences to four and life imprisonment to four of the accused under the provisions of the IPC and other Acts for various criminal offences.

Since, Section 12 of TADA, which corresponds to Section 26 of POTO, enabled the Designated Court to try jointly any offence under TADA together with any other offence with which the accused might have been charged as per the CrPC., Justice K.T. Thomas held in that judgment¹⁵ that the confessional statement duly recorded under section 15 of TADA would continue to remain admissible even for offences under other statutes. In 1993, an amendment, through a proviso, was introduced in Section 15(1) of TADA, which provided that confessions by one accused could be admissible in the trial of a co-accused, abettor or conspirator, provided they are charged and tried in the same case together with the accused making the confession.

Justice Thomas, interpreting this provision, said: "While a confession is substantive evidence against its maker, it cannot be used as substantive evidence against another person, even if the latter is a co-accused, but it can be used as a piece of corroborative material to support other substantive evidence."¹⁶ Justice D.P. Wadhwa said: "Under section 15 of TADA, confession of an accused is admissible against a co-accused as substantive evidence... As a matter of prudence, the court may look for some corroboration if confession is to be used against a co-accused though that will again be within the sphere of appraisal of evidence."¹⁷

Concurring with this view, Justice Sayeed Shah Mohammed Quadri said: "Insofar as use of confession of an accused against a co-accused is concerned, rule of prudence

15 *Ibid.*

16 *Ibid.*

17 *Ibid.*

cautions the judicial discretion that it cannot be relied upon unless corroborated generally by other evidence on record.”¹⁸ Since the police failed to get enough corroborative evidence to the confessions against the co-accused, the Supreme Court refused to confirm the convictions of all the 26 accused. It confirmed the convictions only where their confessions were sufficiently corroborated, thus establishing that confessions alone are not sufficient for conviction.

Ironically, Section 32 of POTO, which is the equivalent of Section 15 of TADA as amended in 1993, does not contain the proviso that the confession of the accused would be admissible against a co-accused, abettor or conspirator charged and tried in the same case together with the accused. It is surprising, therefore, that a provision of TADA, which does not find a place in POTO, should be cited in defence of the Ordinance.¹⁹

Bail and Custody

The remand and bail provisions under POTO also leave much to be desired. An accused held under this law can be kept in police remand for up to 30 days and in judicial custody for up to six months without being charged [Section 48(2)]. The right to bail is severely restricted [Section 48(5)]. Anticipatory bail is not permitted and the court can grant bail only if it is satisfied that there are reasonable grounds for believing that the accused is not guilty! This negative clause, inspired by TADA, reverses the provisions for bail set out in Section 437 of the CrPC, which provides that a person shall not be released on bail ‘if there appears reasonable grounds for believing that he has been guilty of offence punishable with death or imprisonment for life’.

Eaves dropping!

Sections 35 to 47 of POTO make elaborate provisions for the interception of wire, electronic or oral communication. However, such interception of communication by the police must be with the approval from a joint secretary level officer [Section 37], making it easily susceptible to misuse through political influence. There also exists no method of verification of the authenticity of the intercepted communications produced by the police as evidence of guilt. The invocation of these provisions are in direct conflict with the right of privacy guaranteed under Article 21 of the Constitution²⁰.

Parallel System of Justice

Like TADA, POTO allows for the setting up of Special Courts, which can be constituted by the state or central government [Section 23]. Within the premises of these Special Courts, the accused is tried on the basis of confessions before the police and is denied bail, presumed to be guilty and not allowed effective cross-

¹⁸ *Ibid*

¹⁹ V. Venkatesan, “The POTO Debate”, *Frontline*, Volume 18 - Issue 24, Nov. 24 - Dec. 07, 2001.

²⁰ Article 21 of the Constitution of India: No person shall be deprived of his life or personal liberty except according to procedure established by law.

examination. Even retired sessions judges can preside over these Special Courts. With a view to facilitate more speedy trials, summary trials are allowed, which permit sentences up to two years, whereas under the ordinary criminal law, summary trials are held for minor offences leading to punishment for not more than three months.

In order to protect witnesses from intimidation and threats, the identity of the witnesses need not be disclosed [Section 30(2)]. This means that the police can produce its stock witnesses during trials while seriously undermining the possibility of cross-examination, which gives the prosecution an unfair advantage. The potential for manipulation of evidence by the prosecution also increases as the Special Courts have the discretion to proceed with the trial in camera [Section 30(1)].

Sidelining the Legislature

Unlike normal laws where the CrPC governs the conduct of the law enforcing authorities, POTO bestows power on the Executive to frame a new set of rules to regulate the entry and search of premises, to arrest and extern persons, and to determine the punishments for the contravention of these rules [Section 61]. In a departure from Section 29 of TADA, these rules and orders do need not even be placed before the Legislature. Hence, there is no accountability in framing them. This seemingly innocuous omission could become a licence for the use of arbitrary power by the Executive.

Illusory Safeguards

However, an attempt has been made to include certain safeguards, though cosmetic in nature. The redundancy of the Review Committee has already been discussed. Another safeguard which has been included is that courts will take cognizance of offences only with the sanction of the State or Central Government [Section 49]. Under TADA, approval of the Deputy Superintendent of Police and sanction of Inspector General of Police was needed for cognizance of cases. Further, only high-level police officials have been allowed to investigate offences [Section 50]. Certain rights of the accused such as the right to legal assistance, right that relatives be immediately informed of arrest, duty of the police to draw up a custody memo, etc. have been spelt out [Section 51].

Another welcome feature of the Ordinance is the restitution of the right to move the High Courts for appeal. However, all such appeals have to be made within 30 days and not the normal 90 days, thus diluting and curtailing the right to appeal and judicial remedy.

A Fraud on Parliamentary Democracy?

The manner in which POTO was promulgated on October 24, 2001, just five weeks prior to the commencement of the winter session of Parliament raises several questions. The President has been endowed with Ordinance-making powers in the interest of the security and smooth functioning of the country while the Parliament is in recess and not as a means of replacing the Parliament nor as a means of bypassing

the elaborate and deliberative process established by the Constituent Assembly in all its wisdom for the proper enactment of laws. In the face of our dubious track record with anti-terrorism legislation, and the unanimous and vociferous opposition to POTO, the re-promulgation²¹ of the Ordinance with cosmetic changes²² without redressing the controversial provisions responsible for the Government's failure to have it passed in Parliament is nothing short of a fraud on parliamentary democracy.

The Final Analysis

The above analysis and discussion exposes the fallacy in the argument that POTO is TADA in a more humane form and that it is TADA minus its draconian and highly misused provisions plus the missing safeguards in place. It also establishes the fact that a vast majority of the provisions of the POTO are a replica of the provisions of the TADA and go much beyond TADA and are potentially even more lethal and dangerous. It is an anathema to parliamentary democracy and rule of law for several reasons. It transgresses basic and fundamental individual liberties, almost annuls the IEA, ushers in a parallel system of criminal justice based on arbitrary criteria and summary procedures, and endows an administration notorious for its corruption and political bias with wide and unbridled discretionary powers. The vagueness of definitions coupled with enhanced punishment based on harsher procedures is a fertile ground for the ruling political parties along with the local authorities to deal with political opposition as 'terrorist crimes'.

In a recent development, on January 8, 2002, a three-judge Bench headed by Chief Justice S. P. Bharucha issued notices to Andhra Pradesh CPI(M) Secretary, B.V. Raghavulu and Kerala Dalit Federation treasurer, K.V. Karunakaran, on a petition filed by Centre seeking transfer to the Supreme Court, of the petition challenging the constitutional validity of POTO, in the Andhra and Kerala High Courts²³. Whether POTO can stand the test of constitutional validity will only be known in the time to come.

However, even as the apex judicial body of the country debates over the constitutionality of POTO, it has become imperative to recognise that at the root of any terrorist activity lies a labyrinth of convoluted and complex socio-economic and

21 "Prevention of Terrorism (Second) Ordinance, 2001 Promulgated", Press Information Bureau Releases, Government of India, December 31, 2001.

http://pib.nic.in/archieve/lreleg/1yr2001/rdec2001/31122001/r31122001_5.html

22 Besides the changes discussed earlier, the following changes have been incorporated:

- a. It has been provided that the legislation shall remain in force for a period of three years instead of five years from the date of its commencement.
- b. Section 7 has been modified to delete reference to the Special courts, thus doing away with concurrent jurisdiction of the Designated Authority and the Special Courts and to provide for an appeal against the order made by the Designated Authority to the Special Court.
- c. Section 8 has been modified to vest power of forfeiture of the proceeds of terrorism in the Special Court instead of the Designated Authority.
- d. "Property" defined under section 2 (1) (d) shall now include Bank Accounts.
- e. A transitional provision has been made to enable Court of Session to try the offences punishable under the Ordinance till the Special Courts are constituted under the provisions of the Ordinance.

23 "SC notice on transfer of POTO cases", *The Hindu*, 9 January 2002.

political issues. Any attempt at redressing such sensitive and volatile political issues through legal sanctions and impositions alone is completely misdirected and misplaced. Terrorism is merely a symptom, a violent and desperate indicator of the underlying graver issues, which on remaining unresolved threaten not only life and liberty but also our 'civilized way of life'. Hence the solution lies in treating the disease and not in suppressing the symptoms.

PRIVACY ON THE INTERNET — PROTECTED BY LEGISLATIONS?†

-Vivek Baid* & Shyam Pandya*

*"The whole of science is nothing more than a refinement of everyday thinking."
- Albert Einstein*

Technological advances in the area of telecommunications have resulted in an explosive growth of the telecommunications industry. Along with this growth, there has been a corresponding increase in the number of Internet users.¹ It is expected to grow exponentially in the next few years.² In 1995, the estimated range of Internet users was about 26 million. In 1998, about 150 million people had access worldwide, and the number had reached to approximately 513.41 million by the end of August 2001.³

Today the Internet is probably the fastest, cheapest and perhaps the best means of communication and information. Anybody with Internet access and basic knowledge about the working of the computer and Internet can utilise it for furthering his/her ends. However, this 'wonder' technology also raises many concerns. The Internet, by its very nature cannot be regulated in any way and thus could be a threat to national interests, intellectual property rights, individual privacy, etc. This article attempts to analyse the privacy concerns of an individual on the Internet by discussing the threats to privacy and the effectiveness of the steps taken in the international and national arena to protect the citizens on the net or as the popular term goes... 'Netizens'.

Defining Privacy

Of all the human rights in the international catalogue, privacy is perhaps the most difficult to define.⁴ Definitions of privacy vary according to the context and environment. In many countries, the concept has been fused with data protection, which interprets privacy in terms of management of personal information. Outside

† This article reflects the position of law as on February 22, 2002.

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1 Dawn A. Edick, *Regulation of Pornography on the Internet in the United States and the United Kingdom: A Comparative Analysis*, 21 B.C. Int'l & Comp. L. Rev. 437 at pg. 437.

2 *ACLU v. Reno*, 929 F. Supp. 824, 881 (E.D.Pa. 1996) (Dalzell, J.), aff'd, 117 S.Ct. 2329 (1997) as in Brain M. Werst, "Legal Doctrine and Its Inapplicability to Internet Regulation: A Guide for Protecting Children from Internet Indecency after *Reno v. ACLU*", 33 Gonz. L. Rev. 207 pg. 208.

3 The statistics are taken from <http://www.nua.ie/surveys/>.

4 James Michael, "Privacy and Human Rights" (UNESCO 1994) pg. 1. as in Privacy and Human Rights 2000.

this rather strict context, privacy protection is frequently seen as a way of drawing the line at how far society can intrude into a person's affairs.⁵ The lack of a single definition should not imply that the issue lacks importance. As one writer observed, "in one sense, all human rights are aspects of the right to privacy."⁶

Probably one of the best definitions to 'privacy' has been put forth by Alan Westin, author of the seminal 1967 work *Privacy and Freedom*, who defined privacy as "the desire of people to choose freely under what circumstances and to what extent they will expose themselves, their attitudes and their behavior to others."⁷

The Preamble to the *Australian Privacy Charter* provides that,

"A free and democratic society requires respect for the autonomy of individuals, and limits on the power of both state and private organizations to intrude on that autonomy . . . Privacy is a key value which underpins human dignity and other key values such as freedom of association and freedom of speech. . . . Privacy is a basic human right and the reasonable expectation of every person."⁸

On-line privacy is more than a theoretical problem. It is a real issue impacting even fairly unsophisticated computer users.⁹

A Pew Survey¹⁰ conducted in the United States of America from May 19 to June 21, 2000, found 54% of American Internet users 'very concerned' that personal information about them or their families would find its way to businesses or strangers.¹¹ Not surprisingly, 86% of those respondents favored an opt-in approach to Internet privacy, under which no Internet Company could use such information unless expressly authorised to do so.¹²

5 Simon Davies, "Big Brother: Britain's web of surveillance and the new technological order" (Pan, London, 1996) pg. 23 as in James Michael, *supra* note 4.

6 Volio Fernando, "Legal personality, privacy and the family" in Henkin (ed), *The International Bill of Rights*, (New York: Columbia University Press 1981) as in James Michael, *supra* note 5.

7 Alan F Westin, "Privacy and Freedom", (New York: Atheneum: 1967) pg. 7 as in James Michael, *supra* note 5.

8 "The Australian Privacy Charter" published by the Australian Privacy Charter Group, Law School, University of New South Wales, Sydney 1994 as in James Michael, *supra* note 5.

9 John H. Awerdick, "On-Line Privacy", <http://www.cla.org/ruhbook/chp4.htm>.

10 The Pew Survey is conducted by the Pew Research Center. The Center is an independent opinion research group that studies attitudes toward the press, politics and public policy issues. They are best known for regular national surveys that measure public attentiveness to major news stories, and for their polling that charts trends in values and fundamental political and social attitudes.

11 Susannah Fox, "Trust and Privacy Online: Why Americans Want to Rewrite the Rules 6" (Pew Internet & American Life Project 2000) pg. 1, <http://www.pewInternet.org/reports/toc.asp?Report=19>.

12 *Ibid*.

However, what Internet users actually do about privacy sends a distinctly different message from what they say. The Pew Survey found that 64% of Internet users would provide personal information if necessary to access a website and that only 24% of Internet users who know about cookies¹³ have configured their Web browsers to reject them.¹⁴

The issue of privacy has become a nemesis for advocates of the new technology. Activists, regulators, courts, local and international Governments insist that the current Internet model violates individual privacy rights too freely.

The Right to Privacy

Privacy is a fundamental human right. It has become one of the most important human rights issues of the modern age.¹⁵

Privacy is recognised around the world in diverse regions and cultures. Nearly every country in the world includes the right of privacy in its Constitution. Most recently, written constitutions include specific rights to access and control one's personal information. In many of the countries where privacy is not explicitly recognised in the Constitution, the courts have found that right in other provisions.¹⁶ The modern privacy benchmark at an international level can be found in the *1948 Universal Declaration of Human Rights*¹⁷ (UDHR), which specifically protects territorial and communications privacy. Article 12 of UDHR states:

“No one should be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks on his honour or reputation. Everyone has the right to the protection of the law against such interferences or attacks.”

Numerous international human rights treaties specifically recognise privacy as a right. *The International Covenant on Civil and Political Rights* (ICCPR)¹⁸, the *United Nations Convention on Migrant Workers*¹⁹ and the *United Nations Convention on Protection of the Child*²⁰ adopt the same language.

13 Cookies are a general mechanism which server side connections can use to both store and retrieve information on the client side of the connection. The addition of a simple, persistent, client-side state significantly extends the capabilities of Web-based client/server applications. To put it more plainly, a cookie is a mechanism that allows a web site to record your comings and goings, usually without your knowledge or consent.

14 Susannah Fox, *supra* note 11.

15 *Supra* note 5.

16 *Ibid.*

17 1948 Universal Declaration of Human Rights, available at <http://www.un.org/Overview/rights.html>.

18 The International Covenant on Civil and Political Rights (ICCPR), available at http://www.unhchr.ch/html/menu3/b/a_ccpr.htm.

19 Article 14, A/RES/45/158 25 February 1991.

20 Article 16, UNGA Doc A/RES/44/25 (12 December 1989) with Annex.

Let us analyse the right to privacy in the Indian Context :

Part III of the Constitution of India enumerates the Fundamental Rights guaranteed to a citizen of India. However, it does not expressly deal with the right to privacy. But due to judicial activism, the right to privacy is now an implied right under Article 21 of the Constitution, which guarantees right to life and personal liberty. In *Unni Krishnan v. State of A.P.*²¹, the Supreme Court stated that several unenumerated rights fall within Article 21 of which right to privacy is one.²²

Article 21 is of the widest amplitude.²³ The Supreme Court in *Karak Singh v. State of U.P.*²⁴ held that domiciliary visits by the police without the authority of law were violative of Article 21 assuming that right to privacy is derived from Article 19(1)(d). It referred to the American case of *Wolf v. Colorado*²⁵, where Frankfurter J. said “the security to one’s privacy against arbitrary intrusion by the police ... is basic to a free society.”

Justice Subba Rao while quoting Frankfurter J., said that “we would therefore define right of personal liberty in Article 21 as a right of an individual to be free from restrictions or encroachments on his person, whether these restrictions are directly imposed or indirectly brought about by calculated measures. It is true that our constitution does not expressly declare a right to privacy as a fundamental right but the said right is an essential ingredient of personal liberty. Right to privacy may also be derived from Art 19(1)(d).”²⁶ Subba Rao J. also observed that “Art 19(1)(d) is not mere freedom to move without physical obstruction but movement in a free country i.e. in a country where the citizen can do whatever he likes, meets whomsoever he wants to meet without any apprehension and a person under the shadow of surveillance is certainly deprived.”²⁷ Further, the Supreme Court, in *R. Rajgopal v. State of T.N.*²⁸, reaffirmed that the right to privacy is implicit in right to life and liberty under Article 21. Thus the right to privacy has now become an inseparable part of Article 21 and it ensures protection against arbitrary police intrusion.

The infringement of privacy has also become actionable in torts, in so far as private individuals are concerned. The concept of trespass includes any direct invasion of a protected interest from a positive act which is actionable subject to a justification.²⁹ If the interference to privacy is such as to amount to a recognised tort, then tort action may be taken to prevent the interference.³⁰ For example, harassment by

21 (1993) 1 S.C.C. 645.

22 This has also been held in *Govind v. State of M.P.*, AIR 1975 SC 1378.

23 *State of Maharashtra v. Chandrabhan*, AIR 1983 SC 103.

24 AIR 1963 SC 1295.

25 (1948) 338 US 25.

26 *Ibid.*

27 *Ibid.*

28 AIR 1995 SC 244.

29 Ratanlal & Dhirajlal, *The Law of Torts*, (23rd edition) pg. 215.

30 *Halsbury’s Law of England* (4th edition) Vol. 45, pg. 631, para 1383 as in Ratanlal & Dhirajlal, *The Law of Torts*, (23rd edition) pg.380.

persistent phone calls may amount to a nuisance,³¹ and installation of a secret eavesdropping device may amount to trespass.³² The High Court of Bombay has held that an invasion of privacy is an actionable wrong.³³ In India, the right to privacy is acquired by the virtue of a local custom or by special permission.³⁴

Thus in India, the Constitution as well as the Law of Torts recognise and protect the Right to Privacy.

Threats to Privacy

With the increasing use of the Internet in day to day activities and the resultant individual (at times confidential and personal) information collected by websites, the Internet poses a grave threat to individual privacy. Whether it is the electronic surveillance carried out by governments to track political opponents and belligerent student dissident leaders, or a person who shops on-line, or an employee who accesses an e-mail service through the office network, they all are tracked for their online activity. Today's technology has made George Orwell's prophetic "*Big Brother's watching you*" come true. It is now possible for a person or an organisation to actually keep a surveillance of your online activity neglecting the want for privacy of the individuals.

The various threats to privacy have been discussed in details as under:

1. State Surveillance

The governments of various nations have always tried to prevent any kind of opposition against them. This sometime lead to excessive intrusion in the lives of the people. With the Internet, the task of these authoritarian governments has become easy. According to a 1997 report, *Assessing the Technologies of Political Control*, commissioned by the European Parliament's Civil Liberties Committee and undertaken by the European Commission's Science and Technology Options Assessment Office (STOA),³⁵ much of the Internet technology is used to track the activities of dissidents, human rights activists, journalists, student leaders, minorities, trade union leaders, and political opponents. The report concludes that such technology (which it describes as 'new surveillance technology') can exert a powerful 'chilling effect' on those who 'might wish to take a dissenting view and few will risk exercising their right to democratic protest.' The State surveillance has gained special importance especially after the September 11 attacks.

The latest in state surveillance created for the United States Federal Bureau of Investigation (FBI) is the controversial 'Carnivore' software. This software enables

31 Halsbury *supra*; *Motherwell v. Motherwell* (1976) 73 DLR (3d) 62 (Alt App. Div.); *Khorasandjian v. Bush* (1993) 3 All ER 669 (CA).

32 *Ibid*.

33 *Manishankar Hargovan v. Trikarn Narsi* (1867) 5 BHC (ACJ) 42; *Bhajgovind C v. Harilal Gordhandas* (1941) 44 Bom LR 401.

34 Section 18, illustration (b), The Indian Easements Act; *Kesho Sahu v. Mussamat Muktakiman* (1930) ILR 10 Pat 280.

35 Science and Technology Options Assessment (STOA). Ref: project no. IV/STOA/RSCH/LP/politicon.1 <http://cryptome.org/stoa-atpc.htm> available at www.privacyinternational.org.

the enforcement agency to monitor and intercept all e-mails and browsing on the net. It places a computer running Windows NT³⁶ at an Internet Service Provider (ISP) and can access and monitor all traffic about a user including e-mail and browsing³⁷. According to press reports the 'Carnivore' 'can scan thousands of e-mails a second' and 'would give the government, at least theoretically, the ability to eavesdrop on all customers' digital communications, from e-mail to online banking and Web surfing³⁸. Such kind of intrusive surveillance is most likely to infringe the privacy an average net user. Even in Russia, the Russian Federal Security Service has issued a decree to all the ISPs to install surveillance system and high speed links to the Federal Security Service which would allow it direct access to the communication of the Internet users without a warrant³⁹.

Further nations like the United Kingdom have enacted laws, which allow the intelligence office interceptions at any ISP. A number of countries are also demanding that ISPs install 'black boxes' on their systems that can monitor the traffic of their users. The actual workings of these black boxes are unknown to the public. What little information has been made public has revealed that many of the systems are based on 'packet sniffers' typically employed by computer network operators for security and maintenance purposes. These are specialised software programs running in a computer that is hooked into the network at a location where it can monitor traffic flowing in and out of systems. These sniffers can monitor the entire data stream searching for key words, phrases or strings such as net addresses or e-mail accounts. It can then record or retransmit for further review anything that fits its search criteria. In many of the systems, the boxes are connected to government agencies by high-speed connections⁴⁰.

