

Legal Issues in ‘Gray Markets Goods & IP Exhaustion’

Issue: Does a Contractual Agreement Override the Doctrine of First Sale Vis-à-vis Third Party Resales?

Relevant Legal Provisions

❖ Section 14, Copyright Act, 1957 –

“Meaning of copyright. For the purposes of this Act, “copyright” means the exclusive right subject to the provisions of this Act, to do or authorise the doing of any of the following acts in respect of a work or any substantial part thereof, namely.—

d) in the case of a cinematograph film,—

(i) to make a copy of the film including a photograph of any image forming part thereof;

*(ii) to sell or give on hire or offer for sale or hire, any copy of the film, **regardless of whether such copy has been sold or given on hire on earlier occasions;***

(iii) to communicate the film to the public; (Emphasis supplied)

Relevant Legal Provisions (Contd.)

❖ Section 51, Copyright Act, 1957 –

“Copyright in a work shall be deemed to be infringed-.....

(b) when any person—

(i) makes for sale or hire, or sells or lets for hire, or by way of trade displays or offers for sale or hire, or.....

*(iv) imports 2[***] into India, 2[***] into India, “any infringing copies of the work: [Provided that nothing in sub-clause (iv) shall apply to the import of one copy of any work, for the private and domestic use of the importer.] Explanation.—For the purposes of this section, the reproduction of a literary, dramatic, musical or artistic work in the form of a cinematograph film shall be deemed to be an “infringing copy””*

Relevant Judicial Decisions

- ❖ ***Warner Bros. Entertainment Inc. & Ors. v. Mr. Santosh V.G.* [CS (OS) No. 1682/2006, Delhi High Court, April 13, 2009]**
- Whether or