2. Electronic Commerce

Surveillance by the enforcement agencies is not the only way online-privacy can be infringed. The growth of e-commerce on the Net has increased the amount of personal information collected by individuals and corporations engaged in e-commerce. Some corporations are involved in sending unsolicited e-mails (spam) to consumers who surf their websites, while others give the information collected by them to third parties. This online profiling of the Internet user has become an important aspect in e-commerce. All this is possible due to a tracking technology called the 'cookie'.

When a website is visited, the server can write a file onto the user's computer hard-drive which characterised what took place at the site. A cookie is a small text file, which is sent by a website to be stored on the hard drive of the visitor. In general,

³⁶ Windows NT is the registered trademark of the Microsoft Corporation.

³⁷ Testimony of Robert Corn-Revere, before the Subcommittee on the Constitution of the Committee on the Judiciary, United States House of Representatives, The Fourth Amendment and the Internet, April 6, 2000 available at <http://www.house.gov/judiciary/corn0406.htm> as in www.privacyinternational.org.

³⁸ "FBI's System to Covertly Search E-Mail Raises Privacy Legal Issues," Wall Street Journal, July 11, 2000.

³⁹ "Russia Prepares To Police Internet," The Moscow Times, July 29, 1998 available at www.privacyinternational.org.

⁴⁰ www.privacyinternational.org.

cookies allow sites to 'tag' their visitors with unique identifiers so they can be identified each time they visit. It contains the preferences of the visitor, example the number of times the site has been visited by that particular computer and the services used repeatedly by that computer user. It also allows the owner of the website to view what took place at the website. Shopping basket cookies assign an identification value that remains constant as the user moves throughout the site and saves all selections to a file corresponding to that identification value. Tracking cookies, used primarily by direct marketing companies, assign an identification value the first time the user visits a site on which the company displays a banner ad and thereafter keep track of the other sites visited by the user assigned that value.⁴¹

The cookies may infringe privacy in two aspects. First when the website has been visited, the cookie of that website can be accessed later and further the cookie file may reveal the other websites visited during that time frame⁴². The second way in which the cookies infringe privacy is when the websites with the help of the cookies identify the Internet Protocol address through which the exact location of the computer used to access the website is identified. Thus the website can actually store personal information of an individual without the consent and the knowledge of the user. When this information, which is very important for e-commerce websites, is sold to these websites it will greatly undermine the privacy of an individual.

The above threat is only related to net-surfers. There are websites accessed through what are called 'Members Only' website. These websites offer online services for a payment of subscription. These websites can be subscribed online and the payment may be done through credit cards. These websites have a standard online subscription form which collect details such as the name, address, telephone number, and most important, the credit card number of the subscriber. Though these websites have a 'privacy policy' which guarantees non-disclosure of the confidential information, they seldom abide by it⁴³. These websites if not regulated, can result in immense distress to the user.

Not satisfied with cookies, which can be rejected or deleted by a user, the industry is also now developing more permanent methods of identifying users⁴⁴. One of these is the use of web bugs, invisible images that also place cookies on users' computers, and a serial number for each chip which can be accessed by a website⁴⁵.

41 Rachel K. Zimmerman, "What are Cookies?", RBA World Productions, available at <http://www.rbaworld.com/Security/Computers/Cookies/cookies.html>.

42 *Ibid.*

43 One such company, DoubleClick, has been the subject of recent litigation and immense public concern. Rachel K. Zimmerman, *ibid.*

44 *Supra* note 40.

45 "Intel announced that it was including a serial number in each new Pentium III chip that could be accessed by websites and internal corporate networks", available at <http://www.bigbrotherinside.org/www.privacyinternational.org>.

3. Workplace Monitoring of Employee's email

According to preliminary data from the American Management Association, as of the first quarter of 1999, nearly 30% of major U.S. companies currently monitor employee e-mails⁴⁶. Most of the firms have their own networks, which the employees use for personal as well as for business purpose. If the monitoring of the e-mails of the employees is for the purpose of business, then the privacy of the employee is not infringed. But if the corporation accesses any personal e-mail of an employee then there is sufficient cause for an infringement, assuming that an employee has a reasonable expectation of privacy and there is no ban on personal use.

4. Hacking

Though hacking itself is illegal in almost all countries, it poses the greatest threat to privacy. Hacking is an unauthorised intrusion into the computer system of an individual or an intrusion into a website's source code so as to alter or access any data or information or a program posted on the website or in a particular computer. Hacking has led to tremendous monetary loss for the corporation as well as for individuals.

Legislations in Relation to Privacy on the Internet.

Registering for an on-line service or purchasing goods on the Internet may require the disclosure of a wide variety of personal informations, including name, age, address, credit card numbers, and medical information or reading habits. Advertisers and merchants use such information to target the market for their offerings. Consumers should be concerned that a wide variety of informations, some very private, is readily collected, analysed and used by cyber enterprises.

As a result, protection of personal information online has become a significant concern to legislators and industry trade groups. In the International sphere, there have been several developments to protect the right to privacy.

OECD Guidelines

The Organization for Economic Cooperation and Development's (OECD) is an international organisation of 30 nations which works for the development of economic and social relations among Member countries. *The Guidelines on the Protection of Privacy and Transborder Flows of Personal Data 1980* (the Guidelines), in the form of a Recommendation by the Council of the OECD, were developed by a group of government experts under the chairmanship of The Hon. Mr. Justice M.D. Kirby, Chairman of the Australian Law Reform Commission.⁴⁷ The Recommendation was

46 Mark S. Dichter and Michael S. Burkhardt, "Electronic Interaction in the Workplace: Monitoring, Retrieving and Storing Employee Communications in the Internet Age." Morgan Lewis Publication, available at <http://www.morganlewis.com>.

47 www.oecd.org.

adopted and became applicable on September 23, 1980. The Guidelines state that *“the development of automatic data processing, which enables vast quantities of data to be transmitted within seconds across national frontiers, and indeed across continents, has made it necessary to consider privacy protection in relation to personal data”*.⁴⁸

The Guidelines are as follows:

Collection Limitation Principle

There should be limits to the collection of personal data⁴⁹ and any such data should be obtained by lawful and fair means and, where appropriate, with the knowledge or consent of the data subject.

Data Quality Principle

Personal data should be relevant to the purposes for which they are to be used, and, to the extent necessary for those purposes, should be accurate, complete and kept up-to-date.

Purpose Specification Principle

The purposes for which personal data are collected should be specified not later than at the time of data collection and the subsequent use limited to the fulfillment of those purposes or such others as are not incompatible with those purposes and as are specified on each occasion of change of purpose.

Use Limitation Principle

Personal data should not be disclosed, made available or otherwise used for purposes other than those specified in accordance with the above paragraph except:

- a. with the consent of the data subject; or
- b. by the authority of law.

Security Safeguards Principle

Personal data should be protected by reasonable security safeguards against such risks as loss or unauthorised access, destruction, use, modification or disclosure of data.

Openness Principle

There should be a general policy of openness about developments, practices and policies with respect to personal data. Means should be readily available of

⁴⁸ <http://www.oecd.org/dsti/sti/it/secur/prod/HTM>.

⁴⁹ *Ibid.* Guideline 1(b) ‘personal data’ means any information relating to an identified or identifiable individual (data subject).

establishing the existence and nature of personal data, and the main purposes of their use, as well as the identity and usual residence of the data controller.⁵⁰

Individual Participation Principle

An individual should have the right :

- a. to obtain from a data controller, or otherwise, confirmation of whether or not the data controller has data relating to him;
- b. to have communicated to him, data relating to him
 - within a reasonable time;
 - at a charge, if any, that is not excessive;
 - in a reasonable manner; and
 - in a form that is readily intelligible to him;
- c. to be given reasons if a request made under subparagraphs (a) and (b) is denied, and to be able to challenge such denial; and
- d. to challenge data relating to him and, if the challenge is successful to have the data erased, rectified, completed or amended.

Accountability Principle

A data controller should be accountable for complying with measures which give effect to the principles stated above.

Thus, the OECD Guidelines recognise the need to protect privacy to promote the free flow of personal data which will contribute to economic and social development between Member countries. However, the Guidelines are not legally binding. They represent a consensus on basic principles which can be built into existing national legislation, or serve as a basis for legislation in those countries which do not yet have it.

United States

There is no comprehensive set of privacy rights or legislation in the United States that addresses the collection, storage, transmission or use of personal information on or from the Internet or in other business environments. As new technologies have developed, the response has often been to enact laws designed to target specific privacy-related issues and select audiences.

Children's Online Privacy Protection Act

The United States Congress enacted the *Children's Online Privacy Protection Act*, which directs the Federal Trade Commission (FTC) to promulgate rules for the online collection and use of information from children.⁵¹ The rules apply to commercial websites directed to, or those that knowingly collect information from, children under

⁵⁰ Guideline 1(a) 'data controller' means a party who, according to domestic law, is competent to decide about the contents and use of personal data regardless of whether or not such data are collected, stored, processed or disseminated by that party or by an agent on its behalf. Available at <http://www.oecd.org/dsti/sti/it/secur/prod/HTM>.

⁵¹ Pub. L. No. 105-277, 112 Stat. 2681 (Title XIII §§ 1301-1308)(1998).

the age of thirteen. Except in certain cases, websites within this category will be required to obtain verifiable consent from parents before collecting, using or maintaining personal information from their children. Furthermore, web-sites must give parents control over the distribution and manner in which information about their children is maintained and must also give parents access to and the right to modify such information upon request. Finally, the proposed rules provide a 'safe harbor' for sites that comply with industry sponsored, FTC-approved, self-regulatory guidelines.⁵²

Electronic Communications Privacy Act

The *Electronic Communications Privacy Act* (ECPA)⁵³ is federal codification of the tort of invasion of privacy as applied to electronic communications. The ECPA addresses intrusions into electronic communications and computer networks. Subject to various exceptions, the ECPA makes it illegal to intercept e-mail at the point of transmission, while in transit, when stored by an e-mail router or server, or after receipt by the intended recipient. The Act provides both criminal and civil penalties for its violation.⁵⁴

More specifically, the ECPA prohibits the intentional interception,⁵⁵ disclosure,⁵⁶ or use⁵⁷ of any wire, oral or electronic communication. An 'electronic communication' generally includes any transfer of signals, writing, images, sounds, data or intelligence of any nature transmitted by means such as a wire or electromagnetic system.⁵⁸ The ECPA's provisions on 'Stored Wire and Electronic Communications and Transactional Records Access' prohibit unauthorised access to stored electronic communications, such as e-mail.⁵⁹ Section 2701(a) prohibits anyone from obtaining, altering, or preventing authorised access to an electronic communication by intentionally accessing, without authorisation, a facility through which electronic communications services are provided, or by exceeding authorisation to access such a facility.⁶⁰

Three exceptions are provided to the ECPA's prohibitions on access to stored communications. The ECPA does not prohibit conduct which is authorised :

1. by the party or entity providing the electronic communications service;⁶¹
2. by users of electronic communications through the service with respect to communications sent, or intended for, such users,⁶² and
3. for certain activities of governmental or law enforcement entities.⁶³

52 Julian S. Millstein et al., "*Doing Business on the Internet: Forms and Analysis.*" (1999)Chapter 10 pg. 7.

53 18 U.S.C. §§ 2510 et seq.

54 18 U.S.C. §§ 2511, 2520.

55 18 U.S.C. § 2510(1)(a).

56 18 U.S.C. § 2510(1)(c).

57 18 U.S.C. § 2510(1)(d).

58 18 U.S.C. § 2510(12).

59 18 U.S.C. § 2701(a).

60 18 U.S.C. § 2701(a).

61 18 U.S.C. § 2701(c)(1).

62 18 U.S.C. § 2701(c)(2).

63 18 U.S.C. § 2701(c)(3).

Fair Credit Reporting Act

The *Fair Credit Reporting Act*⁶⁴ (FCRA), which was amended by the *Consumer Reporting Reform Act of 1996*,⁶⁵ regulates the collection and use of personal information by consumer reporting agencies. A consumer reporting agency is a person or entity regularly engaging in assembling or evaluating consumer credit information or other consumer-related information for the purpose of furnishing consumer reports to third parties.⁶⁶

The various provisions of the FCRA set forth the responsibilities of consumer reporting agencies and the rights of consumers with respect to personal information contained in consumer reports relating to consumers' credit worthiness, standing, capacity, general reputation, personal characteristics or modes of living.⁶⁷ The Act requires that consumer reporting agencies use 'reasonable measures' to address the commercial need for consumer credit and other information in a manner which is fair to the consumer with regard to the 'confidentiality, accuracy, relevancy, and proper utilisation of such information...'.⁶⁸ The FCRA further provides for civil remedies for failure to comply with its requirements.⁶⁹

Importantly, the FCRA does not address the collection or disclosure of such information by entities other than consumer reporting agencies. In addition, the FCRA does not limit the scope of information that may be collected about individual consumers.⁷⁰

United Kingdom

The United Kingdom (U.K.) is one of the countries where there is legislation for the protection of the personal data as well as for cyber-crimes. Pursuant to the *European Union Directive on Data Protection* it enacted the *Data Protection Act, 1998*, adopting the guiding principles were taken from the Directive. As early as 1990 the U.K. enacted the *Computer Misuse Act, 1990* for the prevention of the 'unauthorised access to computer program or data'⁷¹.

When a user logs on a particular website for purchasing some item the information given in the form of address, phone number, credit card number, e-mail address, etc.

64 Fair Credit Reporting Act of 1970, U.S.C. §§ 1681-1681u (1997).

65 Consumer Credit Reporting Act of 1996, Pub. L. No. 104-208, 110 Stat. 3009-426 (Sept. 30, 1996).

66 15 U.S.C. § 1681 a(f).

67 15 U.S.C. § 1681a(d).

68 15 U.S.C. § 1681(b).

69 15 U.S.C. § 1681(n).

70 Julian S. Millstein et al., "*Doing Business on the Internet: Forms and Analysis.*" (1999) Chapter 10 pg.10.

71 Section 1(1) of the Computer Misuse Act, 1990, available at www.legislation.hmso.gov.uk/acts/acts1998.htm.

shall be protected because of the *Data Protection Act, 1998*. Section 1(1) of the *Data Protection Act, 1998*, defines 'data' as an information which

- a. is being processed⁷² by means of equipment operating automatically in response to instructions given for that purpose,
- b. is recorded with the intention that it should be processed by means of such equipment,
- c. is recorded as part of a relevant filing system or with the intention that it should form part of a relevant filing system.

It further defines 'personal data' as data which relate to a living individual who can be identified-

- a. from those data, or
- b. from those data and other information which is in the possession of, or is likely to come into the possession of, the data controller, and includes any expression of opinion about the individual and any indication of the intentions of the data controller or any other person, in respect of the individual.

The data subject has a right to know whether the personal data is used by the data controller or on his behalf, the purpose of the use and also the recipient of that data⁷³. Further the data subject can prevent the data given by him for the purposes of direct marketing⁷⁴ and in case it is likely to cause damage or distress⁷⁵. The data subject is entitled to compensation in case the data controller does not abide by these provisions. If a web-site contravenes any provision of the data protection principles then the Data Commissioner under this Act can issue an enforcement notice for the compliance thereof. And a person who fails to comply is guilty of an offence⁷⁶. In the event any person without the consent of the data controller, obtains any data is also guilty of an offence⁷⁷. That person would also be guilty of an offence of unauthorised access of an information on the computer under section 1(1)⁷⁸ of the *Computer Misuse Act, 1990*. If found guilty then he will be convicted to an imprisonment of a term not exceeding six months⁷⁹. Thus the *Computer Misuse Act* makes hacking illegal. Under the Schedule 1 of the *Data Protection Act, 1998*, the onus of protection of the data is with the data controller and he should take appropriate measures to prevent unauthorised access to the data.

72 Section 1(1) of the *Data Protection Act, 1998*: 'processing', in relation to information or data, means obtaining, recording or holding the information or data or carrying out any operation or set of operations on the information or data, including- (a) organisation, adaptation or alteration of the information or data, (b) retrieval, consultation or use of the information or data, (c) disclosure of the information or data by transmission, dissemination or otherwise making available, or (d) alignment, combination, blocking, erasure or destruction of the information or data.

73 Section 7, *Data Protection Act, 1998*, available at www.legislation.hms.gov.uk/acts/acts1998.htm.

74 Section 11, *Data Protection Act, 1998*.

75 Section 10, *Data Protection Act, 1998*.

76 Section 47, *Data Protection Act, 1998*.

77 Section 55, *Data Protection Act, 1998*.

78 Section 1(1) of the *Computer Misuse Act, 1990*: A person is guilty of an offence if- (a) he causes a computer to perform any function with intent to secure access to any program or data held in any computer; (b) the access he intends to secure is unauthorised; (c) he knows at the time when he causes the computer to perform the function that that is the case.

79 Section 1(3), *Computer Misuse Act, 1990*.

The only exception for the disclosure of personal data is for national security⁸⁰ and for crime and taxation⁸¹.

Thus, the UK has comprehensive laws which protect the rights of the net user. However these laws need to be updated with the rapid change in the technology.

India

In India, till recently there existed no legislations relating to the Internet. However, after the telecommunications boom in 1999-2000 pursuant to the *New Telecom Policy, 1999* (NTP-99), the Government found itself in an urgent need for regulating the fields of Information Technology, etc. This need for regulations paved way for *The Information Technology Act, 2000*.

The Information Technology Act, 2000

The Information Technology Act, 2000 was basically aimed at regulating commercial activities on the Internet. However, the Act has several sections with regard to penalties⁸² and offences⁸³. In connection to privacy on the Internet it is pertinent to look into Section 43(a)⁸⁴, Section 66⁸⁵, Section 69⁸⁶ and Section 72⁸⁷ of the Act.

Section 43(a) of the Act deals with the penalty for damage to computers, computer systems, etc. It states that if any person without permission of the owner or any other person who is incharge of a computer, computer system or computer network accesses or secures access to such computer, computer system or computer network shall be liable to pay damages by way of compensation not exceeding one crore rupees to the person so affected.

Section 66 of the Act deals with hacking⁸⁸ of computer systems. It provides that whoever commits hacking shall be punished with imprisonment up to three years, or with fine extending up to two lakh rupees, or both.

Section 69 of the Act is similar to the provision of Section 5 (2) in *The Indian Telegraph Act, 1885* and empowers the Controller⁸⁹ to direct any agency of the Government to intercept any information transmitted through any computer resource, and requires that users disclose encryption keys or face a jail sentence upto 7 years.

80 Section 28, Data Protection Act, 1998.

81 Section 29, Data Protection Act, 1998.

82 Chapter IX. The Act is available at <http://www.mit.gov.in>.

83 Chapter XI. The Act is available at <http://www.mit.gov.in>.

84 Section 43(a): Penalty for damage to computer, computer system, etc.

85 Section 66: Hacking with Computer System.

86 Section 69: Directions of Controller to a subscriber to extend facilities to decrypt information.

87 Section 72: Penalty for breach of Confidentiality and privacy.

88 Section 66(1) defines hacking. It states "Whoever with the intent to cause or knowing that he is likely to cause wrongful loss or damage to the public or any person destroys or deletes or alters any information residing in a computer resource or diminishes its value or utility or affects it injuriously by any means, commits hack."

89 According to Section 2 (m) of the Information Technology Act, 2000, 'Controller' means the Controller of Certifying Authorities appointed under sub-section (l) of Section 17.

Section 72 of the Act deals with the breach of confidentiality and privacy. It provides that if any person under the powers conferred by the Act to access any electronic record, etc discloses their contents, without the consent of the person concerned shall be punished with imprisonment for a term which may extend to two years, or with fine which may extend to one lakh rupees, or with both.

The Act, as of now, is the only legislation enacted by the Indian Government which deals with the Internet. However, the Act, does not substantially protect an individual's right to privacy on the Internet. Even though the privacy issues on the Internet are not yet a great concern in the country, the lawmakers definitely have to gear up to find ways in which this growing concern can be combated.

Conclusion

Although various nations around the globe have granted their citizens the right to privacy, they have not been able to formulate effective legislations for the protection of online privacy. Even with the adoption of legal and other protections, violations of privacy remain a concern. In many countries, laws have not kept up with the technology, leaving significant gaps in protections. In other countries, law enforcement and intelligence agencies have been given significant exemptions. Finally, without adequate oversight and enforcement, the mere presence of a law may not provide adequate protection.

TAX TREATY ABUSE[†]

- Ashish Aggarwal*

The phenomenon of 'tax treaty abuse' or 'treaty shopping' has recently gained momentum in India, especially in the context of the *India-Mauritius Treaty* in which the practice remains largely unfettered.

This article examines the nature of treaty abuse, its consequences as well as the measures taken to curb it. It also attempts to expound the policy issues raised for the prevention of treaty shopping.

Double Taxation

Double taxation results when a resident of one country produces income in another country and is subject to tax on that income by both her country of residence as well as the country in which her income is earned (the host country).¹ The situation arises especially if a country levies taxes upon its nationals on a worldwide basis instead of on a territorial basis.

Double taxation is considered to be one of the most acute problems in international taxation. It is often cited as a major obstacle to unfettered economic progress.² If income were fully taxed both in the source country and the country of the tax payer's residence, the resulting double taxation would put cross-border investments and transactions at a disadvantage in comparison with investments and transactions confined to the taxpayer's home country - a disadvantage frequently substantial enough to make international investments and business infeasible.

Double taxation represents an unfair burden on existing investment and an arbitrary barrier to the free flow of international capital, goods and persons. Nations should therefore seek to eliminate - or at least alleviate - these undesirable consequences of double taxation.

Measures to Eliminate Double Taxation

Historically, countries have used two approaches to alleviate double taxation: a unilateral approach and a bilateral approach.

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† This article reflects the position of law as on February 22, 2002.

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1 H. David Rosenbloom, *Tax Treaty Abuse: Policies and Issues*, 15 *Law & Pol'y Int'l Bus.* 763.

2 Richard L. Reinhold, *What is Tax Treaty Abuse? (Is Treaty Shopping an Outdated Concept?)*, 53 *Tax Law* 663.

Unilateral Measures

The unilateral approach offers a range of policies a country may adopt to affirmatively reduce (or altogether eliminate) the double taxation burden placed on its own residents, irrespective of the host country's policy and independent of any bilateral treaty provisions.

This relief can be accomplished by exempting foreign source income, granting a tax credit for foreign taxes paid, or allowing a deduction as an expense for foreign taxes paid.³

Under Section 91 of *The Income Tax Act, 1961*, India provides for unilateral relief to any person who is ordinarily resident and who is accordingly liable to tax on his global income in India, in the absence of a tax treaty with the source country. The relief assumes the form of a deduction from the income-tax payable in India, of a sum calculated on the doubly taxed income, at the effective Indian rate of tax or the effective rate of tax in the foreign country, whichever is lower. The provision serves India's own interest to encourage its citizens to earn as much income outside the country as possible to strengthen its own balance of payments position in international trade.⁴

Bilateral Measures

The bilateral approach, on the other hand, advocates implementation of tax treaties formulated by signatory countries that are aimed at alleviating double taxation on the investments of the residents of one signatory state in the other signatory state. Pursuing this objective, India has entered into over 60 bilateral tax treaties.⁵

Tax Treaties

A tax treaty is an agreement between two countries to modify their generally applicable rules of taxation for transactions and relationships between persons resident in the two countries.⁶

They provide an indispensable mechanism for alleviating double taxation of international transactions.⁷ In bilateral treaties, each country is assigned two different roles - that of the investor's country of residence and that of a host country (where the investment, or the economic activity, takes place). The countries have reciprocal rights and duties, since each country is both a residence country to its resident investors and a host to the other country's residents. But one could also conceive of a treaty as an agreement between a residence country and a host country in which the former

3 Philip F. Postlewaite and Tamara L. Frantzen, *International Taxation*, 14.05 (2nd Ed. 1996).

4 K. Srinivasan, *Guide to Double Taxation Avoidance Agreements*, (1993).

5 Punit Shah and Rekha Bagry, "Ring out the Old, Ring in the New", *Economic Times*, Mumbai, December 15, 2001.

6 *Supra* note 2.

7 Organisation for Economic Co-operation and Development, *Model Tax Convention on Income and on Capital*, (1997); United Nations *Model Double Taxation Convention Between Developed and Developing Countries* (1980).

provides some alleviation from double taxation in return for some reduction by the host country in its tax rates for investors who are residents of the residence country.

Role of Tax Treaties

In a typical treaty, the two signatory countries agree on how to allocate between them the right to tax various types of income.⁸ For each class of income, one country waives the right to tax, and the authority to tax is assigned to the other country. Typically, the host country may either tax the foreign income without limitation, it may tax up to a maximum, or it may not tax at all.⁹ As a result, a specific type of income may be taxed only in one of the contracting states, at the regular or a lower tax rate, or the income may not be taxed at all.

Thus, for example, income from business activity can be taxed by the host country without limitation, provided that the business income is attributable to the activities of a 'permanent establishment'.¹⁰ If, on the other hand, no permanent establishment exists, the host will usually cede taxing jurisdiction to the residence country.¹¹ Income from personal services, to take another example, is typically taxed by the host country without limitation except in special cases specified in the treaty, such as situations involving, *inter alia*, students and trainees,¹² and diplomatic staff.¹³

It is worthy to note that an agreement cannot grant relief from taxation to an individual or a company or any other entity under Section 90 unless that income is also liable to be taxed under the law of the other country.¹⁴

Double taxation may be eliminated by following either the foreign credit system or the exemption system. The model treaties suggest either a credit for taxes paid in the source country (the mechanism more commonly opted for by treaty signatories) or an exemption for income that is taxed by the source country.¹⁵

India follows the foreign credit method, i.e., taking the foreign income of its resident into account in computing his total income and determining his tax liability but giving him credit for the tax paid in the country of source, i.e., the country where the income is liable to tax in terms of the tax treaty.

8 H.L. Goldberg, *Conventions for the Elimination of International Double Taxation: Toward a Developing Country Model*, 15 Law & Pol'y Int'l Bus., 833 (1983).

9 Philip Baker, *Double Taxation Conventions and International Tax Law*, 18 (2nd Ed.1994).

10 Article 7, OECD Model Tax Convention; Article 7, United Nations Model Double Taxation Convention.

11 Article 5, OECD Model Tax Convention.

12 Article 20, OECD Model Tax Convention; Article 20, United Nations Model Double Taxation Convention.

13 Article 19, OECD Model Tax Convention; Article 19, United Nations Model Double Taxation Convention.

14 Cyril Eugene Pereira, *In Re*, [1999] 126 CTR (AAR) 281.

15 Articles 23A, 23B, OECD Model Tax Convention; Articles 23A, 23B, United Nations Model Double Taxation Convention.

Illustration

The method can be illustrated by taking the simple case of an individual with income of Rs. 1,00,000 in India and Rs. 50,000 in the treaty country without entitlement to any other relief or rebate. The tax on the total world income of Rs. 1,50,000 at the prevailing tax rates would be Rs. 40,000 including tax of Rs. 25,000 ascribable to the foreign income at 50%. If the rate of tax at which the foreign income has borne tax in the treaty country is 30%, i.e., Rs. 15,000 the assessee will get credit here for the full amount of tax so paid in that country, viz., Rs. 15,000. If the rate of tax in the treaty country is also 50% as in India, the position will remain the same: the assessee will get credit for the full foreign tax of Rs. 25,000. But if the rate of tax in the treaty country is 60% and the tax paid amounts accordingly to Rs. 30,000, the tax credit in India will be limited Rs. 25,000 that has gone into the computation of the Indian tax demand.

India's treaties with Hungary and Czechoslovakia require adoption of the exemption method in respect of all items of income, except dividends, interest, royalties and fees for technical services where credit method is to be followed.

Other Advantages Of Tax Treaties

Tax treaties provide the signatory countries with several other supplementary advantages.

They facilitate improved compatibility between the tax rules of the signatory countries. By addressing specific conflicts between the tax laws of signatory nations, treaties can improve the operation of existing unilateral mechanisms. For example, a treaty can design a set of uniform source rules for the two countries¹⁶ and can set specific tests of residency for tax purposes. Moreover, a treaty can set forth the rules that determine the legal status of entities, and it can codify agreements with regard to which taxes are to be considered creditable. These are issues that are extremely difficult to settle on a unilateral basis.¹⁷

Treaties can also increase the ability of countries to collect tax revenues. Countries may encounter practical difficulties in collecting taxes from foreign residents whose only nexus to the source country is the fact that they earned income within its territorial borders. Tax treaties allow host countries to trade the tax revenues they find difficult to collect (i.e., taxes owed by foreign investors) for tax revenues that are easier to collect (i.e., taxes owed by their own residents on their foreign activities). Such a trade-off also makes it easier for the residence country to employ a truly progressive tax system based on its residents' worldwide income.¹⁸

16 H. David Rosenbloom, *Towards A New Tax Treaty Policy For A New Decade*, 9 AM. J. Tax Pol'y 77, 92 (1991).

17 Stanley Surrey, *International Tax Conventions: How They Operate What They Accomplish*, J. Taxation 364, Dec. 1965.

18 Tsilly Dagan, *The Tax Treaties Myth*, 32 N.Y.U. J. Int'l L. & Pol. 939.

In addition, tax treaties strengthen the assistance and co-operation in tax enforcement among nations. These treaties marshal international cooperation against tax avoidance and evasion. To this end, some treaties contain rules on mutual assistance in collection of information and in enforcing tax rules. Most treaties include sections that concern sharing of information¹⁹ in order to help residence countries collect taxes from foreign residents and activities abroad. Mutual assistance in collecting information is essential for carrying out an effective war against tax avoidance and, therefore, is considered one of the important achievements of tax treaties.²⁰

These treaties often serve as a vehicle for establishing harmonious international relations. Treaties serve as proof of good faith and signal a certain respectability of the contracting country in the eyes of the other contracting country (and thus in the eyes of other countries).

The tax treaties play an important role in the re-enforcement of investment certainty. They provide a higher degree of predictability for individuals planning their tax environment because treaty obligations tend to restrict the contracting states' ability to change their domestic tax law.

Model Treaties

International organisations have formulated drafts of model bilateral treaties for reciprocal relief of double taxation of international income. These models, as modified from time to time, have served as the common basis for more than 1700 bilateral income tax treaties now in force throughout the world.²¹

The Organization for European Economic Co-operation (OEEC) worked from 1948 for the preparation of a draft convention for the avoidance of double taxation with respect to taxes on income and capital. This work was later taken over by the Organization for Economic Co-operation and Development (OECD) set up in 1961 whose members were all developed countries. The developed countries have followed the drafts so prepared in their agreements with other developed countries.²²

After the Second World War, many of the countries in Asia and Africa gained independence and started improving their economies. The desirability of promoting greater inflow of foreign investment in developing countries on conditions which were politically acceptable as well as economically and socially beneficial has been frequently affirmed in resolutions of the United Nations General Assembly, the United Nations Economic and Social Council and the United Nations Conference on Trade and Development. It was recognised that foreign private capital flows and investments play an important complementary role in the process of economic development, particularly through the transfer of resources, managerial and administrative expertise

19 Article 26, United Nations Model Double Taxation Convention; Article 26, OECD Model Tax Convention.

20 Pamela B. Gann, *The Concept of an Independent Treaty Foreign Tax Credit*, 38 Tax L. Rev. 1.

21 U.N. Conference on Trade and Development, *World Investment Report 1998: Trends and Determinants* (1998).

22 Klaus Vogel, *Double Taxation Conventions*, (3rd ed. 1997).

and technology to the developing countries, the expansion of manufacturing capacity and employment in developing countries and the establishment of export markets. In 1968, the Secretary-General of the United Nations (U.N.) set up an ad-hoc group of experts on tax treaties between developed and developing countries. This group consisted of tax officials and experts from the following countries, appointed in their personal capacity: Argentina, Chile, France, German Democratic Republic, Ghana, India, Israel, Japan, Netherlands, Norway, Pakistan, Philippines, Sudan, Switzerland, Tunisia, Turkey, United Kingdom of Great Britain and the United States of America. Sri Lanka was added in 1972, and Brazil in 1973.

This group of experts drafted the final Model Convention, which was published by the U.N. in 1980 along with commentaries. This Model Convention of the U.N. called the U.N. Draft has now become the standard draft for tax treaties, which are being concluded in the world between developed and developing nations. The agreements concluded by India in the last two decades have also been based on this U.N. Model, with suitable modifications to reflect the Indian laws and the laws of the countries with which the agreement is concluded.²³

Binding Effect of Tax Treaties

Section 90(1) of *The Income Tax Act, 1961* empowers the Central Government to enter into an agreement with the Government of any other country not merely for avoidance of double taxation of income but also for grant of relief in respect of income on which income-tax has been paid in both, exchange of information for counteracting tax avoidance and evasion and assistance in recovery of income tax raised by them. The Central Government may also notify, in the Official Gazette, such provisions, as it considers necessary for implementing the agreement.

The Double Taxation Agreement and *The Income Tax Act, 1961* form a part of the same statute.²⁴ The Central Board of Direct Taxes has announced that in case of a conflict between the provisions of the Double Taxation Agreement and *The Income Tax Act, 1961*, the former shall prevail and be applied by the Assessing Officers.²⁵

Anomalies may arise as a result of amendments to the Act, securing new benefits for the assessee which had not been visualised when the tax treaties were entered into. It will obviously be unfair and irrational if the less favourable terms of a treaty are enforced in some cases despite later beneficial modifications of the law.²⁶ In order to remove such anomalies, Section 90 has been amended by *The Finance (No. 2) Act, 1991*. The amended section states that in the above case, the provision of this Act shall apply to the extent they are more beneficial to the assessee.

23 K. Srinivasan, *Guide to Double Taxation Avoidance Agreements*, (1993).

24 *CIT v. Visakhapatnam Port Trust*, (1983) 144 ITR 146 (AP).

25 Circular No. 333 dated 2-4-1982.

26 Rajaratnam and Venkatramaiah, *Double Taxation Avoidance Agreements*, (1999 Ed.).

Tax Treaty Abuse

Individuals from countries that have concluded no, or only unfavourable tax treaties, often feel encouraged to take advantage of a tax treaty between other countries that is not normally available to them.²⁷ The term 'treaty shopping' or 'treaty abuse' refers to the tax avoidance strategies, which involve the use by residents of third states of legal entities established in a tax haven state with the principal purpose to obtain the benefits of a tax treaty between the tax haven state and another contracting state.²⁸ It represents the use of a tax treaty provision by a person, or in a way, not intended by the treaty drafters.

The proliferation of tax treaties with tax havens, along with the increasing availability of tax advice for investors in the international arena, the large number of investors seeking countries with stable political and economic systems in which to invest their funds, technological advances in communications, and a growing international banking network have made treaty shopping very viable.²⁹

These third-country residents search for a country that has (1) a favourable income tax treaty with the source state and (2) attractive internal tax laws. Once the third-country resident investor has found such a country, income from the source state may be channeled through a corporation (or other entity) organised under the laws of that country. The withholding tax rate on passive income under a tax treaty is usually less than the rate applicable to residents of non-treaty countries, in many cases completely exempting the income from taxation. Thus, by redirecting his income flow through a tax treaty country, an investor may significantly reduce the tax on his income. In addition, the laws of many tax treaty countries set low tax rates or, in some cases, a rate of zero on dividends or interest paid to non-resident investors. By funneling profits through the country with the most favourable combination of tax treaty terms and internal tax laws, a non-resident alien investor is able to avoid most or all tax on the source income.³⁰

Illustration

X, a resident of country A receives interest from country B, which is subject to tax in B (15%). A does not have tax treaty with B. A has a tax treaty with another country C (withholding tax 5%). B has also a tax treaty with C (withholding tax 5%). Thus C is a country with which A and B have separate treaties, though between A and B there is none. This situation is taken advantage of by X by arranging his affairs in such a manner as to interpose the third country C in order to reduce the tax effect which otherwise would have been 15%. This he could do by introducing a person Y, who is resident of C, who receives interest from B and then makes to appear arising to X in C and passes to him. Country A by this arrangement income is made to suffer

27 Andre Fogarasi et al., *Current Status of U.S. Tax Treaties*, 26 *Tax Mgmt. Int'l J.* 139.

28 *Supra* note 2.

29 Kenneth A. Grady, *Income Tax Treaty Shopping: An Overview of Prevention Techniques*, 5 *Nw. J. Int'l L. & Bus.* 626.

30 P. Postlewaite and M. Collins, *International Individual Taxation*, 226-27 (1982).

withholding tax as follows:

- a. 5% when Y receives it (agreement between B and C), and
- b. 5% when X receives it from Y (agreement between C and A).

The total of *a.* and *b.* above works out to 10%, which would otherwise have been 15%. In this situation, country B suffers a tax loss, as it only got 5% whereas it was entitled to 15%.³¹

Test of Treaty Abuse (Tax Planning vis-à-vis Tax Avoidance)

To ascertain whether a particular practice amounts to treaty abuse, the courts have frequently applied the 'primary purpose' rule. As per the rule, it is to be seen whether the base company is established in other states solely for the purpose of enjoying the benefit of the particular treaty rules between the involved and the third state. The advantage would not have been otherwise available but for setting up of a legal structure in the involved country. Such a doctrine has to be applied with care and caution. Thus, where a foreign subsidiary is engaged actively in the state of its location, though the avoidance of tax is its motive for its establishment, the third country tax treaties cannot be said to be abused.

Tax avoidance alone cannot be the basis for such application unless it is resorted to through a company or entity or a transaction, which is either shown or lacking business purpose. Tax planning on the domestic and the international tax level is by no means objectionable.³²

In the leading case of *X Ltd., In Re*³³, two companies incorporated in Mauritius had invested US\$ 60,00,000 in an Indian Bank. The question referred to the Authority for Advance Ruling (AAR) was whether the dividends to be received by those companies from the Indian Bank would be entitled to the benefit of concessional rate of taxation of 5% under the tax treaty between Mauritius and India. Both these countries had only one shareholder, namely the British Bank, company resident in the U.K. Had the British Bank directly invested in shares in Indian Bank it would have been entitled to the relief provided by the Tax Agreement of 1993 between India and U.K., i.e., at the rate of 15%. The AAR held that the purpose of investment in shares of the Indian Bank is the avoidance of taxes which would have fallen on the British Bank had it directly invested in India. Disregarding the companies as mere conduit pipes, the court rejected their application of relief in accordance with the tax treaty between Mauritius and India.

Prevention of Treaty Shopping (Limitation-on-Benefits)

Treaty abuse can be combated by including certain provisions like the following as reported by the Conduit Companies Report³⁴, which reads as under:

"The Conduit Companies Report examined provisions which might be included in

31 Mittal D. P., *Indian Double Taxation Agreements & Tax Law*, 7.6 (2nd ed. 2001).

32 *Aikem Industries Inc. v. Commissioner*, (1971) 56 TC 92; *Johansson v. US*, 336 F. 2D. 809.

33 [1996] 86 Taxman 252 (AAR).

34 Philip Baker, *Double Taxation Convention and International Tax Law*, (2nd Ed., 1994).

bilateral treaties as safeguard against conduit companies. The provisions outlined were as follows:

1. the 'look through' approach: the inclusion of provisions which permit the piercing of the corporate veil;
2. the 'exclusion' approach: including in treaty provisions which exclude certain privileged type company from treaty benefits;
3. the 'subject-to-tax' approach: the inclusion of provisions which limit treaty benefits to income which is subject to tax in the other contracting state;
4. the 'channel' approach: the inclusion of provisions which limit treaty benefits to any company which is used merely as a channel for payment of the income to a resident of a third country;
5. 'bonafide' provisions: the inclusion of provisions (which may take various forms) which limit treaty benefits to companies set up for *bonafide* purposes and not set up to take advantage of treaty benefits."

Prevention of treaty shopping is usually accomplished through clauses that restrict treaty benefits to few individuals and entities on the basis of their proximity to the treaty countries.³⁵ These clauses are called 'anti-abuse' or 'limitation-on-benefits' clauses. The clauses try to exclude mere conduits from taking advantage of the treaty benefits by identifying a company's substantial business nexus to one or both contracting states. From a technical point of view, those clauses may be seen as further limitations on treaty use, as well as being clauses that determine the personal scope of the treaty.³⁶

In order to limit tax treaty benefits to their intended beneficiaries, the 'limitation-on-benefit' clauses inquire as to the appropriateness of making the benefits of a particular treaty available to a given person. Tax treaties generally operate for the benefit of the 'residents' of the other contracting state. The limitation-on-benefit provisions that have been included in tax treaties effectively embellish on the definition of the term resident and, in general, function as a gatekeeper to deny treaty benefits to entities of third-country owners without adequate linkage to the residence jurisdiction. Residence of a person is determined in accordance with the Double Taxation Avoidance Agreement between the contracting states.³⁷

India-US Treaty

The India-US Treaty contains an anti-treaty shopping provision in Article 24, which is based on Article 16 of the *US Model Convention*. According to the provision, relief is limited to a person (other than an individual) only if

1. More than 50% of the beneficial interest in such persons is owned, directly or indirectly, by
One or more individual residents of one of the contracting states, or

³⁵ *Supra* note 29.

³⁶ Richard E. Andersen, *ALI Study Recommends Changes in U.S. Tax Treaty Policy*, 2 J. Int'l Tax'n 253, 255 (1991).

³⁷ *DLJMB Mauritius Investment Company v. CIT*, [1997] 28 ITR (AAR).

- Other individuals subject to tax in either, contracting state on their world wide incomes, or
 - Citizens of US.
2. The income of such person is not used in substantial part, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons who are not residents of one of the contracting states or citizens of US.

The provision seeks to limit the benefits of the treaty only to those persons who have a 'substantial connection' with the two states.

Whether Treaty Shopping Should Be Prevented

There is a general difference of opinion as to whether treaty shopping should be prevented as a disfavoured fiscal behavior. We shall enumerate and analyse the reasons cited on both sides.

Arguments in Favour of Prevention

Every country that is party to a tax treaty has a strong interest in preventing treaty shopping. The most obvious reason for this is simply that treaty shopping could mean a loss of revenue to the treaty parties. One of the contracting states, usually the source country, has waived or lessened its claim to tax. To the extent that taxpayers are able to utilise these allowances, the waiving country's revenue will be reduced. Since this country's revenue is higher if only treaty country nationals use the treaty, there is a loss caused by treaty shopping.³⁸

Another reason for having anti-treaty shopping provisions is that they facilitate detection of and control over the owners of conduit companies who otherwise, being residents of third countries, are not subject to the procedures of the contracting states.³⁹ The treaties achieve this by establishing a mechanism for exchange of information between these states.

Further an advantage of treaty provisions by non-nationals of contracting states has the effect of defeating the objects of the treaties. The contracting states make reciprocal concessions on their tax authority in order to serve their nationals, not the nationals of third states. A treaty shopper profits from them although the treaty shopper's own country is not involved in that treaty and has not made any concession in return and therefore is an unintended beneficiary.⁴⁰

Also, countries that lack or have a less favourable treaty with other countries will not be motivated to negotiate and conclude future treaties. This lack of incentive to enter into a treaty, in turn, limits the establishment of an extensive treaty network from

38 Dietmar Anders, *The Limitation-on-Benefits Clause of the US-German Tax Treaty and its Compatibility with European Union Law*, 18 J. INTL. BUS. 165.

39 Monique Van Herksen, *Limitation on Benefits and the Competent Authority Determination*, 50 Bull. Int'l Fiscal Doc. 19.

40 Simon Haug, *The United States Policy of Stringent Anti-treaty Provisions: A comparative analysis*, 29 Vand. J. Transnat'l L. 191 as quoted in *supra* note 38.

which their nationals would benefit.⁴¹ If a country enters into treaty negotiations and its nationals already benefit from other treaties, bargaining power is skewed in favour of the treaty shopping country. That country will want to have a treaty at least as favourable as the other treaties from which its nationals already benefit, or it will be able to gain other concessions it would not normally receive.⁴²

Finally, treaty countries may be reluctant to expand their treaty network because they fear multiplying already existing treaty abuses. In the absence of any prevention, each treaty entered into potentially becomes a treaty with the whole world.⁴³

Due to the aforesaid reasons, most countries have an interest in preventing abuse of the bilateral treaties entered into by them and therefore include limitation-on-benefits clauses therein.

Arguments Against Prevention

An argument against stringent prevention of treaty shopping is that, in general, such prevention is protectionistic and hinders economic integration. Many countries are trying to stimulate economic growth by integrating with other countries in their region. Anti-treaty shopping clauses and regional economic integration policies, however, have contrary objectives. While anti-treaty shopping clauses actually intend, roughly speaking, to keep foreign companies out of a country, efforts at regional economic integration such as the European Union and the North American Free Trade Association have achieved a common, borderless market in which companies can freely move. If the legal framework makes an investment in a foreign country unattractive, companies will place this investment somewhere else. Together with unpredictable application of these clauses and the remedies against them, anti-treaty shopping clauses could discourage companies from investing within the regionally integrated area. Instead of tackling the problems of these clauses, restructuring the organisation, or taking other remedies, companies may simply invest in a different country. Since income for the company means revenue for the country, this results in budgetary losses that probably exceed the losses created by treaty abuse. Thus, it is argued that the prevention of treaty shopping has an adverse effect on investment, which may outweigh the revenue losses.⁴⁴

Another argument that weakens the rationale of treaty shopping prevention is that the more extended a country's treaty network, the less likely it is that treaty shopping will occur. If a country maintains a considerable number of treaties with other countries, investors from all these countries can take advantage of these treaties as treaty nationals, not as treaty shoppers from outside. A country offering its nationals many treaties makes treaty shopping unnecessary. The incentive to engage in treaty

41 See H. David Rosenbloom and Stanley I. Langbein, *United States Tax Treaty Policy*, 19 Colum. J. Transnat'l L. 359.

42 *Ibid.*

43 Frith Crandall, *The Termination of the United States-Netherlands Antilles Tax Treaty: What Were the Costs of Ending Treaty Shopping?*, 9 Nw. J. Int'l L. & Bus. 355.

44 *Supra* note 38.

shopping, i.e., to find a treaty elsewhere, diminishes with the number of treaties available.⁴⁵

Additionally, revenue losses can also occur because the administration of anti-treaty shopping laws is costly due to their complex and partly inefficient provisions. These costs can outweigh the benefits of treaty shopping prevention, especially because treaty shopping does not seem to occur very extensively in practice but anti-treaty shopping law nevertheless has deterrent effects on investment.⁴⁶

Conclusion

In order to effectively curtail treaty abuse, it is suggested that there should be a coherent and uniform regime of international taxation, which may eventually lead to a multilateral tax agreement.

However till such a regime is established, there is a need to draft a limitation-on-benefits provision carefully to protect the interests of the taxing authorities. At the same time, care should be taken to ensure that the measures adopted do not act as a deterrent to globalisation of business.

⁴⁵ *Supra* note 40.

⁴⁶ Roger Lorence, *Will the World follow the U.S. lead on limitation of treaty benefits?*, 7 J. Int'l Tax'n 124, 126 (1996).

SOFTWARE PATENTS: LEGAL FRAMEWORK AND IMPLICATIONS^{††}

- Shibani Rao*

The software industry has experienced a spectacular growth in the last decade. The most important cause of this being the unconstrained use of personal computers owing to easy availability, which enabled individuals with a creative flair of mind to use their intellectual capabilities to a zenith, thereby formulating and devising various forms of software, resulting in a drastic spurt of software production in the realm of the Technological Age.

A Brief History

The history of software patents can be traced back into the early 1970s, wherein initially, the United States Patents and Trademarks Office (USPTO) was reluctant to grant patents on any kind of inventions that were based on the principle of calculations made by a computer. The principal ideology adhered to by the USPTO was that a computer-based invention is a mere mathematical algorithm¹ and that it did not fall within the purview of a patentable item, which according to the USPTO had to necessarily be in the form of processes or machines. This doctrine was brought to light in the case of *Gottschalk v. Benson*², where the Supreme Court held that the respondents' method for converting numerical information from binary-coded decimal numbers into pure binary numbers, for use in programming conventional general purpose digital computers was merely a series of mathematical calculations or mental steps and did not constitute a patentable process³ within the meaning of patent law guidelines put forth by the United States. Once again, in the 1978 case of *Parker v. Flook*⁴, the respondent's method for updating alarm limits during catalytic conversion processes, in which the only novel feature is a mathematical formula was again held not patentable under the U.S. patent law⁵.

♠ © Nishith Desai Associates, 2002. This article was written during the course of a Legal Research *Training Programme* conducted by Nishith Desai Associates ("NDA") (a research based law firm with offices in Mumbai and California) for a select group of students of the Government Law College, Mumbai. The factual statements & legal conclusions contained herein are solely those of the author. The contents of this article do not necessarily reflect the position or views of NDA. No reader should act on the basis of any statement contained in this article without seeking professional advice.

† This article reflects the position of law as on February 25, 2002.

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1 Algorithm: "A set of rules for solving a problem in a finite number of steps", *Random House Dictionary*.

2 409 U.S. 63 (1972).

3 Title 35 U.S.C. § 100 (b) provides: "The term 'process' means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material."

4 437 U.S. 584 (1978).

5 Title 35 U.S.C. § 101 provides: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

The early 1980s brought about a complete transition in this outlook, after a Supreme Court order enabled the grant of a software patent on a computer program, which controlled a rubber-curing machine, in the case of *Diamond v. Diehr*⁶. This landmark decision of the United States Supreme Court opened the doors for software patenting. By the early 1990s, software had become one of the fastest growing sectors of the U.S. patent system. In the case of *In Re. Alappat*⁷ the Federal Circuit, sitting *en banc*, held that the invention was a patentable subject matter notwithstanding the use of a mathematical algorithm, as opposed to another 1994 case, *In Re. Trovato*⁸, where the Court, upholding application of the *Freeman-Walter-Abele*⁹ test, found both method and machine claims directed toward planning a path for an object to follow in a physical task space to be un-patentable subject matter.

Overview – A Broad Outline

This research paper endeavours to examine possible reasons for the outset of the ongoing controversy shrouding software patents around the world, and within its limited means, strives to furnish a clear picture of the whole ‘Software-Patent-Tangle’, attempting to discuss and scrutinise the question of its impact on all spheres of technology, especially the Internet and E-commerce, also venturing into providing suggestions towards ways and means of arriving at possible solutions to this grave problem faced by the software industry today.

On Software And Business Method Patents

In the recent past, more so since the mid-1980s, the USPTO granted an increasingly large amount of patents for software-based inventions. The basic reason behind this being that the patent examiners did not possess the necessary expertise required of them, so as to examine such inventions. In the US, computer software such as a multimedia driver or development tool, is usually considered patentable either as a process or method implemented by a computer as a means to accomplish some function, or as a part of a machine, apparatus or system, which utilises the software to perform some function.¹⁰ Computer software embodied in a tangible medium, such as a floppy disk, may also be a patentable subject matter.¹¹ In 1996, the USPTO adopted its ‘Final Computer Related Examination’ guidelines, which are designed to assist Patent Examiners in handling hardware and software related inventions. Regarding inventions, the class of software in itself is not that which is patentable. It is only the ‘methods’ and ‘processes of manufacture’ implemented by such an invention that are patentable¹². Software is, in its intrinsic nature, an extremely

6 450 U.S. 175 (1981).

7 33 F.3d 1526 (Fed. Cir. 1994).

8 33 U.S.P.Q. 2d 1194 (Fed. Cir. 1994).

9 *In Re. Freeman* 573 F.2d 1237 (1978); *In Re Walter* 618 F.2d 758 (1980); *In Re Abele* 684 F.2d 902 (1982).

10 *Arrhythmia Research Technology Inc. v. Corazonix Corp.*, 958 F.2d 1053, 1056-1061 (Fed. Cir. 1992).

11 *In Re. Beauregard*, 53 F.3d 1583 (Fed. Cir. 1995).

12 Section 5, Indian Patents Act, 1970.

complex creation.¹³ Hence software programmers are clearly interested in ensuring that their software receives the highest degree of protection. Business method patents are a narrower branch of a broader class of software patents. Business method implementation usually occurs during the conduct of e-commerce or online businesses, and is usually in the form of a software-based product that controls the working of online trade.

Initially, an attempt is made to examine and elucidate the basis of software and business method patenting, so as to further analyse the problems sprouting from their sphere.

Understanding Patents in General

First of all, a 'patented article' and 'patented process' mean respectively an invention¹⁴, article or process in respect of which a patent is in force¹⁵. A patent¹⁶ may be defined as "a statutory privilege granted by the Government to inventors, and to other persons from manufacturing, using or selling a patented product, or from utilising a patented method or process¹⁷." The term of a patent, once granted, is fourteen years from the date of the patent¹⁸ according to Indian law, but under the TRIPs agreement, this time period has been amended to twenty years¹⁹. A patent right is a form of industrial property. The owner can sell the whole or part of his property. Such rights can also be licensed for commercial purposes. Patent is a statutory grant of right to an inventor over his own invention from which all others are excluded, as long as the grant runs. A few frequently asked questions are dealt with below, so as to furnish a clear picture of the intent and utility of patent protection and patenting (in general) which is also applicable to the class of software and business method patents, since they are 'species' of the 'genus' called patents.

What kind of protection does a patent offer?

A patent ensures total protection of the patented invention under the legal system of a country under the legislation of which it is obtained. Patent protection means that the invention cannot be commercially made, used, distributed or sold without the patent owner's consent. These patent rights are usually enforced in a Court, which in most systems holds the authority to stop patent infringement. Conversely, a court can also declare a patent invalid upon a successful challenge by a third party.²⁰

What are the rights conferred on a patent owner?

A patent gives the owner a right to choose as to who may (or may not) utilise such invention for that time period until which such invention is granted patent protection. A patent owner also may exercise control over the sale and licensing of such invention

13 Rahul Matthan, *The Law Relating to Computers and the Internet*, 341.

14 Section 2(1)(j), Indian Patents Act, 1970.

15 Section 2(1)(o), Indian Patents Act, 1970.

16 Section 2(1)(m), Indian Patents Act, 1970.

17 D.P. Mittal, *Indian Patents Law*, 4, (1999).

18 Section 53(1)(b), Indian Patents Act, 1970.

19 Article 33, TRIPs.

20 General Information on Patents, available at http://www.wipo.org/about-ip/en/about_patents.html.

to third parties, apart from granting licenses and permission to such third parties, so as to enable use of the patented product. However, once the time period of the patent ends, the rights over it cease to exist with the owner, since it then enters public domain after lapse of such time, and is further open to commercial exploitation by others.

Who grants a patent?

Usually, an Examiner or a Controller at a National Patent Office (for one country) or a Regional Patent Office (for a number of countries) grants a patent, such as the USPTO, the European Patent Office (EPO), etc.

Necessity of patent protection

As President Abraham Lincoln rightly remarked,
“*The patent system... added the fuel of interest to the fire of genius.*”²¹

Necessity of a patent lies in the fact that it awards the highest degree of protection, which may be an attractive incentive to the inventor or prospective inventors, by offering recognition for their creativity and material reward for their marketable inventions, further encouraging innovation in their respective fields. It provides a boost for individual inventors or companies to introduce new products into the market.

Role of patents in everyday life

Patented inventions have, in fact, pervaded every aspect of human life, from electric lighting (patents held by Edison and Swan) and plastic (patents held by Baekeland), to ballpoint pens (patents held by Biro) and microprocessors (patents held by Intel, for example).²²

Eligibility Criteria for Obtaining a Software Patent

Obtaining a patent for software is a highly complex process, and is granted only on fulfilment of stringent criteria. According to definitions and guidelines laid down under *Title 35 of the U.S. Code* and the *Indian Patents Act, 1970*, it may be appropriate to lay down three basic criteria for determination of eligibility, for obtaining a patent.

Usefulness

To be patentable, an invention must be useful²³ and must fit into one of the following categories – process, machine, manufacture, composition of matter, ornamental design or biological plant²⁴. In simple terminology, the invention for which patent protection is desired must have some utility purpose.

21 Abraham Lincoln, the only President of the United States of America to hold a patent, on patents.

22 *Supra* note 20.

23 Section 2(1)(j), Indian Patents Act, 1970.

24 Title 35 U.S.C. § 101.

Novelty

To be patentable, an invention must not be public knowledge or in public use.²⁵ A brochure with general information concerning patents²⁶, printed by the USPTO mentions that in order for an invention to be patentable it must be 'new' as defined in the patent law²⁷, which provides that an invention cannot be patented if:

1. The invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
2. The invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country more than one year prior to the application for patent in the United States.

This is also known as the 'absolute novelty' requirement. The United States is one of the few countries in the world which retains the 'first to invent' system of priority. Most other countries have the 'first-to-file' system where the first person to file a patent application is the person entitled to priority over all subsequent applications for the same invention. Usually, a 'prior art' search is done, before applying for a patent. 'Prior art' means something that existed (on the similar lines) before the invention. A 'prior art' search is basically a search for novelty, as to determine whether the invention in question is indeed novel.

Non-obviousness

The USPTO disallows grant of patents if:

*"The differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."*²⁸

In view of prior inventions and knowledge the new invention must be 'non-obvious' to a person having an ordinary level of skill in pertinent areas. Obviousness is the most commonly cited reason for rejection of claims by the USPTO, and also the most difficult to understand thereby being a commonly misunderstood aspect of patent law. Hence, the USPTO uses 'those having ordinary skill in the art' as its touchstone for obviousness.²⁹

To elucidate the concept of non-obviousness, suppose an inventor applies for a patent on a software-based invention. The test for non-obviousness in this case, lies in the fact as to whether such an invention is obvious to an individual who is skilled in the field of computer software (a software engineer, for example) or not. If a person

25 Title 35 U.S.C. § 102 (a).

26 Novelty and other conditions for obtaining a patent, available at <http://www.uspto.gov/web/offices/pac/doc/general/novelty.htm>.

27 Title 35 U.S.C. § 102 (b) & (d).

28 Title 35 U.S.C. § 103 (a).

29 Carnegie Mellon University, *Non-obvious? The Patenting Process Continues*, available at <http://www.cmu.edu/president/techtrans/ipunobvious.html>.

skilled in that particular field of software technology is aware of the existence (obviousness) of the said invention under scrutiny, a patent will not be granted. Hence, only a person who has skill in that specific branch of that particular field can determine the obviousness or non-obviousness of an invention. For example, a scientist who specialises in Quantum Physics cannot determine the obviousness of a chemical based medicine, although he may be a scientist. A chemical based medicinal product must necessarily be examined by a scientist who is not only skilled in the field of Chemistry, but also more specifically, in the arena of chemical medicine.

Technical Effect

The European Patent Office (EPO) implements another unique criteria test³⁰, called the 'technical effect'. This doctrine involves a consideration of the technical effect, which a software-related invention has, on known equipment.³¹ Hence if the application of such an invention has a technical effect, then it is considered patentable. For example, software that controls the timing of an electronic engine is patentable under this doctrine, whereas software that detects and corrects contextual homophone errors (e.g., 'there' to 'their') is not.³²

General Principles

A few general principles are to be kept in mind while (or before) applying for patent protection for a software-based invention:

Formulae

The *United States Code* provides, that while mathematical algorithms and business processes cannot be patented, the automation of such algorithms and processes in the form of a computer program or a machine can be patented under certain circumstances.³³

Lead Time

Obtaining a patent is a highly complicated process, which often lasts for more than a year after the initial submission of the patent application. If the relevant commercial lifespan of the invention (sought to be patented) is less than a year, a patent may not provide effective protection.³⁴

30 European Patent Office Guidelines, C-IV 2.3.

31 David Webber, *Software Patents: A New Era in Australia and The United States?* Available at <http://web.idirect.com/~dcameron/webb0001.htm>.

32 *Patent Protection*, available at <http://www.softwareprotection.com/softwareprotection2001/main.htm#patent>.

33 *Paine, Webber, Jackson and Curtis v. Merrill Lynch, Pierce, Fenner and Smith*, 218 U.S.P.Q. 212 (BNA) (D. Del. 1983).

34 Gary Lawrence and Carl Baranowski, *Representing High-Tech Companies*, § 7.05 [5].

Disclosure

The laws of some countries require patent applications to contain extensive disclosure of the item to be patented. While applying for a patent under the patent law of a country that mandates disclosure of the item to be patented, such disclosure (or description) must describe the invention and its use as contemplated by the inventor.³⁵

Software and Business Method Patenting Under the Indian Law

The Indian Patents Act, 1970 governs patenting in India. This Act has been in the centre of controversy for quite some time now both in the media as well as in Parliament. In compliance with the TRIPs requirements, India has brought about (and is expected to further bring about) certain changes in the Indian patent laws, owing to the few shortcomings that the Act carries. Regardless of one's opinion on the issue of whether software-related patents are good or bad for society, the fact remains that a rapidly increasing number of software companies worldwide are filing software patent applications every day. This creates a need for software companies to begin developing programs and procedures to protect their intellectual property through the patent system.³⁶ But currently in India, software is not included within the framework of patents under the *Indian Patents Act, 1970*.

As of today, Indian patent law does not recognise computer software as a patentable invention, rather, as an invention itself, since it nowhere includes the term 'software' within the purview of its definition of 'invention', although, however, it is interesting to note that it does not even expressly exclude it. This is a stark ambiguity in the Act, which would be clarified if a software developer files a petition in the Indian Courts and throws upon them the onus of answering the question as to whether software is patentable in India, or even whether a software-based product is an invention within the purview of Indian law. Legal precedents will help to determine to a certain degree, as to whether the intellectual property contained in a software-based invention must receive adequate protection under the Indian patent laws.

The Patents (Second Amendment) Bill, 1999, to the *Indian Patents Act, 1970* has been brought out in the light of the TRIPs Agreement and to make the Act a modern, harmonised and user-friendly legislation.³⁷ The proposed bill in addition to other non-patentable subject matter expressly excludes "a mathematical or business method or a computer program or algorithms" from patentability. Hence, if this Bill is effected into the *Indian Patents Act, 1970*, software patenting will become impossible in India as compared to the present legal position where the Act does not explicitly exclude computer programs from being patented as on today.

India is emerging as a world leader in the field of software technology and its production. The Indian software industry in 1998-99 was worth Rs. 158.9 billion, out of which the domestic market accounted for Rs. 49.5 billion, and with the growing

35 Donald M. Cameron, *Software-Related Patents – a Global Survey*, available at <http://www.smithlyons.com/> on August 1, 2001.

36 Christopher Manoharan, *Leveraging through Software Patents*, available at <http://www.lexsite.com>.

37 *Ibid*.

interest of the world in the Indian software, the exports are expected to reach the level of \$10 billion by 2001-02.³⁸ Hence, very soon, there will be a dire need felt for adequate protection of software and Intellectual Property Rights under the Indian patent law, once the Indian software industry is well on its way to carving a niche for itself as a mature developer of hi-tech software products.

However on the other hand, there is a comparatively low percentage of actual usage of computer software (or computers for that matter) in India as opposed to other developed countries having a considerably large infrastructure. India is a highly competitive producer of software based programs and has a fairly large domestic market. But it has been observed that the income generated through export of software-based products clearly outshines that earned from the domestic market. According to a recent survey conducted by NASSCOM, the domestic earnings of India in the software sector added up to US\$ 1,700 million, as opposed to the profits derived from software exports, which totalled a whopping US\$ 4,000 million.³⁹ Hence obtaining international patent protection for software-related inventions under the laws of countries that India targets as prospective markets for its software-based inventions would be more feasible a solution, than attempting to procure patent protection under the Indian patent laws, which as it is, do not permit software patenting. As it stands today, India is a signatory to the PCT, which allows a single application to be made, to obtain as many patents as necessary, within the 160-odd member nations, after an initial application is made at a country that allows software patenting. Hence, Indian companies that wish to obtain patent protection for their software-based products have no choice but to go abroad to reap the benefits of the PCT.⁴⁰

Software Patenting Systems – A Global Perspective

Unlike the laws of nature, laws of humans are not uniform throughout the world. Different countries differ on the applicability of certain principles sometimes used to analyse the patentability of a software-based invention. More than half of the 176 countries in the world that grant patents, permit the patenting of software-related inventions, at least to some degree.⁴¹ The current trend is favourable towards a patent protection system for software-related inventions. This is mainly because of the adoption of the TRIPs Agreement, which mandates member countries to provide patent protection for inventions in all fields of technology. Developing countries have been given up to eleven years to amend their laws, if necessary, to meet this requirement.⁴²

The exact nature of patentability of software poses a complicated question for each country advocating patent protection. Even in countries that are liberal in granting

38 R. Suryamurthy, *Grant Patent Protection to Software*, available at <http://www.tribuneindia.com/20000706/biz.htm#1>.

39 NASSCOM, *IT Industry Statistics*, available on February 25, 2002 at http://www.nasscom.org/it_industry/indic_statistics.asp.

40 *Supra* note 36.

41 *Supra* note 32.

42 *Ibid.*

patents on computer software, certain limitations apply.⁴³ Patenting systems and procedures in three countries having highest incidence of software production over the world are examined below. The same procedures are applied while applying for a software patent.

The United States of America

Since U.S.A. is a large and potential market for software based products, grant of patents are more liberal in nature than in the U.K. or Europe. A United States patent is applied for at the United States Patents and Trademarks Office (USPTO). Typically, a patent application must include a thorough and detailed description of the invention, with drawings of the same, so as to enable the practice of such invention by persons skilled in the same field. The inventor(s) of the invention also have to file an oath or declaration, stating that such inventor(s) is/are the first to have invented the said invention, also affirming and certifying that all the information and details provided are true. Thereafter, the USPTO assigns a 'Patent Examiner' to review the application and to determine whether the invention fulfils the criteria for obtaining a patent. A patent will be granted if such Examiner is of the view that the invention passes the 'criteria' tests. Regarding the validity period of a U.S. patent, initially a patent was issued for a non-renewable period of seventeen years from date of grant.⁴⁴ But post TRIPs agreement, this validity period has been extended to twenty years from date of application.⁴⁵ Patent infringement cases arise under Federal patent law over which the Federal Courts have exclusive jurisdiction.⁴⁶ In case of rejection of the application, one may approach the Patent Office Board of Appeals and further, the United States Court of Appeals for the Federal Circuit or the United States District Court for the District of Columbia.⁴⁷

Europe

Patenting process in Europe consists broadly of two (or sometimes three) phases, the first being the filing of European patent applications either with the European Patent Office in Munich, The Hague or Berlin, or with National Patent Offices in the contracting states. Applicants may claim for the same invention within twelve months of the date of filing of the initial application, for a subsequent national or European filing. Eighteen months after the date on which the first application was filed (known as priority date), the application is published. A search report is published subsequently, if not along with the application. Thereafter, applicants are entrusted a time period of six months, to decide whether or not to pursue their application by requesting substantive examination. The second phase involves substantive examination, on the basis of which it is decided whether a patent will be granted or the application refused. During this phase, the product is examined, so as to determine whether it fulfils the basic criteria for patentability. In case of a patent being granted, competence is transferred to the designated contracting states, where it commands

43 *Ibid.*

44 Title 35 U.S.C. § 154.

45 *Supra* note 19.

46 Title 28 U.S.C. § 1338 (a).

47 Title 35 U.S.C. §§ 134, 141, & 145.

the same level of legal protection as would, a national patent.⁴⁸ It takes on an average, forty-four months to obtain a European patent, and the patent so obtained is valid for twenty years from date of filing of application.⁴⁹ The third phase crops up under special circumstances. A third party may file an opposition to appeal against grant of a patent within nine months from date of grant of such patent, if such third party is of the opinion that the patent granted is not in compliance with the guidelines laid down by the European Patent Convention (EPC). Such appeal (which may be lodged against the decision of the Receiving Section, Examining Division and/or the Opposition Division) is presided over by the members of the boards of appeal of the European Patent Office, whose rulings are governed by the statutory provisions laid down by the EPC. Under certain circumstances, the case is referred to the Board of Appeal, it being the body responsible for ensuring uniform application of the law.

The European Commission recently unveiled a new approach to software patents, which tightened the criteria to grant a patent.⁵⁰ The said proposal would standardise the rules for granting of software patents in Europe, whereby patent protection would apply only to such software that is loaded in a machine or is operating, not when it merely sits on a shelf.⁵¹

Japan

The Japanese Patent Office prefers that the background summary of a patent application be put forth in a specific layout, one that is compatible with US Patent Office requirements. Thus preparing a US patent application in the Japanese style will facilitate processing of the patent application when filed in Japan. Japan has experienced a massive boom in the arena of software patent filing in recent times. Of the one million or so patent documents published each year around the world, approximately one third are published in Japan.⁵² The basic procedure to be followed for obtaining a software patent is essentially the same as that in other countries, such as the U.S. or Europe. The only difference being that the United States is particularly demanding in wanting precise details in the description, while Japan is less stringent as regards such requirements. The British and the European Patent Office are the 'in-betweens'.⁵³ A new law passed by the Japanese Diet in 1999, which came into effect on October 1, 2001, allows a time period of three years from the application date for submitting the request for examination, this time limit previously being seven years from the application date.⁵⁴ This new time limit applies to all patent applications filed on or after October 1, 2001 and the old seven year limit applies to all patent applications filed prior to this date.⁵⁵

48 *How to Obtain a European Patent*, available at <http://www.epo.co.at/epo/obtain.htm>.

49 *Ibid.*

50 Reuters, "Europe Offers Patent Proposal", available at <http://www.wired.com>.

51 *Ibid.*

52 *Patent Information from Japan*, available at <http://www.epo.co.at/patolis/japan01.htm>.

53 Patents at the British Library, *What is in a Patent: Patent Specification*, available at <http://www.bl.uk/services/stb/patents/spec.html>.

54 *Japanese Patent Law: New Time Limit For Submitting Requests For Examination*, available at http://www.jpo.go.jp/infoe/1309_005.htm.

55 *Ibid.*

Patenting Business Methods

Broadly speaking, business method patents are a branch of software patents. Owing to the boom in the Internet revolution, various individuals and companies formulated modes of transactions or business methodologies for carrying out online trade. These methods exist mostly in the form of software that control the functioning of transactions over the Internet. Software programs formulated for this purpose are the 'business methods' used by companies dealing with Internet trade or e-commerce businesses. Generally, a claim to a system for doing business is not patentable, as opposed to a means for carrying out the system, or as opposed to a method of calculation for the system.⁵⁶ As Judge Newman remarked *In Re. Schrader*⁵⁷:

"[H]istorical distinctions between a method of 'doing' business and the means of carrying it out blur in the complexity of modern business systems."

The basic difference lies in the fact that while a business method of the manufacturing solution is not (under usual circumstances) patentable, the technology of the software program for that particular manufacturing solution could be patentable under the criteria of it being a 'new' and 'useful' process.

Whereas the U.S. is liberal in granting patents for business methods, countries such as U.K. and many other European States are not in favour of granting such patents.

What are business method patents?

No patent law statute or case law has defined a business method.⁵⁸ To add to the confusion, Jeffrey P. Bezos, the founder of Amazon.com, a holder of a highly controversial business method patent, recently suggested a shorter life for business method patents, without explaining what they were.⁵⁹ The USPTO had described a business method as 'a method of doing business', a definition, which was used to describe a class of patents once rejected by it, saying that 'business method patents' are software-related patents whose novelty lay more in the conduct of business than in any software or hardware implementation.⁶⁰ Summing up, most business method patents are bound by similar characteristics, such as novel methods or modes of functions, rather than new structures. One who infringes claims in such patents is generally a person who actually uses the software for carrying out a similar transaction, as would the owner of the patent for such software, which may include the patent holder's actual or potential customers. It can thus be inferred that although business method patents are, on one hand, highly controversial forms of legal protection, they can also be the most important assets of an Internet Company.

56 Brooke Schumm, *Escaping the World of "I Know It When I See It": A New Test For Software Patentability*, 2 Mihc. Telecomm. Tech. L. Rev. 1 (1996), available at <http://www.mttl.org/voltwo/schumm.html>.

57 22 F.3d 290, 30 U.S.P.Q.2d 1455 (Fed. Cir. 1994).

58 E. Frye, *Concurrent Patents Would Resolve Dilemma*, Journal of Commerce, 8 (April 20, 2000).

59 *Supra* note 56 at note 7.

60 E. Robert Yoches, *Business-Method Patent Litigation* available at <http://www.udayton.edu/~Lawtech/papers/Chapter15.htm>.

Are business methods patentable?

A precedent was set in the arena of business method patenting after the passing of the *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,⁶¹ ruling, where one of the issues was regarding a patent that covered an automated system for transferring assets between a number of mutual funds pooled together for taxation purposes as a partnership. The court reversed the 'business method exception', and ruled that, assuming that as long as the criteria for patentability are met (in this case, novelty and non-obviousness), such an invention can be patented, in other words a business method was held to be patentable. Hence, it can be concluded that there is quite a scope for business method patentability in the United States. Some of these patents raise some key questions on whether the patent protection could stifle the growth of Internet commerce because these patents claim to cover basic transactional processes that are already commonly known and used in the business world.⁶² For example, Amazon.com owns the patent to the '1-Click®' online ordering method. If another online trader utilises the same method to carry out an online business, it would be in violation of Amazon.com's patent, as evident in reality in a highly controversial case.⁶³

This is where controversy starts to creep in. The controversial aspect of software and business method patents is discussed in detail in the sections that follow.

International Treaties, Conventions and Agreements and their Provisions Regarding Software and Business Method Patents

There are two major international conventions that deal with patent protection. The first being the *Paris Convention* and second the *Patent Co-operation Treaty*, among others.

The Paris Convention

The *Paris Convention* mainly allows applicants from member countries to get preference during subsequent filing for patent protection in all other member countries, within a period of a year from the first filing. Until recently, India was not a signatory of the *Paris Convention*. After several years of opposition however, India has finally become a signatory of the *Paris Convention*, with effect from December 7, 1998, thus facilitating Indian inventors to get preference while filing for international patents. The Government of India has declared 130 countries to be the convention countries for the purpose of filing patent applications, the applicant or his assignee having to file an application in India within twelve months from the date of making applications in any of the convention countries in order to claim the priority date in India, wherein the priority date for the grant of convention will be the date on which the application was first filed in the convention country.⁶⁴

61 149 F.3d 1368 (Fed. Cir. 1998).

62 Mark Lee, *How Could Software Patent Law Impact Electronic Commerce?* Available at http://cyber.law.harvard.edu/is98/final_papers/Lee.html.

63 *Infra* note 79.

64 India Business Law Guide, available at <http://www.singhanian.com/lawguide/preface20c.htm>.

The Patent Co-operation Treaty

On the other hand, the *Patent Co-operation Treaty* (PCT) permits such applicant to 'file' (as opposed to the conventional 'granting' system) an international application at the National Patent Office of such applicant. It also provides for an international search to be carried out in respect of a proposed patent.⁶⁵ The PCT was administered by the Geneva based agency World Intellectual Property Organisation (WIPO), which was established in 1967. Its preamble states clearly that PCT is intended to help the economic development of developing countries by giving a boost to the flow of technology. There are various benefits of using the PCT, for the simple reason that it makes possible, filing of a single application in one language, at one office, thereby replacing multiple foreign applications at their respective patent offices. It also permits last minute foreign filing before expiration of the priority year. International filing date has the effect of a national filing date in all designated offices. There is greater control of prosecution since it can be operated from the country where such an application is filed, i.e., the home base. Decision on foreign filings can be postponed up to 30 months from the priority date at minimal cost. It enables assessment of economic value of the invention and the chances of obtaining a patent before entering national phase. The PCT does not prevail over the provisions of the national laws of patent. However, in case of India the definition of patentability is mostly parallel to that of PCT.

The Patent Law Treaty

The *Patent Law Treaty* (PLT) was designed to streamline and harmonise formal requirements set by National or Regional Patent Offices for the filing of national or regional patent applications, the maintenance of patents and certain additional requirements related to patents or patent applications, as for example communications, representation or recordation of changes concerning patents and patent applications. Its provisions refer as much as possible to the provisions of the PCT and its regulations in order to keep the Treaty as simple as possible, and to avoid creating different international standards regarding patent formalities with respect to national and to international applications, the harmonisation of procedures under national laws, resulting in easier access to worldwide patent protection and cost reduction for applicants in those procedures. It also helps in reducing the administrative costs of Patent Offices of both industrialised and developing countries, the benefit of which could be passed on to applicants in the form of lower fees. Initially, the PLT was meant to apply to all EU countries, the US, Canada, Japan and Australia, eventually aiming to include virtually all countries in the world.⁶⁶ Any State which is party to the *Paris Convention* or which is a member of the WIPO, and in respect of which patents may be granted, either through the State's own Office or through the Office of another State or intergovernmental organisation, may become party to this Treaty.⁶⁷ A country desirous of being party to the PLT must enter into it. The PLT will enter

65 *Supra* note 13 at pg. 317.

66 John Brown, *The Patent Law Treaty*, available at <http://www.derwent.com/ipmatters/features/treaty.html>.

67 Article 20, Patent Law Treaty, available at www.wipo.org/eng/document/pt_dc/pdf/pt_dc47.pdf.

into force 3 months after ten States have formally deposited their instruments of ratification on accession, with the WIPO.⁶⁸

The TRIPs Agreement

The *Trade Related Aspects of Intellectual Property Rights Agreement* (TRIPs Agreement) holds that all computer programs, whether in source or object code, shall be protected as literary works under the *Berne Convention* (1971).⁶⁹ Article 27 of the TRIPs Agreement states that (subject to the exceptions under paragraphs 2 and 3 of Article 27) patents shall be available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application⁷⁰, and that patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced. India, among a host of other countries, is a signatory to the TRIPs Agreement, effective from January 1, 1995.

It is widely argued whether the TRIPs Agreement requires member nations to grant patents on software, on the basis of paragraph (1) of Article 27. There are various views regarding this subject. In 1997, the Comptroller General of the British Patent Office, Paul Hartnack, commented this debatable topic, at a conference organised by the British Government and the European Commission in London, saying that the answer to the question under debate depends on how one interprets the words in Article 27. First and foremost, he questioned on a prime factor, as to whether a piece of pure software is an invention, further adding that it is not, under European law. Similarly, Indian law also does not include 'software' under its definition of 'invention'. Secondly, he expressed doubt as to whether pure software is 'technology' and whether it was capable of 'industrial application'. He believed that many would dissent on this issue, since software does not always have a technical effect, and whether it is capable of industrial application will depend on a case-wise basis. In other words, not all software-based inventions are capable of industrial application. To infer from his speech, it would be appropriate to say that the TRIPs Agreement is an argument for wider protection for software. The question is whether according to Article 27 of the TRIPs Agreement, must its signatory nations allow all forms of technology to obtain patents under their respective laws? In reality, the decision for grant of a patent should be based on sound economic reasons. The fact remains that taking this step should be in the greater interest of the software industry and its consumers. Therefore it can be said that the granting of patents should be an extremely discretionary process, the decision on which, must only be taken after looking into all the intrinsic aspects of the product, so as to determine whether it fulfils conditions pre-requisite of a patent, and should, in accordance with the same, be decided on a case-wise basis.

68 Dr. M.D. Nair, *Harmonisation of Patent Laws – Still a Dream?*, available at <http://www.patentmatics.com/pub25.htm>.

69 Article 10, TRIPs.

70 The terms 'inventive step' and 'capable of industrial application' may be deemed by a member to be synonymous with the terms 'non-obvious' and 'useful' respectively.

The Software Patent Controversy

It is said that software patents threaten to devastate America's computer industry.⁷¹ Mitchell Kapor, founder of Lotus Corporation, now a principal of cyberspace think-tank 'The Electronic Frontier Foundation', predicted in 1991 of an impending meltdown in the Industry because of proliferating lawsuits, warning that it would turn into a 'Bhopal of software patents', referring to the world's most deadly industrial disaster that struck the Union Carbide plant in Bhopal, India, in 1984.⁷² In the following sections, the entire controversy issue, its beginnings, growth and development and effects, will be examined in greater detail.

The Fundamental Problem

The initial aim of the USPTO, while granting patents was that inventors, by obtaining adequate protection, would get an incentive to come up with more innovative inventions, so as to further boost the development of software technology. In the past, software was not a subject for patentability. Software developers would either copyright their inventions or get them certified as trade secrets. But after the *Diamond v. Diehr* decision⁷³, the whole scenario underwent a drastic revolution. An increasingly large amount of software developers began to apply for patents for their software-based inventions, a large number of which were granted by the USPTO. Since the USPTO refused to employ software engineers or such other professionals that were competent enough to take decisions as regards the patentability of software, the Patent Examiners were often unable to decide if the product fulfils the two basic criteria, those of novelty and non-obviousness - two major grounds for rejection of a patent application. Owing to this trend, there was even further acceleration of granting of patents, owing to 'flooding' of patent applications at the USPTO. Companies were procuring patents on software techniques that have been in common use for years. The seeds of controversy were sown mainly during this phase. This situation worsened as time went by and point has come, where nothing protects programmers from accidentally using a technique that is patented, and then being sued for it - owing to the incredibly large number of 'absurd' software patents having been granted.

Due to the rising trend of 'mass-granting' of software patents, some software programmer somewhere, would, at a given time, be making use of a technique that has been patented, without even realising it. In other words, most software programmers infringe certain software patents at one point of time or the other. As a simple example, a person taking an existing software program and making it run faster may also be in violation of half a dozen patents that have been granted, or are about to be granted.⁷⁴

71 Tom Epperly, *Against Software Patents*, available at <http://osnome.che.wisc.edu/~epperly/patents.html>.

72 Seth Shulman, *Software Patents Tangle the Web*, March/April 2000, Technology Review, at <http://www.technologyreview.com/magazine/mar00/shulman.asp>.

73 *Infra* note 83.

74 *Supra* note 62.

Gordon Irlam and Ross Williams, representing The League for Programming Freedom, in their letter to the Patent and Trademark Office on Patent Protection for Software-Related Inventions, comment:

*“The software patent system is clearly out of control and if not caught soon will change the face of the software Industry forever. Two thousand new software patents are granted each year. They are being granted on software technologies as diverse and mundane as file servers and word processors.”*⁷⁵

Many believe that software patents pose a critical threat to all software developers, large and small, and the basic nature of the software industry makes it an inappropriate subject for the granting of patents. It is a universal doubt in the minds of most, as to how a patent system that has served mankind for more than two hundred years, being one that has adapted to all kinds of changing technology, seems to be failing in the case of software. The simplest answer to this is that software, apart from being new, is complex, abstract, uncertain and slippery, making it fundamentally different in nature than most other products for which patent protection is obtained. And if all those reasons weren't enough, the Industry is continuously developing at an incalculable speed, and even in case of retardation of this momentum, the rate of product generation and changes involved in the software industry will always be far higher than that of other industries. Also, it is a wholly separate industry in itself, conforming to a totally different pattern of economic structure. To this is being applied, a patenting system that is more than two centuries old.

Software and Business Method Patents – Are They Promoting Progress or Hindering It?

The Constitution of the United States endeavours to “...promote the progress of science and the useful arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”.⁷⁶ This is the entire justification for the existence of the U.S. copyright and patent system. The basic doubt here is whether software patents are in reality, actually promoting progress or hindering it. Surprisingly, there is no hard evidence that software and business method patents promote progress.⁷⁷ Moreover, companies are using software patents more in the form of strategic defence than as protection for their inventions. It is an ongoing trend that a large company that wants to defend itself files its own patent to use it against its competitors, since such a company would anticipate that other companies would apply for patents and then sue for infringement. This action negates the power of both companies to sue each other – each being able to sue the other in a similar manner, hence neither of them actually do. This automatically indicates that such patents possess nil value for large companies that own them, in terms of providing protection, apart from escaping the possibility of being sued.

⁷⁵ Gordon Irlam and Ross Williams, *Software Patents: An Industry at Risk*, at <http://osnome.che.wisc.edu/~epperly/pto-sub/part1.html>.

⁷⁶ Article 1, § 8, clause 8, U.S. Constitution.

⁷⁷ Bruce Perens, *Software Patents vs. Free Software*, available at <http://www.perens.com>.

Jurists and Judges are not very sure as to whether patent protection provides for considerable advantage as regards the amount of protection, although individual software programmers might think otherwise. It is a widely known fact that patents ensure highest degree of protection; hence it is inevitable that they possess a considerable magnitude of strength in terms of their enforcement, which, in turn means that development in software would become increasingly difficult, owing to the deepening 'pit' of patents that have already been granted. It would be next to impossible to come up with any kind of new software based programs, without having to tread on something that violates a method also used in another program having a previously granted patent, as many software programmers and developers are already encountering. Also, while on one hand, patent protection lasts for a considerably long amount of time, ranging from fourteen to twenty years, on the other hand, the software industry is constantly developing at a fast pace. If the very essence of time is marred, one might not rule out the possibility of software development becoming obsolete.

But it is only fair to give due credit to software patenting, since apart from a host of positive features, such as giving a boost to innovation and creativity and providing highest degree of protection for software-based inventions, it has also facilitated commercial introduction of fundamental advances by small entities.⁷⁸

Case Studies

Three landmark decisions that have shaped the history of software and business method patenting are discussed below.

*Amazon.com's '1-Click®' Patent Case*⁷⁹

Facts

1. Amazon.com obtained United States Patent No. 5,960,411 (the '1-Click®' patent) on a program formulated by it, in which a consumer could complete a purchase order for an item via an electronic network using only a 'single action', such as the click of a computer mouse button on the client computer system (hence the name '1-Click'). Amazon developed this patent to cope with what it considered to be frustrations presented by what is known as the 'shopping cart model' purchase system for electronic commerce purchasing events, wherein the user had to perform 'multiple actions' for achieving the goal of the placed order. The single-action ordering system of the present invention reduced the number of purchaser interactions needed to place an order, also reducing the amount of sensitive information that is transmitted between a client system and a server system.
2. On the other hand, there was Barnesandnoble.com's (BN) short-cut ordering system, called 'Express Lane', like the system contemplated by the patent, which

⁷⁸ Paul Heckel, *Debunking the Software Patent Myths*, Communications of the ACM, June, 1992, available at http://www.ipcreators.org/Heckel/ACM_Paper/acmpaper.htm.

⁷⁹ *Amazon.com, Inc., v. Barnesandnoble.com, Inc. & Barnesandnoble.com, LLC*, 53 U.S.P.Q. 2d 1115 (W. D. Wash 1999).

contained previously entered billing and shipping information for the customer. In one implementation, after a person is presented with BN's initial web page (menu page), the person could click on an icon on the menu page to get to what is called the 'product page'. BN's product page displays an image and a description of the selected product, and also presents the person with a description of a single action that can be taken to complete a purchase order for the item. If the single action described were taken, for example by a mouse click, the person would have effected a purchase order using BN's Express Lane feature.

Overview

Amazon.com alleged infringement of its '1-Click' patent by Barnesandnoble.com, BN having utilised the same procedure for carrying out business on its website.

Outcome

The District Court in the Western District of Washington granted a preliminary injunction to restrain Barnes and Noble from continuing to use one of its means for ordering on the ground that it was likely to be found to be an infringement of this patent.

Note: According to latest case-law developments, a Federal Appeals Court overturned this preliminary injunction in February 2001.⁸⁰

*State Street Bank & Trust Co., v. Signature Financial Group, Inc.*⁸¹

Facts

1. Signature Financial Group, Inc. (Signature) was the assignee of United States Patent No. 5,193,056, (issued on 9 March 1993), entitled 'Data Processing System (the system) for Hub and Spoke Financial Services Configuration', and the inventor being named as R. Todd Boes. This patent was generally directed to a data processing system (the system) for implementing an investment structure, which was developed for use in Signature's business as an administrator and accounting agent for mutual funds. In essence, the system, identified by the proprietary name Hub and Spoke®, facilitated a structure whereby mutual funds (Spokes) pool their assets in an investment portfolio (Hub) organised as a partnership. This investment configuration provides the administrator of a mutual fund with the advantageous combination of economies of scale in administering investments coupled with the tax advantages of a partnership.
2. State Street and Signature were both in the business of acting as custodians and accounting agents for multi-tiered partnership fund financial services. State Street negotiated with Signature for a license to use its patented data processing system described and claimed in the '056 patent. When negotiations broke down, State Street brought a declaratory judgment action asserting invalidity, unenforceability, and non-infringement in Massachusetts District Court, and then filed a motion

⁸⁰ Carol King, *Court Hands Barnes & Noble.com a Legal Victory*, available at http://www.internetnews.com/ec-news/article/0,,4_589701,00.html.

⁸¹ 149 F.3d 1368 (Fed. Cir. 1998), cert. denied, ___ U.S. ___ (1999).

for partial summary judgment of patent invalidity for failure to claim statutory subject matter under §101⁸². The motion was granted and this appeal followed.

Overview

The question to be answered here, was whether business methods and in particular, a claimed computer system for implementing a multiple mutual fund investment structure is a patentable subject matter.

Outcome

The Court reversed the appealed decision and it was held that the said 'business method' would indeed be patentable if it fulfils the criteria of novelty and non-obviousness. The case is remanded to the District Court for further proceedings consistent with this opinion.

*Diamond, Commissioner of Patents and Trademarks v. Diehr et al.*⁸³

Facts

1. Respondents filed a patent application claiming invention for a process for moulding raw, uncured synthetic rubber into cured precision products. While it was possible, by using well-known time, temperature, and cure relationships, to calculate by means of an established mathematical equation when to open the moulding press and remove the cured product, according to respondents, the Industry had not been able to measure precisely the temperature inside the press, thus making it difficult to make the necessary computations to determine the proper cure time.
2. Respondents characterised their contribution to the art to reside in the process of constantly measuring the temperature inside the mould and feeding the temperature measurements into a computer that repeatedly recalculates the cure time by use of the mathematical equation and then signals a device to open the press at the proper time.
3. The Patent Examiner rejected respondents' claims on the ground that they were drawn to non-statutory subject matter under Title 35 U.S.C. 101.⁸⁴ The Patent and Trademark Office Board of Appeals agreed, but the Court of Customs and Patent Appeals reversed.

Overview

The point under question was whether the process using a mathematical formula used to cure rubber was patentable or not.

Outcome

The Supreme Court upheld the decision given by the Court of Customs and Patent Appeals, while holding that the respondents' claims recited subject matter that was eligible for patent protection under § 101 of Title 35, U.S. Code.⁸⁵

⁸² *Supra* note 5.

⁸³ *Supra* note 6.

⁸⁴ *Supra* note 5.

⁸⁵ *Ibid.*

The Solution - Suggestive Reform Measures

As patents covering computer-related inventions for business methods continue to be issued, they will be tested in high stakes litigation.⁸⁶ To avoid further complexity, all decisions made in respect of grant of software patents must be taken up on a case-wise basis, after analysing the facts of each situation and understanding whether, in the context of the different facts and situations of each case, a particular type of software in respect of which, patent protection has been sought, would fall within the ever expanding parameters of patentable inventions.⁸⁷ A few reform measures are enlisted at this point, broadly under two heads, firstly, certain amends needed to be instituted by the Government and secondly, by individual inventors and companies.

Changes Needed To Be Instituted By The Government

Having discussed problems and controversies shrouding software patenting, here are a few general proposals that might prove to be beneficial if instituted by Governments according to the nature and extent of applicability of these principles to the situation prevailing in the countries they govern, to help overcome the problem caused by software patenting, at least to a certain degree.

Adopting Stringency While Granting Patent

The Government must lay down stricter guidelines for the Patent Offices of the country governed by it, for the granting of patents on software-related inventions. The grant of a patent must only be allowed after stringent examination of the invention in question after looking into all aspects, most importantly, the fulfilment of the basic criteria laid down, and if necessary also pull the reins on the criteria so laid down, to make the procedure more rigid than it is, at present.

Amendment of the Law

“When even one lawsuit over one patent typically costs a million dollars, and there are over ten thousand patents, dealing with patents one by one is like fighting malaria by crushing mosquitoes. The only way to solve the problem even partly is to change the law.”⁸⁸

Ideally, an entirely new system of law would need to be formulated, which on one hand, grants the same standards of protection, as under the current law, but avoids the shortcomings and pitfalls in the present system, that create unnecessary controversy. The main aim of such law would be of providing a high level of protection to the author of the program, so as to prevent imitation and piracy. Although loopholes can always be found in the law, the existing gaping ones must be amended, so as to build a concrete fort around patenting procedures under the law, so as to disable one and all from obtaining patent grants on their inventions.

86 Thomas H. Hahn, *Patenting Business Methods*, Managing Intellectual Property, February 1999.

87 *Supra* note 13 at pg. 339.

88 As quoted by Richard Stallman, available at <http://www.stuartcheshire.org/rants/patent.html>.

Adoption of a *Sui Generis* System of Law

Neither copyright nor patent law was designed with computer programs in mind.⁸⁹ If amendment of existing laws do not stand as a feasible solution, a whole new '*sui generis*' (unique to itself) system of law may be instituted, wherein such law would be a specialised one that lays down guidelines exclusive to the field of software patenting.

Provision for Patent Alternative Dispute Resolution

Another ideal solution would be that of patent alternative dispute resolution, mainly in the form of Arbitration and Conciliation, wherein parties can amicably resolve their disputes regarding patent infringement, without having to put large sums of money at stake, which usually occurs in the case of typical patent lawsuits.

General Recommendations

A few general recommendations are made below, for the benefit of individual inventors or even software production companies.

Cross Licensing

Cross licensing is a common solution used by major companies today. It is not an uncommon practice for one company to offer to cross-license one or more patents of its own when accused of infringing a patent belonging to another company. It would also be in the best interest of any patent holder to cross-license with another, so as to remain safe from the liability of being sued. This will also enable participants to use each other's patents. Through this practice, the patent assets of both contracting patent holders are increased.⁹⁰

Copyrights as an Alternative Form of Protection

Obtaining copyright protection would be an ideal alternative to patenting software-based inventions. Copyright protection gives the author a bundle of rights. In case of computer software, they are:

- The source code of the computer program can be protected as a literary, dramatic or musical work.⁹¹
- To sell or give on hire or offer from the sale or hire, any copy of the computer program, regardless of whether such copy has been sold or given on hire on earlier occasions.⁹²

Also, obtaining copyright protection for computer software would be a lot more inexpensive as opposed to patent protection, thereby providing a cost effective solution to the problem.

89 *Third Paradigm between Patent and Copyright Law*, available at <http://swpat.ffii.org/stidi/basti/indexen.html>.

90 Jeffrey R. Kuester and Ann K. Moceyunas, *Patents for Software-Related Inventions*, available at <http://www.kuesterlaw.com>.

91 Section 14(b)(i), Indian Copyright Act, 1957.

92 Section 14(b)(ii), Indian Copyright Act, 1957. (This allows commercial distribution of the work).

Protection of Invention as a Trade Secret

Trade Secret protection could be used as an alternative to patent protection, as it has quite a few advantages over patent protection. A Trade Secret provides protection for much longer a period of time as compared to a patent, sixty years as opposed to twenty years, respectively, among others.

Adopting Policies of 'Non-Aggression' and 'Mutual Defence'

A 'non-aggression' policy means a policy of never pursuing or profiting from aggressive software patent suits.⁹³ Adopting a 'non-aggression policy' can be the ideal form of protection for software developers. A mutual-defence policy may also be adopted, wherein a mutual defence mechanism could be instituted and made binding by means of an organisation, which is open to anyone at little or no cost. On joining, a new member would agree to cross-license all present and future patents to the organisation, solely for utilising the software, and thus to all its members. This organisation would strive to be universal, so it would be well publicised and easy to join. Once the organisation becomes large enough, most software developers will find membership essential, which will assure continued success.

Conclusion

To 'un-tangle' the problems caused by software patents completely would be a Herculean task, it having taken years to evolve. The only possible solution available to eradicate totally the problems packaged along with software patenting is by banning software patents altogether. But such an idealistic solution is a far cry away from reality. Software patents, by their intrinsic nature, were formulated keeping the designer, the author in mind, so as to ensure a high degree of protection for such an inventor's effort, thereby rewarding him, in other words, software patenting was brought about to fulfil an aim that was highly idealistic in nature. It is because of the misconceptions it carries, and the ever-amazing ability man possesses, to twist the straight, that it has landed into controversies of all sorts. If used in a correct manner and with good spirit, software patenting will surely help the Industry to scale further heights and provide an impeccable boost to creation and innovation.

93 League for Programming Freedom, *Mutual Defence Against Software Patents*, January 28, 1994, available at <http://lpf.ai.mit.edu/patents/mutual-def.html>.

PARALLEL IMPORTATION OF TRADE MARK GOODS†

- Amit Manubarwala*

Parallel importation has become a subject of considerable importance and has received tremendous media attention in recent times. Before we can dwell upon the central issue, it is imperative to understand the dogmas involving parallel importation. The primary concept of industrial and intellectual property also needs to be understood.

Industrial and Intellectual Property

Industrial and Intellectual Property is the name given to a group of separate intangible property rights. These include patents, copyrights, designs, trademark and trade secrets.

Trade Mark

A trade mark is used to identify a manufacturer's or trader's goods, services and it enables the public to distinguish them from the goods and services of other manufacturers or traders. It is usually a sign containing words, names, letters, colours, pictures or any of the abovementioned combinations. It is advisable for a manufacturer or trader to register the trade mark in order to protect it from being copied or used by somebody else. At the same time, the ownership of a distinctive trade mark is determined by adoption and use on or in relation to goods in a vendible manner.

Parallel Imports

Parallel imports are products that are legitimately produced and marketed abroad with the consent of the owner of the Industrial and Intellectual Property. However, when these are imported into any other country or territory without the consent of its owner or of the exclusive licensee in the place of importation, such goods are not analogous to pirated or counterfeit goods.

Parallel importation usually arises where there is an exclusive licensee or supplier of a particular product within a country and the price of the product is set relatively high. This inevitably tempts the others to import and sell the product at a lower price in another country, where these goods are not readily available under an exclusive licensee arrangement thus competing with the exclusive licensee. This causes the products to be readily available in public. Thus, parallel importation gives consumers greater access to goods, more choices, competition in the market and lower prices. However, parallel importation is not so beneficial to Industrial and Intellectual Property owners and exclusive licensees. They see parallel importation as 'parallel piracy' and argue that it abrogates their rights, threatens artistic integrity and could

† This article reflects the position of law as on January 30, 2002.

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lead to supply of goods that are inferior in quality and substandard.

International Law

So far as this realm is concerned, there is no basic international standard on the issue of parallel importation. Common Law jurisdictions in England, Australia and the United States of America (U.S.A.) favour parallel importation on the grounds that it encourages competition and free trade.

Parallel Importation in the United Kingdom

It is pertinent to note that under *The Trade Marks Act, 1938* and under the Common Law the courts of law have developed a doctrine of 'exhaustion of rights'¹ which applies in cases where a trade mark proprietor seeks to restrain the importation and sale in the United Kingdom (U.K.) of its own goods or the goods of an associated company, by means of an action for infringement or passing off.

*Colgate v. Markwell*²

Colgate Palmolive Co. (U.S.A.) manufactured and sold toothpaste of different qualities in different countries under the same trade mark 'COLGATE' through its subsidiaries and registered users. Colgate Palmolive Ltd., U.K. a wholly owned subsidiary of Colgate U.S.A. manufactured and sold in the U.K. toothpaste containing different ingredients from time to time. They were registered users of trade mark 'COLGATE' registered in the U.K. by Colgate U.S.A.

Colgate Palmolive Limited was a subsidiary of Colgate U.S.A., in Brazil, which under registered user arrangements in Brazil, manufactured toothpaste of lower quality for sale in Brazil and for export to certain countries excluding U.K. under the trade mark 'COLGATE'. The defendants imported and sold the Brazilian Colgate brand toothpaste in U.K. It was found that this toothpaste was much lower in quality as regards cosmetic and prophylactic properties than the toothpaste that was being manufactured and sold in U.K. by Colgate U.K. for many years.

The trial judge held in favour of the Plaintiff. On appeal it was contended that since the same trade mark and get-up were used world wide on toothpastes of different qualities, the plaintiffs could not rely on a U.K. reputation of toothpaste of superior quality for alleged passing off and any misrepresentation resulting from the sale of Brazilian product, which was in fact their own product. Further, it was also contended by the Appellants that Section 4(3)(a)³ of *The Trade Marks Act, 1938* is a complete defence.

1 The doctrine of exhaustion of rights has been discussed later in the article.

2 *Colgate-Palmolive Limited v. Markwell Finance Ltd.*, (1989) RPC 497.

3 Section 4(3)(a) of The Trade Marks Act, 1938 provides the right to the use of a trade mark given by registration shall not be deemed to be infringed by the use of any such mark as aforesaid by any person -

in relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use had applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark.

It was held by the Court of Appeal as follows:

1. A trader who applied the same mark on two different qualities of the goods produced, a superior quality and an inferior quality, is entitled to bring an action for passing off against a person who resold goods of the inferior quality in circumstances which imported a false representation that the goods were of superior quality.
2. Goodwill is a territorial concept and could not exist in the absence of a business within the territory in question. A manufacturer should be free to decide what quality of goods he should sell in that territory.
3. The plaintiffs had taken sufficient precautions to secure that the inferior quality toothpaste was sold only in Brazil and a few export markets excluding U.K.
4. Plaintiffs are not to be blamed for the confusion caused by the defendants in representing the goods of a lower quality as goods of a superior quality.
5. The position would have been different if different qualities of toothpaste had been circulating in the U.K. market to the knowledge of the plaintiffs and thus amounting to acquiescence.
6. Section 4(3)(a) applied only to the U.K. registrations. There was no application of the U.K. trade marks to the Brazilian goods complained of. Accordingly there is no question of express or implied consent under the section.

Doctrine of Exhaustion of Rights

The proprietor of an industrial or intellectual property right protected by the law cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another State by the proprietor himself or with his consent. This principle does not depend upon whether the first marketing is in a particular State where there is an industrial property right or not. It is enough that the goods are put into free circulation by or with the consent of the holder of the right.

Section 12 of *The Trade Marks Act, 1994*

Article 7⁴ of the Council Directive 1989 made a specific provision for exhaustion of trade mark rights within the Community. In accordance with the Agreement on the European Economic Area (EEA) of May 2, 1992 the doctrine was effectively extended to the whole of the EEA. Article 7 of the Directive is implemented, and extended to the EEA, by Section 12 of *The Trade Marks Act, 1994*.

Section 12(1) provides that a registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.

4 Article 7: (1) The Trade mark shall not entitle the Proprietor to prohibit its use in relation to goods which have been put on the market in the community under that trade mark by the Proprietor or his consent.

(2) Paragraph 1 shall not apply where there exists legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

Section 12(2): Subsection (1) does not apply where there exist legitimate reasons for the proprietor to oppose further dealings in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market).

The limitation contained in Section 12(1) is not absolute. The trade mark proprietor may use his registered trade mark rights to oppose further dealings in the goods where there exist legitimate reasons to do so. Section 12(2) gives some non-exhaustive examples of what may constitute legitimate reasons - where the condition of the goods is changed or impaired after they have been put on the market.

BMW v. Deenik⁵

An independent garage in the Netherlands specialised in the sale of second-hand BMW cars and in repairing and maintaining BMW Cars. A Complaint was made of use of the BMW mark in advertisements for these goods and services: 'BMW Specialist', 'Specialised in BMWs' and 'Repairs and maintenance of BMWs'. The ECJ⁶ held:

1. In relation to the advertisements for second-hand BMWs, if the trade mark was used in a reseller's advertising in such a way as to give rise to the impression that there is a commercial connection between the reseller and the proprietor, that might give the proprietor a 'legitimate reason' within Article 7(2) to oppose future commercialisation of the goods. Whether the advertising created that impression is a matter for the national court. On the other hand, if there is no risk that the public will be led to believe that there is a commercial connection, the mere fact that the reseller derives an advantage from using the mark in advertisements, provided they are honest and fair, in that they lend an aura of quality to his business does not constitute 'legitimate reasons' as envisaged under Article 7(2).
2. In relation to the advertisements for services, Article 7 had no application.

Parallel Imports into EEA

In theory, parallel imports into the EEA could be dealt with under the following two heads, namely:

- a. International exhaustion - with the result that trade mark rights cannot be used to prevent imports into the EEA of goods placed on the market anywhere in the world under the trade mark.
- b. Exhaustion of rights within the community or EEA-wide exhaustion - with the result that EEA trade mark rights can be used to prevent, without consent (which, in practice, will have to be virtually express consent), imports into the EEA of goods placed on the market elsewhere in the world bearing the trade mark.

5 [1999] E.C.R. - 1905; (1999) E.T.M.R. 339.

6 ECJ : European Communities (Enforcement of Community Judgements) Amendment order 1998 came into force on June 22, 1998 . This amends [EC (ECJ) ORDER 1972] which provides for the registration & enforcement in the United Kingdom of certain decisions , judgements and orders of community institutions which member states are required to make enforceable in accordance with natural law.

International Exhaustion

Silhouette and Sebago

The *Silhouette Case* involved the sale in Austria of spectacle frames under the trade mark 'SILHOUETTE'. A consignment of the goods, of a design that was no longer considered fashionable, had been sold and delivered by Silhouette to a firm in Bulgaria. The transaction had been arranged by Silhouette's Middle East representative, who had been instructed by Silhouette to sell them in Bulgaria or the States of the former Soviet Union and not to export them to any other countries. The Defendant subsequently acquired the goods and offered them for sale in Austria.

The ECJ held, in the case of *Silhouette International Schmitz GmbH & Co KG v. Handelsgesellschaft mbH*⁷, that the effect of the Trade Mark Directive is that it is not open to Member States to apply a doctrine of international exhaustion in cases where the goods in question come from outside the EEA. The court specifically held that any national rules providing for exhaustion of trade mark rights in respect of products put on the market outside the EEA under a trade mark by the proprietor or with his consent, was contrary to Article 7.

A subsequent Opinion of the Advocate-General in *Sebago Inc v. GB-UNIC*⁸ has reaffirmed the *SILHOUETTE* decision. Sebago sold shoes under the trade marks 'DOCKSIDES' and 'SEBAGO'. The Genuine shoes were obtained from El Salvador and sold in Belgium by GB-Unic. Before the Belgian courts, GB-Unic submitted two arguments: the first was that Sebago had not prohibited export from El Salvador and accordingly should be deemed to have given implied consent to the marketing of the goods in the community. This argument was dismissed on the facts. The second argument, which was the only one referred to the European Court, was to the effect that, to prove consent, it was sufficient to show that the same type of goods bearing the marks had been lawfully marketed in the EEA with the consent of the proprietor. This argument was dismissed, because it would, for practical purposes, impose a rule of international exhaustion for all parallel imports. The Advocate-General observed:

*"To say that once a trade-mark proprietor has consented to the marketing of one particular batch of products within the EEA he must be deemed to have consented to the marketing of other identical (or similar) batches and hence would accordingly deprive the court's limitation of the exhaustion principle to EEA-wide exhaustion of much of its practical effect. It would for most practical purposes effectively impose a rule of international exhaustion since, in the absence of a legitimate reason, all parallel imports would necessarily have to be admitted into the EEA."*⁹

7 [1998] All E R (EC) 769.

8 *Sebago Inc & Ancienne Maison Dubois et Fils, S.A. v. GB Unic SA* : C-173/98 [1999] All E R (EC) 575.

9 *Ibid.*

Future Policy

Any change in this area is dependent upon economic policy. The whole question of international exhaustion proved so contentious that it was not possible to agree on a position at the Uruguay Round of *General Agreement on Trade and Tariff* (GATT), which resulted in *Trade Related Aspects of Intellectual Property Rights*¹⁰ (TRIPS). The perception is that unilateral adoption of international exhaustion by the EEA would almost certainly cause significant damage to the economies of countries within the EEA. The only feasible options appear to be bilateral treaties between the EEA and major trading partners such as the U.S.A. and Japan. It is very difficult to predict when such developments might take place.

Exhaustion of Rights within the Community or EEA

Parallel import is enabled by exhausting the right given by the Trade Mark Law. The European Union (EU) follows the concept of regional (EU-wide) exhaustion whereby a company marketing a product in one member state cannot object on the grounds of trade mark infringement to subsequent sales of that product in any other Member State. This limitation is contained in Article 7 of 1989 Trade Mark Directive.

Since the adoption of the Directive, a number of cases concerning Article 7 and provisions of national laws implementing it, and in particular the effect of paragraph (2) relating to 'legitimate reasons' for opposing further commercialisation of the goods, have come before the ECJ. The most important decisions have related to pharmaceutical products and, in particular, their repackaging, and represent a significant development in the area of repackaging, beyond the principles established by previous rulings of the ECJ in parallel import cases.

Among the first few cases on Article 7 to come before the court, were three repackaging cases, by different plaintiffs against the same Defendant, *Bristol-Myers v. Paranova*¹¹. The principle laid down by the court in these cases was that a trade mark owner may legitimately oppose the marketing of his own pharmaceutical products under his trade mark where the importer has repackaged the products and reaffixed the trade mark, unless it is established that reliance of the trade mark rights for this purpose would contribute to the artificial partitioning of the markets between the Member States. The court ruled that such is the case, in particular, where the owner has put an identical pharmaceutical product on the market in several Member States in various forms of packaging, and the repackaging carried out by the importer is necessary in order to market the product in the Member State of importation, and is carried out in such conditions that the original condition of the product cannot be affected by it. The court emphasised that this did not imply that it must be established that the trade mark owner deliberately sought to partition the markets between Member States.

¹⁰ Article 6 of the TRIPS Agreement provides that for the purposes of dispute settlement under this Agreement, subject to the provisions of Article 3 and 4 nothing in this Agreement shall be used to address the issue of Exhaustion of Intellectual Property Rights.

¹¹ Cases C 427/93, C 429/93, C436/93 (from Danish Court)[1996] ECR I-3457.

Upjohn v. Paranova¹²

In this case, the Advocate-General pointed out that the scope of parallel importer's right to repackage where the trade mark owner markets goods in different forms of packaging in different Member States, since *Bristol-Myers* was now governed by a body of coherent and clearly articulated principles hinging on objective factors. He expressed the view that it would be illogical for the scope of the importer's right to affix a different trade mark where the trade mark owner markets goods under different marks in different Member States to be governed by a separate set of principles dependent upon the subjective element of intention. He refers to the requirement of necessity, i.e., that the power of the trade mark owner to oppose the marketing of repackaged products should be limited only in so far as the repackaging is necessary in order to market the product in the State of importation and proposed that the criterion of necessity should apply in re-branding cases.

The crucial part of the Advocate-General's conclusion is that the trade mark owner can exercise his right to prevent the importation of rebranded products unless (*inter alia*):

Changing the mark is necessary in order to market the product in the Member State of import, in the sense that prohibiting the importer from rebranding would constitute an obstacle to effective access by him to the markets of the State of import.

It must be noted that whatever the decision in the *Upjohn* case, there will still be room for national courts to make their own decisions on what are or are not legitimate reasons for opposing for the commercialisation of goods for the purpose of Article 7(2).

Parallel Importation in India**Trade Mark Infringement**

Under Section 29 of *The Trade Marks Act, 1958* (TMA) where a trade mark has been registered, the owner has the exclusive right to use of the trade mark in relation to those goods. This right is infringed by a person who, not being the registered proprietor of the trade mark or a registered user thereof using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to, the trade mark, in relation to any goods in respect of which the trade mark is registered and in such manner so as to render the use of the mark likely to be taken as being used as a trade mark.

Section 29(2) of the TMA lays down that in an action for infringement of a trade mark registered in Part B of the register, an injunction or other relief shall not be granted to the plaintiff if the defendant establishes to the satisfaction of the court that the use of the mark of which the plaintiff complains is not likely to deceive or cause confusion or to be taken as indicating a connection in the course of trade between the goods in respect of which the trade mark is registered and some persons having the right, either as registered proprietor or as registered user, to use the trade mark.

12 *Upjohn SA, Denmark v. Paranova*, (1999) ETMR 97.

Acts Not Constituting Infringement

Section 30(1)(b) lays down that the use by a person of a trade mark in relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the registered proprietor or the registered user conforming to the permitted use has applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark.

Section 30(2) lays down that where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of or other dealings in those goods by that person or by a person claiming under or through him is not an infringement of the trade mark by reason only of the trade mark having been assigned by the registered proprietor to some other person after the acquisition of those goods.

Position in India

The object of Section 30(1)(b) is to prevent the owner of a trade mark claiming infringement in respect of a product which he has produced and to which he has attached his trade mark. It has been held that where a parent company (or a group of companies) chooses to manufacture and sell wholly or partly through subsidiary companies in different parts of the world products which bear the same trade mark, neither the parent nor any member of the group nor any subsidiary can complain in any country if those products are sold or resold under that trade mark. The legal ownership of the mark does not go further and enable the owner or registered user to ensure that products manufactured elsewhere (e.g. in U.K. or U.S.A.) are not sold within the territory of any country.

The proprietor and/or registered user of a trade mark has the right to prevent deception as to the origin of marked goods but such proprietorship or use right *per se* does not give a right to control dealings with the goods.

In *Winthrop v. Sun Ocean*¹³ the plaintiffs were groups of companies controlled by one company manufactured and sold in various countries *inter alia* an analgesic under the brand name 'PANADOL' without any condition as to resale or export of the product by purchasers. The defendants bought the product manufactured in the U.K. by one of the group companies and imported and sold it in Malaysia. An action for infringement and passing off was dismissed.

Trade Marks Act, 1999¹⁴

Section 30(3) provides that where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of -

- (a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or

¹³ (1988) FSR 430 (HC of Malaysia).

¹⁴ This Act has not yet come into force.

(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.

Section 30(3) of the Act provides that the rights of an intellectual property owner become exhausted once his goods have been put on the market anywhere in the world with his consent. In other words, this clause decriminalizes parallel importation by ceasing any rights the intellectual property owner previously had over the goods once they are put on the market.

Section 30(4) is an exception to the Principle of Exhaustion of Rights. It provides that Section 30(3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market.

Conclusion

The principle of international exhaustion is strongly supported by trade and industry. These groups argue that free trade and open markets are the key to economic growth and that the traders should be able to source their goods without barriers. They further argue that a free market will encourage investment, thereby boosting employment and the economy in general.

The principle is also supported by consumers, who are concerned that without parallel importation, there will be limited choices of products and the prices will be kept high. With the liberalisation of parallel imports of trade mark goods, consumers will pay less for essentially the same goods, and will have a far greater choice of goods.

On the other hand, the principle of international exhaustion is strongly opposed by trademark owners and exclusive licencees as they want to protect their investments in their trade marks, and do not want parallel importers to benefit from their efforts. Trade groups have rebutted this argument on the grounds that function of a trade mark is to indicate the origin of goods, not to prevent their distribution.

DATABASE GOVERNANCE : PROTECTION OF INFORMATION OR THE STIFLING OF PROGRESSIVE DEVELOPMENT?†

- Siddharth Mehta*

According to Nobel laureate Mr. Joshua Lederberg,

*“data are the building blocks of knowledge and the seeds of discovery. They challenge us to develop new concepts, theories, and models to make sense of the patterns we see in them. They provide the quantitative basis for testing and confirming theories and for translating new discoveries into useful applications for the benefit of society. They also are the foundation of sensible public policy in our democracy. The assembled record of scientific data and resulting information is both a history of events in the natural world and a record of human accomplishment.”*¹

The convergence of digital computing and telecommunications technologies has greatly expanded the already bright economic prospects for data and information goods of all kinds, but it has also unsettled the legal architecture on which the free market economies have previously been grounded. Information products behave differently from the tangible, physical products of the Industrial Revolution; and the legal paradigms that we have applied to balance incentives for public good uses of information and the discipline of free competition are stretched past the breaking point. We are thus challenged to rethink how best to structure competition for information goods in the emerging, worldwide information economy.

The technological convergence that creates promising new markets for information goods also opens new opportunities for scientific and educational uses of data and information. However, a powerful movement to commodify data and information previously treated as a ‘public good’, that is, as an inexhaustible, indivisible, and ubiquitous component of the public domain, could limit the ability of the scientific, technical, and educational communities to capitalise on such opportunities. The momentum generated by such a movement would eventually confront us with serious challenges even in the absence of a new intellectual property right in data collection.

Digital telecommunications networks enable publishers to control the uses of information goods directly by contract, without relying on State action to avoid market failure, for the first time since the advent of the Guttenberg printing press. In effect,

† This article reflects the position of law as on January 24, 2002.

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1 Statement of Joshua Lederberg President-emeritus Rockefeller University on behalf of the National Academy of Sciences, National Academy of Engineering, Institute of Medicine and American Association for the Advancement of Science before the Committee on the Judiciary, U.S. House of Representatives on March 18, 1999.

online delivery has restored the 'power of the two-party deal' with regard to information goods and diminished the dependence of publishers on artificial legal fences that copyright laws and other related rights supplied in the print environment.

Efforts to accommodate the pre-existing legal landscape to the new technologies are proceeding along several different fronts. For example, because the new technologies empower publishers to fence off information goods by means of encryption devices and other technical protection measures, many governments of industrialised nations have been persuaded to pass new laws making it a civil or criminal offence to disarm or tamper with these devices. Would-be users must increasingly gain access to information goods via an electronic gateway where they are obliged to identify themselves and acknowledge the rights of the gatekeeper to the information goods, as, for example, expressed in copyright management information systems.

As matters stand, and despite mounting criticism from intellectual property scholars, worldwide legislation governing local contract laws is likely to validate 'click on' or 'shrink-wrap licences' that ignore or attempt to override public interest exceptions that favour users or competitors, including the technical and scientific communities, under the pre-existing legal infrastructure. For example, such contracts could override the right to make non-infringing uses of copyrighted works or the right to reverse-engineer patentable innovation², and they could require payment for uses that many nations' courts had previously deemed fair uses under their respective copyright law.

Taken together, the ability of publishers to combine technical protection measures with tailor-made contract laws and hybrid intellectual property rights is supposed to stimulate investment in online commerce and to foster overall economic development. Critics fear, however, that the cumulative effect of these separate but well-coordinated legal initiatives will be to balkanise the information economy and to unduly restrict the use of unbundled information as raw materials of science and technology or as inputs into the production of value-adding or second generation information goods.

Let us suppose that a scientist or engineer lawfully obtained a printed copy of a chemical handbook or of a scientific article, with appended data, that was published in a peer-reviewed journal. These works currently attract copyright protection, and we shall assume that they meet the eligibility criteria of that body of law.

The rules of copyright law constitute a balanced regime of public and private interests. In retrospect, many are struck by the friendly treatment this body of law gives to users and competitors alike, notwithstanding the powerful bundle of exclusive rights it vests in authors and artists in order to stimulate the production and dissemination of creative works.

Thus, any scientist or engineer who lawfully obtained the book or article mentioned above could immediately re-use all the data and all the ideas disclosed in them because

2 The examples are only illustrative in that they indicate that while shrink-wrap licences may be considered as valid, these contracts, could in reality, seek from the user the licence/permission to make non-infringing uses of copyrighted works or the right to reverse-engineer patentable innovations.

copyright law does not protect ideas or data, but only against certain specified uses. Indeed, another scientist or engineer could independently rewrite his or her own version of the same data and disseminate it because copyright law allows independent creation, and all the unprotected data are spread out before the second comer's eyes.

A second scientist or engineer who needs to duplicate even the first author's creative selection and arrangement of data (if any) for non-profit research purposes could normally fall back upon the doctrine of fair use. A later researcher could also produce a follow-on article or book that borrowed the originator's unprotected factual information and data, but not his or her stylistic expression. To be sure, the norms of world copyright law favour attribution in such a case, as do the ethics of science. But plagiarism is not the same as copyright infringement; the re-use of facts and data is clearly permitted in copyright law, and another author's popularised version of a prior researcher's factual findings remains perfectly legal.

Later, scientists could combine the published data and factual information with other data and information into a multiple or complex interdisciplinary database without permission or additional payment to the originators. This follows in part because only ineligible matter is at issue and in part because copyright law does not prohibit 'use' as such, but only certain uses, such as reproduction or adaptation of protected expression, and it is also buttressed by the doctrine of fair use.

Even if scientists, engineers, or educators made classroom use of the protected expression for non-profit purposes, these uses might well be fair or privileged uses under the copyright laws of many countries. Finally, having once purchased the book or the article, a scientist or engineer could sell it, lend it, or give it to others, borrow it from a library, use it as often as he or she liked for virtually any purpose, and make photocopies of it for scientific purposes under the fair use doctrine.

Now, let us suppose that the contents of the same chemical handbook or of the aforementioned scientific article were disseminated online. Suppose further that the contents of the book or article were protected by laws implementing the *sui generis* exclusive property right in noncopyrightable collections of data.

In principle, a second scientist or engineer would not be able to make any use of the information or data that were not permitted by the form-contract site licences that regulated access to the online database from which they were extracted. The site licence could charge one price for accessing or consulting the database, a second price for downloading it, and a third price for using it or reusing it in other contexts.

Even though the second scientist or engineer normally would have paid to access the data and information (and they are not copyrightable by definition), he or she would not be able to use it in ways not permitted by the terms and conditions of that site licence. Thus, the second comer would be disabled from independently generating a similar article based on the same material without permission, even though the relevant data were now revealed to the public. Because the data no longer entered the public domain, he or she would need to obtain a new grant or substitute funding to repeat the collection process, in which case scarce funds would have to be used to duplicate

the creation of knowledge already in existence. This, of course, contradicts the norms of science, which favour building on previous discoveries and the sharing of research results.

In many instances, the data will be based on one-time events that later scientists and engineers could not physically regenerate, in order to fall within the permitted acts of independent creation under the database protection laws. Even when regeneration remains feasible, the cost in relation to the niche market of likely users would normally be so high that few second comers would willingly regenerate the data. Hence, sole-source providers are likely to remain a dominant feature of the database landscape, real competition will continue to be the exception, and the strong property rights given to database proprietors would potentiate existing barriers to entry.

Later scientists and engineers would not be able to combine data legitimately accessed from one commercial database with data extracted from other databases to make a complex new database for addressing hard problems without obtaining additional licences and permissions. This remains, perhaps, the single most critical problem for scientific and technical research. Another critical factor is that there would never be a sale that exhausted the publisher's rights, only a licence, which many proposed model laws of industrial nations, such as the United States of America (US), dealing with computerised information transactions, would make perpetual.

No one would be able to combine 'substantial' amounts of data or information into a more efficient follow-on product without a licence; the licensor would labour under no duty to grant such a licence: and the sole-source provider would not want any competition from follow-on products. This also suggests, however, that the price would not be set so high as to encourage independent creation of the same data, when otherwise feasible. In such a situation, if the potential producers of follow-on products preferred to invest in other activities, it would further discourage competition and innovation.

So long as natural and artificial barriers to entry remained high, scientists and engineers must pay artificially high prices to access commercial databases in the absence of competition. The enactment of strong exclusive property rights (complemented by strengthened contractual rights if proposed model laws³ as in the US and elsewhere were to be adopted) thus seems likely to reinforce the pervasive sole-source character of the marketplace and exert further upward pressure on prices.

Meanwhile, scientists and engineers who pay to access protected databases would not routinely lessen overall transaction costs by lending, borrowing, or transferring

the data they extracted to others working on a common problem. This follows because there would never be a sale or transfer under some equivalent of the 'first sale'⁴ doctrine under US copyright (and patent) laws. Only a licence would logically restrict further transfers without any time limit. Scientists and engineers who continue to share data once acquired without obtaining permission and without paying additional fees for such heretofore traditional or customary uses would 'harm the market' that the database proprietors presumably hope to be secured by dint of the legislation proposed in various countries.

The data would not enter the public domain for a number of years⁵, and possibly never, if the private party were to continue to invest in maintenance or updates of a dynamic database. Even data that nominally would enter the public domain on the expiry of the prescribed terms could remain unavailable in practice if would-be users lacked means to identify and isolate those data within the larger mix of protected and unprotected data comprising a dynamic collection⁶. If such data were rendered technically identifiable, nothing would prevent the proprietor from using electronic fencing devices and standard form contracts to further preclude extraction even after the intellectual property right had expired.

Moreover, unless proper precautions are taken, there is considerable risk that data generated or funded by governments would become increasingly privatised in ways that unduly restricted access on onerous terms and conditions. If this were allowed to happen, taxpayer-financed data would be sold back to science and education at monopoly prices, with the likelihood that additional state subsidies would be needed to defray the costs. In the European Union, for example, where governments intend to commercialise publicly funded data, insufficient thought has been given to this problem in general and its impact on science and technology in particular.

A common thread uniting all the foregoing observations is the lack of any limits on the power of providers who benefit from the legal protection of databases, which enables them to impose any licensing terms or conditions they wish on access to and use of their products. In principle, the database provider could override, by contract, the public's right to use insubstantial parts of a database.

The net result is that, the most borderline and suspect of all the objects of protection to have entered the universe of intellectual property discourse - raw data, scientific or otherwise - paradoxically obtains the strongest scope of protection available from

4 Authorised Section 109 of the Copyright Act, 17 U.S.C. 109, permits the owner of a particular copy or phonorecord lawfully made under title 17 to sell or otherwise dispose of possession of that copy or phonorecord without the authority of the copyright owner, notwithstanding the copyright owner's exclusive right of distribution under 17 U.S.C. 106(3). Commonly referred to as the 'first sale doctrine', this provision permits such activities as the sale of used books. The first sale doctrine is subject to limitations that permit a copyright owner to prevent the unauthorised commercial rental of computer programs and sound recordings.

5 H.R. 2281, 105th Cong. § 1308 (c) (1998).

6 U.S. Initiatives to Protect Works of Low Authorship, paper presented to New York University Conference on "Intellectual Products: Novel Claims to Protection and Their Boundaries," Engelberg Center on Innovation Law and Policy, La Pietra, Italy (June 25-28, 1998).

any intellectual property regime except, perhaps, for the classical patent paradigm itself!

Hence, a different kind of approach, one not strictly linked to the 'fair use' concept adopted in the United States, will be needed to ensure that a *sui generis* database regime does not harm customary and traditional scientific activities.

Even if a satisfactory legal formula to avoid harm to science and education were found, that formula would remain largely ineffective if database providers could simply override it by contract or, in the alternative, if the publishers could just charge more for access, if they knew that the State would require them to charge less for extractions and reuse by scientific and educational bodies. In short, unless legislation, expressly and adequately immunises traditional scientific and technical pursuits, the only limit on the database providers in most instances will be what a monopoly market would bear.

Many strongly believe that the long-term implications of proposed regimes are potentially very damaging for science and technology. All science operates on databases. The near-complete digitisation of data collection, manipulation, and dissemination over the past thirty years has ushered in what many regard as the transparency revolution. Every aspect of the natural world, from the nano-scale to the macro-scale, all human activities, and indeed every life form, can now be observed and captured as an electronic database.

Science builds on science. In all areas of research, the collection of data sets is not an end in itself, but rather a means to an end, the first step in the creation of new information, knowledge, and understanding. As part of that process, the original databases are continually refined and recombined to create new databases and new insights. Typically, each level of processing adds value to an original (raw) data set by summarising the original product, synthesising a new product, or providing an interpretation of the original data.

The processing of data leads to a not readily apparent paradox. The original unprocessed, or minimally processed, data are usually the most difficult to understand or to use by anyone other than the expert primary user. With every successive level of processing, the data tends to become more understandable and often better documented for the non-expert user. As the data become more highly processed, documented, and formatted for easier use, it is also more likely to attract copyright protection.

Yet, it is the raw, noncopyrightable data that is typically of greatest use and value to researchers, who can manipulate and experiment with the original measurements in pursuit of their own research goals. If strong intellectual property protection of noncopyrightable data sets, which previously had the least commercial marketability, weakened the still nascent impetus toward transparency, it could disproportionately affect the availability of data most commonly used in basic research and higher education.

Moreover, scientists and engineers will have to defray increased transactional and administrative costs engendered by the need to enforce the different legal restrictions on newly obtained data, to institute new administrative guidelines regulating institutional acquisitions and uses of such data, and the associated legal fees. Because educational institutions and government agencies are inherently conservative, risk-averse institutions, they will err on the side of caution and place additional limits on what researchers and educators can do in acquiring and using data in order to avoid the possibility of costly, time-consuming and publicity-generating litigation.

One of the most serious problems of all is the risk of inhibiting the creation and exploitation of multiple-source data products, which have become the scientific method of choice for addressing hard new problems. Because research is increasingly conducted by teams, often operating from different institutions, the pertinent data are drawn from multiple sources, recombined and merged with new data to produce data sets that may lead to new and unanticipated findings.

The recent advent of digital technologies for collecting, processing, storing, and transmitting data has led to an exponential increase in the size and number of databases created and used. A hallmark trait of modern research is to obtain and use dozens or even hundreds of databases, extracting and merging portions of each to create new databases and new sources for knowledge and innovation.

Under many current worldwide governmental legislative proposals, scientists and engineers would face rising transaction costs when attempting to create complex databases from multiple public and private sources. Also predicted are higher costs due to the burdens of administering national data centres and of carrying out related, large-scale management activities that currently benefit from the policy of open and unrestricted access to scientific and technical data.

Because many data providers are sole-source and an exclusive property right would greatly strengthen the legal and economic protection of these mini-monopolies, proposed legislation⁷ in the United States of America and European Union seems likely to raise the costs of data acquisitions to researchers and educators generally, not to mention other consumers. Those costs would either be passed on to the government and the taxpayer through increased research contract and grant requests, or they would simply diminish the resources available to researchers and educational institutions. If the costs and restrictions on all downstream or transformative data users - whether in the public or private sector - similarly increased (as feared by database proprietors opposed to strong protection), it would discourage socially and economically beneficial forms of exploiting factual data that have up to now been available from the public domain⁸.

7 U.C.C. § 2B-502 (February 1999 Draft).

8 Some commercial database providers oppose strong protection owing in part to fears about consequences of sole-source market structure.

Finally, a high-protectionist regime tends to undermine scientific and technical cooperation over time and to exert a progressive chilling effect on data-intensive research. As scientists, engineers, and their employing institutions become more accustomed to a new legal regime that encourages the commercial exploitation of their own research data sets, the cooperative culture that has become the hallmark of so many fields of science will be threatened. Many educational institutions have already indicated that they intend to commercially exploit databases, and in many nations, they have obtained an exemption for State funded universities from the government data exception. If scientific institutions in one segment of the research community try to commercially exploit their colleagues in other institutions or countries, still others will be tempted either to emulate such behavior or to cut off cooperation. Either way, science and technology would suffer.

Even if scientific data exchanges in established cooperative research programs were allowed to continue among a select group of principal investigators and an approved class of associated researchers, it would become increasingly difficult for other researchers outside the officially sanctioned group to obtain full and open access to the program data. This result, of course, would discourage interdisciplinary research and applications, contrary to the interests of technological innovation and the advancement of knowledge.

If simple exchanges of data and access to single databases became legally threatening or prohibitively expensive, imagine the potential transactional burdens that ill-conceived laws could impose on data compilers or users who needed to integrate data from multiple, or even hundreds, of different sources. This brings us to what may well be the most profound and insidious impact of the proposed legal regime on science and technology: the lost opportunity costs that will be repeated thousands of times each day across the basic and applied research communities. If scientists and engineers must choose between spending a lot of administrative time and a larger percentage of their valuable research grants on acquiring data and doing other, less data-intensive work, they will increasingly opt for the second route, despite the astounding yields that have so far been harvested from data-intensive research under existing conditions.

For all these reasons, an overly protective database regime would seriously impede the use, reuse, and transformation of the factual data that are the lifeblood of science and technology. In a worst case scenario, this law would first disrupt the system of cheap access to upstream data for purposes of basic research, it would then lead to ever higher prices for the acquisition of data used in applied research, and finally, it would strangle the ability of value-adding researchers and industries to improve, transform, or develop follow-on databases and related information products. These outcomes would, in turn, greatly reduce the downstream applications of scientific breakthroughs subject to exclusive property rights. In sum, putting a strong property right too far upstream too soon could have a disastrous effect on the long-term competitiveness of a nation's economy, and would undermine a key comparative advantage many countries enjoy in the hi-tech sectors of the global marketplace.

Consistent with these views, numerous governments have expressed concerns about the possible increased transaction costs in data use, particularly where larger collections integrate data sets originating from different parties or where different parties have added value to a collection through separate contributions. This is especially important for large-scale data management activities, where public investment has leveraged contributions from the private and non-profit sectors.

Because everything on the Internet is potentially a 'database' or a 'collection of information' in our increasingly information-based economy, the law that protects collected information will determine the level of competition and prices in that economy. Many regimes buttress mini-monopolies of data and information that could threaten the advance of scientific and technical research, hinder the creation of legitimate new commercial information products, and hurt downstream consumer interests.

The fallacy behind most proposals for strong forms of database protection is that they ignore the dual nature of data and information as such. On one level, data functions as a raw material of the information economy, a basic ingredient of the public domain, from which scientists and entrepreneurs both draw to fashion their respective products. On a second level, data and information are bundled into downstream products that attract intellectual property rights and related contractual agreements. The mistake is to presume that strong intellectual property rights that were empirically well-suited to downstream applications - mainly derived from the patent and copyright models - are equally well-suited to upstream regulation of the data as inputs into the process of innovation.

In fact, the opposite is true. If we balkanise the public domain and make the transaction costs of recreating it by contracts prohibitively expensive and complex, a dysfunctional legal system will impede the cumulative and sequential development of technical paradigms by depriving routine innovators of access to the building blocks of knowledge.

The truth is that traditionally we have left small grain-size innovation to weaker forms of entitlement, that is, to liability principles rooted in unfair competition law, rather than strong property rights, and this was a basic premise on which the competitive economy of the Industrial Revolution was constructed. These lessons are still germane to the information economy-lessons sounding in reverse engineering and the reuse of ideas, rather than in legally supported monopolies on products of routine innovation and investment.

Until convincing evidence to the contrary accrues, we should address the risk of market failure in the information economy by erring on the side of under-protection rather than overprotection. This follows because there is no real or potential shortage of investment in this milieu once the causes of market failure are controlled; and it is sound public policy, because we do not wish needlessly to encourage the monopolisation of the sources of factual data, to deter value-adding innovators, or to retard the progress of science.

The inclination to place strong intellectual property rights in upstream collections of information is contrary to our entire intellectual property tradition and to our basic constitutional heritage.

For some forty years, the late Professor Melville Nimmer, a leading authority on both copyright and First Amendment law, taught that copyright protection would violate First Amendment guarantees of free speech were it not for the judicial exclusion of ideas and facts from the reach of the exclusive property rights granted to authors and artists.⁹

In 1991, the United States Supreme Court, in *Feist Publications, Inc. v. Rural Telephone Service, Co.*¹⁰, reconfirmed the US constitutional prohibition against an exclusive property right in either facts or ideas.

When transplanted to the database milieu, however, the protection of mere investment in databases, which do not rise to the level of creative works of authorship, against harm to actual or potential markets, indirectly creates an exclusive property right in noncopyrightable collections of data, which governs both primary and secondary markets. Once collected, no one can make further use of the facts and data contained in the collection without the compiler's permission.

In contrast, a true unfair competition approach would attach liability only when the third party harmed the database maker's actual or potential market by improper, unfair, or dishonest means. Such an approach would neither inhibit competitors who 'harm' the market by honest and innovative means, nor would it impede the true transformative uses that promote competition and the public interest in science and education.

The test is thus so broad that it would hinder fair competition simply because every successful competitor would harm a prior entrant's market by definition and because would-be competitors would never know in advance when the use or extraction of protected data may turn out to cause harm to some unknown potential market. In this and other respects, the US 'harm to markets' test actually cloaks a reserved market formula, in the manner of the exclusive rights to reproduce and to prepare derivative works granted by the copyright law.

We shall undoubtedly experience sub-optimal investment in the production of databases if governments fail to protect publishers against certain forms of piratical conduct that threaten to deprive them of the fruits of their investment. But if we combat this risk of market failure by enforcing strong monopolies in collections of data, we may end up balkanising the information economy by recreating the medieval economic quandary in which products could not flow across countries or continents because too many feudal monopolists demanded payments every few miles down the road.

⁹ Nimmer, *Nimmer on Copyright*.

¹⁰ 499 U.S. 340 (1991).

If we discourage follow-on innovation and public good uses of the very databases whose development statutory legal protection is supposed to stimulate, the end result may be bad for the database industry as a whole and devastating for our whole scientific and technical innovation system, which depends on the relatively unrestricted flow of factual data. Instead, we need a regime that loosely preserves a balanced relationship between public and private interests, which courts can develop gradually in response to the empirical conditions of the evolving information economy.

In the Information Age, as in the Industrial Revolution, we should continue to believe that competition is the lifeblood of commerce, and we should accordingly structure all legal entitlements so as to produce a high degree of competition and maximum dissemination of data and information. If we err on the side of caution and under-protect the building blocks of knowledge, we can always adjust the level of protection upwards later on, in the face of compelling empirical evidence of real economic harm.

But the opposite is not true. Acquired rights and legislatively enacted monopolies cannot easily be eradicated. The wrong decisions today could lessen the vitality of our research enterprise, weaken the national system of innovation, and compromise our future technological superiority, all of which depend on maintaining an appropriate balance between upstream and downstream uses of data and factual information.

UNDERSTANDING CONSTITUTIONAL LAW[†]

- Hariharan G.*

“On all great subjects”, observed John Stuart Mill, “*much remains to be said*”, and of none is this truer than the subject of Constitutional Law. The literature that has accumulated upon this subject is vast, yet an observer who looks at the living reality will no doubt be astounded at the prevailing chasm between theory and practice. He will see around him, much which is not in the books, and he will not find in the rough practice the many refinements of literary theory. It is still an evolving discipline, and as new exigencies arise, the corpus of knowledge expands. And though Constitutional Law, as enshrined in the various constitutions, provides for many situations, it still is unable to cope with all. For life and all living organisms, including government, are forever in a state of flux; hence, no theoretical construct, can conceivably address all areas or for all times. Even so, some critics may contend that its study is mechanical, and not organic in its interpretation of political life; juristic and not ethical in its rationale of political obligation; and *a priori*, and not historical in its explanation of political society and political authority.

No country can grow unless its citizens take a keen interest in its administration and are acquainted not only with its political theory, but also with the actual working of its political institutions. Constitutions may be traced historically, described legally and compared critically. The expression ‘Constitutional Law’ comprises not only the Constitution, but also other parliamentary laws, which supplement the Constitution and are concerned with subjects that are constitutional in nature. Many resolute attempts have been made to penetrate the legal forms and ceremonial trappings to get to the core of day-to-day administration. This article, however, attempts to study the historical background of some of our most cherished constitutional features such as Political Sovereignty, Social Contract, Fundamental Rights, Judicial Review, etc. This will benefit the student of Constitutional Law immensely, as he will be acquainted not only with the mechanical study of governmental organs, but also with the underlying principles governing political thought.

A Sociological Insight into the Nature of Man and Government

Before we proceed to a historical analysis of Constitutional features, it would be necessary to briefly encroach upon the realm of sociology and get an insight into the philosophy of political principles, which has haunted man since the days of Plato and which still arouses considerable interest the world over.

“*Man is a political animal*,” Aristotle said, “*and political institutions are neither arbitrary nor merely voluntary associations, but are rooted in the basic nature and necessities of life*”. The family is the association established by nature for the supply of man’s everyday wants. When several families are united, and the association aims

† This article reflects the legal position as on January 21, 2002.

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at something more than the attainment of daily needs, the first society formed is the village. Again when several villages are united in a single complete community, large enough to be nearly or quite self-sufficing, the State comes into existence, originating in the bare needs of life, and continuing in co-existence for the sake of a good life.

This takes us to the next concept, namely that of the organisation of the State and its activities. A brief overview into the concept of Social Contract is called for at this stage. In effect, the idea of Social Contract was thought to be composed of two ideas, which, though closely connected, must be distinguished.

1. Contract of Government; and
2. Contract of Society.

Contract of Government

The theory of Contract of Government is based on the premise that the State (in the sense of the Government) is based on a contract between the ruler and the subjects. To take a simple illustration, it was supposed that the King, at the time of his coronation, entered into an implied contract with his subjects, pledging on his side good government, for their reciprocal promises of homage and fealty.

Contract of Society

It is possible to stop at the Contract of Government, as many thinkers did, but in reality the theory of Contract of Government postulates, as a prior condition, the theory of Contract of Society. There must already be something in the nature of an organised community, a potential body of subjects, already cohering in virtue of a common social will, ready to assume the burden of government in agreement with that will, before there can be any contract between the ruler and the ruled.¹

But in our time, there is no need to invoke or apply the concept of a 'Contract of Government', by which one part of the State, the ruler or rulers, has covenanted with another part, the subjects. There is only one political contract, which unites all of us (rulers and the ruled alike) - the Constitution. In the days when the government was held to be *sui generis*, and to stand over the subjects as something of a separate order, it was natural to think that there was or should be a contract between them, which fixed their mutual limits. Today, the government is not *sui generis*; it is a part of the legal association, as the body of general citizens is equally a part; and its rights and duties are fixed, like those of the citizens generally, under and by the one and only contract- the Constitution.

It can thus be summarised that a Constitution is nothing but a contract (express in case of written Constitutions) by which the constituents of a State determine the nature of political organisation, while at the same time ensuring good governance through an elaborate system of checks and balances and periodical evaluation of performance. This may be oversimplifying the matter, but this is the basic concept around which the entire field of Constitutional Law revolves.

1 Sir Ernest Barker in the Introduction to "Social Contract" by Locke- Hume and Rousseau.

The State, as such, is a legal association, constituted by the action of its constituents in making a Constitution therein and thereby contracting themselves into a body politic. The Constitution of a State is the articles of the contract, which constitutes the State. In some cases, the organisation has evolved out of the accumulated experience of centuries, as in the United Kingdom; in others it is usually the work of a single generation at a turning point in the nation's history, as in the United States of America.

The Idea of A Written Constitution

The American Constitution was the first complete written national Constitution. But it was neither the first Constitution of a general government, nor the first written constitution, as is generally presumed. A number of governments, starting with the Greek city-states, had partially written Constitutions. Moreover, all the American States had complete written Constitutions before the Philadelphia Constitutional Convention took place.

Once the American Constitution was ratified, the idea of the single written Constitution became popular the world over. Poland adopted its first written Constitution in the spring of 1791. France followed with its first written Constitution later that year and went through four Constitutions in the 1790s alone. Many changes of government in the nineteenth century were marked by the adoption of written Constitutions, some of which are still in existence. The European Revolutions of 1848 resulted in dozens of new Constitutions in that year alone, though few of them lasted. But it was clear by the end of the century that changes of government should be marked by the adoption of new Constitutions.

In the twentieth century, written Constitutions became fashionable, especially after the Second World War. Almost all democratic governments now have written Constitutions (The United Kingdom, New Zealand and Israel are the notable exceptions). Since the collapse of the Soviet Union, a wave of Constitution-writing has emerged, producing a new faith in the abilities of Constitutions to guide new governments. More than the ability of the Constitutions to deliver the goods, so to say, what is important about this trend is that the constitutional form of government is intrinsically superior to any other form of government. The new Constitutions are usually much longer than the American Constitution, because they try to encompass all possible situations and bring within their fold various institutions (like central banks, administrative agencies, cabinet-level offices, and the military) and because they include more rights for the citizens (not only a more extensive list of civil and political rights, but also social, cultural and economic rights as well). In part, this state of affairs has been engendered by the complexities of modern government. Based on a study of different Constitutions and the events shaping them, we may attempt a study of certain important concepts, the understanding of which is a prerequisite for a proper evaluation of the Constitutional Law.

Political Sovereignty

The first concept that needs to be examined is that of Political Sovereignty. Democratic

Republican Constitutions emanate from the people. For example, the American Constitution begins with the words "*We the People of the United States, in Order to form a more perfect Union..... do ordain and establish this Constitution for the United States of America*". The Constitution of India begins with the words "*WE THE PEOPLE OF INDIA, having solemnly resolved to constitute India into a Sovereign, Socialist, Secular, Democratic Republic.... DO HEREBY ADOPT ENACT AND GIVE TO OURSELVES THIS CONSTITUTION.*"

These words are contained in the Preamble of the Constitutions, and give expression to the doctrine of Popular Sovereignty, or rule by the people. Just as in a dictatorship, power springs from the barrel of a gun, in a constitutional democracy, the people are the fountainhead of power. The Framers of the Constitutions crafted a living document based on the conception that ultimate political authority resides not in the government or in any single government official, but rather, in the people. 'We, the People' own our government, but under our representative democracy, we delegate the day-to-day governing powers to a body of elected representatives. However, this delegation of powers in no way impairs or diminishes the people's rights or the responsibilities of the people as the supreme sovereign. The government's legitimacy remains dependent on the consent of the governed, who retain the inalienable right to alter or abolish their government or amend their Constitution.

While the supremacy of the people is well settled in theory; it is well recognised in practice that even a democratic representative government retains vast powers, some of which may be used to the detriment of its citizens, and it is necessary in the interests of the governed that there be some degree of control over the exercise of such power. There are many methods by which the rights of an individual are protected vis-à-vis the State.

Two of the most important from the Constitutional perspective are:

1. By granting individuals certain Fundamental Rights under the Constitution, which are made inviolable, that is the State cannot encroach upon those rights except in certain very specific cases mentioned in the constitutional document itself.
2. By arranging the organs of the State in such a way that the concentration of powers in the hands of a select few is considerably eliminated. This is done through a system of checks and balances (which in turn is based upon the essentially utopian concept of separation of powers).

Fundamental Rights

Democracy and liberty are often thought to be the same, but are not. Democracy means that people ought to be able to vote for public officials in fair elections and make most political decisions by majority rule. Liberty, on the other hand, means that even in a democracy, individuals have rights that no majority should be able to take away. Such rights are referred to as Fundamental Rights.

There is a difference between Fundamental Rights guaranteed by Constitutional documents and ordinary rights guaranteed by laws passed by the Legislature. The ordinary rights arise from the ordinary law of the land, hence they can be curtailed

and taken away by ordinary law. Fundamental Rights, on the other hand, cannot be taken away or curtailed, except in so far as they are permitted by the Constitution.

These Fundamental Rights find place in most Constitutions and assert the general right to life and liberty, define specific protections for the freedom of speech, press, and religious expression, the right of petition and of peaceful assembly, the right to equal protection before the law, and the right to public trial, and protections against arbitrary arrest or unreasonable search, against excessive bails or fines, and against cruel or unusual punishment.

A brief study of some important developments, which laid the foundation for the establishment of such rights is called for at this stage.

The Magna Carta

The history of such rights can be traced as far back as 1215 AD, when King John of England was forced to affix his seal to a Charter that embodied the demands for reform. This document came to be known as the *Magna Carta*—The Great Charter of Liberties. However, this document was not meant to establish a constitutional government; its only purpose was to protect the rights of the English barons. However, the liberties that they claimed for themselves were stated in such a way that they could be, and indeed were, easily extended to other classes of citizens.

These liberties included, among others, the following-

“No scutage² nor aid³ shall be imposed in our kingdom, unless by the common council of our kingdom; ...

The City of London should have all its ancient liberties, and it’s free customs, as well by land as by water. —Furthermore, we will and grant that all other Cities, and Burghs, and Towns, and Ports, should have all their liberties and free customs.

No Constable nor other Bailiff of ours shall take the corn or other goods of any one, without instantly paying money for them, unless he can obtain respite from the free will of the seller.

No freeman shall be seized, or imprisoned, or dispossessed, or outlawed, or in any way destroyed; nor will we condemn him, nor will we commit him to prison, excepting by the legal judgment of his peers, or by the laws of the land.”

These liberties were extended to other classes of society and soon, the *Magna Carta* symbolised the supremacy of law - the conviction that even the king was bound by the law and must respect the limits set on his power.

2 Redemption of Military Service.

3 Grant to the King.

Bill of Rights, 1689⁴

Bill of Rights, 1689 was a precursor to the *American Bill of Rights*, and it set out strict limits on the Royal Family's legal prerogatives such as a prohibition against arbitrary suspension of Parliament's laws. More importantly, it limited the right to raise money through taxation to Parliament.

The clauses of the *Bill of Rights, 1689*, can be grouped into three broad categories:

1. Provisions confirming and safeguarding the institution of parliamentary supremacy, notably those stating that Parliaments are to be held frequently, that freedom of speech and debate in Parliament is guaranteed, that there can be no suspension of laws without parliamentary consent, and that parliamentary consent is required for the levying of money or the keeping of a standing army;
2. Provisions settling the succession to the Crown and restricting the succession to Protestants; and
3. Provisions guaranteeing certain individual freedoms and procedural safeguards against impairment by governmental power.

Some of the important provisions of the *Bill of Rights, 1689*, which have a bearing on the present discussion, are listed below-

- That it is the right of the subjects to petition the King, and all commitments and prosecutions for such petitioning are illegal.
- That the freedom of speech, and debates or proceedings in Parliament, ought not to be impeached or questioned in any court or place out of parliament.
- That excessive bail ought not to be required, nor excessive fines imposed; nor cruel and unusual punishments inflicted.
- That all grants and promises of fines and forfeitures of particular persons before conviction, are illegal and void.
- And that for redress of all grievances, and for the amending, strengthening and preserving of the laws, parliaments ought to be held frequently.

The *Bill of Rights, 1689* was one of three very important laws made at this time. The other two were the *1689 Toleration Act* (which promoted religious toleration) and the *1694 Triennial Act*, which prevented the King from dissolving Parliament at his will and held that general elections had to be held every three years.

American Bill of Rights

In the American history of constitutional law the term 'Bill of Rights' usually signifies the first Ten Amendments to the Constitution of the United States. These amendments, more precisely the first eight of them, specify certain basic freedoms and procedural safeguards of which the individual may not be deprived by governmental power. Taken together, these specified freedoms and protections are the core of American civil liberty and provide the constitutional basis for judicial protection of the rights of the individual. Of particular importance are the provisions of the First Amendment

⁴ The Bill Received the Royal Assent of King William and Queen Mary received on 16th December, 1689.

(freedoms of religion, speech, press, assembly, and petition), the Fourth Amendment (prohibition of unreasonable searches and seizures), the Fifth Amendment (prohibitions against double jeopardy and self-incrimination, no taking of life, liberty, or property without due process of law; requirement of fair compensation when private property is taken for public use), the Sixth Amendment (procedural safeguards in criminal prosecutions), and the Eighth Amendment (prohibitions against excessive bail and cruel and unusual punishments).

The Constitution itself, as submitted to the thirteen States for ratification in 1787, contained several provisions of major significance for civil liberties - for example, the clauses in Article I, section 9, forbidding bills of attainder, *ex post facto* laws, and suspension of the writ of *habeas corpus* - but it did not include a catalogue of individual rights and immunities. The probable explanation for this omission is that the delegates to the Constitutional Convention did not expect the new national government to expand its regulatory activities to any great extent, and therefore thought that there would be few occasions when federal power would come into collision with individual interests and concerns.

The *American Bill of Rights*, together with the *French Declaration of the Rights of Man*, have inspired many political thinkers and the principles laid down therein find place in many constitutional documents. Part III of the Indian Constitution draws heavily from the American Bill of Rights.

Checks and Balances/Separation of Powers

No political concept is of greater intrinsic value or stamped with the authority of more enlightened minds than the maxim that the Legislature, Executive and Judicial departments ought to be separate and distinct. James Madison observed that the accumulation of all powers - legislative, executive and judicial, in the same hands, whether of one, a few, or many, and whether hereditary, self appointed or elective, may justly be pronounced as the very definition of tyranny⁵. The basis of the doctrine is that the powers properly belonging to one of the departments ought not to be directly and completely administered by either of the other departments. It is equally administered that none of them ought to possess, directly or indirectly, an overruling influence over the others in the exercise of their powers.

The essence of this doctrine can be summarised as:

1. The same person should not be part of more than one department.
2. One department should not control or interfere with the work of the other two departments.
3. No department should exercise the functions of the other two departments.

This doctrine is based on the writings of Montesquieu, the celebrated political thinker, who appears to have used the Constitution of England as the standard for the formulation of this doctrine. It is not pertinent to the discussion at hand to examine the constitutional setup of England and disprove the observations of Montesquieu, but it should be mentioned that an absolute application of this doctrine has not been

5 The Federalist No 47 (Madison): The Federalist Papers- Hamilton, Jay and Madison.

adopted anywhere in the world. A State is an organic unity, and the various departments of the government are interconnected by nature of their functions. If we look into the constitutions of several States, we find that, notwithstanding the emphatic and sometimes unequivocal terms in which this doctrine is laid down, there is not a single instance in which the several departments of power have been kept absolutely distinct and separate. It is relevant at this stage to quote from the Constitution of New Hampshire, which presents the most practical application of this doctrine. It declares that:

“The legislative, executive and judiciary powers ought to be kept as separate from, and independent of, each other as the nature of a free government will admit; or as is consistent with that chain of connection that binds the whole fabric of the constitution in one indissoluble bond of unity and amity.”

The doctrine of separation of powers, in the strict sense, has not found application anywhere in the world. Possibly, the only surviving aspects of this theory are independence of the judiciary and the system of checks and balances. To sum up, we may state that in most constitutions, departments of government are so connected and blended, so as to give to each a degree of constitutional control over the other and to preserve harmony and co-ordination.

Judicial Review

The Judiciary, which is one of the three branches of government, can check abuses of office by both the Executive and Legislative branches. It has the authority to declare acts of the Legislature and the Executive unconstitutional. The doctrine of Judicial Review means that the courts have the power to scrutinise laws and Executive acts, and test their conformity with the Constitution, and to strike them down if they are found to be inconsistent with it. The power of Judicial Review owes its origins, not to any written Constitution, but to a series of cases dating back to the late 1700s.

Indeed, flexing a judicial right to hold laws unconstitutional predates the passage of the American Constitution, as some Colonial judges were known to have invalidated State laws on the grounds that they violated a State’s constitutional provision. But the case most frequently cited in connection with the powers of Judicial Review is the US Supreme Court’s 1803 decision of *Marbury v. Madison*. This case is rightly regarded as having laid the foundation of Judicial Review, and indeed, the ratio in this case has been adopted, not only in numerous subsequent cases, but has been incorporated into a number of Constitutions worldwide. Before we proceed to a detailed study of this case, it needs to be remembered that the American Constitution did not expressly confer any power of Judicial Review on the Courts. Also, in America, the judges of the Supreme Court are appointed by the President and their appointment has to be confirmed by the Senate. This results in appointment of judges along party lines.

Under the administrations of President George Washington and his successor, John Adams, only members of the ruling Federalist Party were appointed to the bench, and under the terms of the Constitution, they held office for life during ‘good

behavior'. Thus, when the opposing Republicans won the election of 1800, the Jeffersonians found that while they controlled the Presidency and Congress, the Federalists still dominated the Judiciary. One of the first acts of the new administration was to repeal the *Judiciary Act of 1800*, which had created a number of new judgeships. Although President Adams had attempted to fill the vacancies prior to the end of his term, a number of commissions had not been delivered, and one of the appointees, William Marbury, sued Secretary of State, James Madison, to force him to deliver his commission as a Justice of the Peace.

The new Chief Justice, John Marshall, understood that if the Court awarded Marbury a writ of *mandamus* (an order to force Madison to deliver the commission), the Jefferson administration would ignore it, and thus significantly weaken the authority of the courts. On the other hand, if the Court denied the writ, it might well appear that the judges had acted out of fear. Either case would be a denial of the basic principle of the supremacy of the law.

Chief Justice Marshall's decision in this case has been hailed as a judicial *tour de force*. In essence, he declared that Madison should have delivered the commission to Marbury, but then held that the section of the *Judiciary Act of 1789*, which gave the Supreme Court the power to issue writs of *mandamus* exceeded the authority allotted to the Court under Article III of the Constitution, and was therefore null and void. Thus, he was able to chastise the Jeffersonians and yet not create a situation in which a court order would be flouted.

In this context, the observations of Chief Justice John Marshall laid the groundwork for the development of the principle of Judicial Review, which have become a basic feature of many Constitutions around the world. They deserve to be reproduced verbatim-

“The powers of the Legislature are defined and limited, and that those limits may not be mistaken, or forgotten, the constitution is written. To what purpose are powers limited, and to what purpose is that limitation committed to writing, if these limits may, at any time, be passed by those intended to be restrained? The distinction between a government with limited and unlimited powers is abolished, if those limits do not confine the persons on whom they are imposed, and if acts prohibited and acts allowed, are of equal obligation. It is a proposition too plain to be contested, that the constitution controls any legislative act repugnant to it; or, that the Legislature may alter the constitution by an ordinary act.

Between these alternatives there is no middle ground. The constitution is either a superior paramount law, unchangeable by ordinary means, or it is on a level with ordinary legislative acts, and, like other acts, is alterable when the Legislature shall please to alter it. If the former part of the alternative be true then a legislative act contrary to the constitution is not law: if the latter part be true, then written constitutions are absurd attempts, on the part of the people, to limit a power in its own nature illimitable.

Certainly all those who have framed written constitutions contemplate them as

forming the fundamental and paramount law of the nation, and, consequently, the theory of every such government must be, that an act of the Legislature, repugnant to the constitution, is void. It is emphatically the province and duty of the judicial department to say what the law is. Those who apply the rule to particular cases, must of necessity expound and interpret that rule. If two laws conflict with each other the courts must decide on the operation of each.

So if a law be in opposition to the constitution; if both the law and the constitution apply to a particular case, so that the court must either decide that case conformably to the law, disregarding the constitution; or conformably to the constitution, disregarding the law; the court must determine which of these conflicting rules governs the case. This is of the very essence of judicial duty. If, then, the courts are to regard the constitution and the constitution is superior to any ordinary act of the Legislature, the constitution, and not such ordinary act must govern the case to which they both apply.

Those, then, who controvert the principle that the constitution is to be considered, in court, as a paramount law are reduced to the necessity of maintaining that courts must close their eyes on the constitution, and see only the law. This doctrine would subvert the very foundation of all written constitutions. It would declare that an act which according to the principles and theory of our government is entirely void, is yet, in practice, completely obligatory. It would declare that if the Legislature shall do what is expressly forbidden, such act, notwithstanding the express prohibition, is in reality effectual. It would be given to the Legislature a practical and real omnipotence, with the same breath which professes to restrict their powers within narrow limits. It is prescribing limits and declaring that those limits may be passed at pleasure.

Thus, the particular phraseology of the constitution of the United States confirms and strengthens the principle, supposed to be essential to all written constitutions, that a law repugnant to the constitution is void; and that courts, as well as other departments, are bound by that instrument."

The critical importance of this case is the assumption of several powers by the Supreme Court. One was the authority to declare acts of Congress, and by implication, acts of the President, unconstitutional if they exceeded the powers granted by the Constitution. But even more important, the Court became the arbiter of the Constitution, the final authority on what the document meant. Marshall interposed the Court as a check against legislative omnipotence and affirmed the principles that lie at the root of constitutional government. The people, not the government, are sovereign, and the Constitution reflects their will. By exercising Judicial Review, the Court was merely enforcing the will of the people as expressed in the Constitution, over the desire of the government as expressed in the statute. As such, the Judiciary became, in fact as well as in theory, an equal partner in government, and it has played that role ever since.

Concluding Remarks

The above discussion is by no means exhaustive; there are numerous other important features of Constitutions, which warrant mention in any such study. It simply attempts to highlight Constitutional Law as a living subject, and not one confined to a mechanical study of Governmental organs; and as one reflective of the aspirations of the human race to consistently evolve better and better systems of governance. Perhaps, the above study may appear too empirical in its method, but the nature of the subject demands such an enquiry, for Constitutional Law is dependent, not on political theories alone, but upon human will, and the deeds and acts of man; and its growth, reform and progress has, and will continue, to depend upon the same creative force.

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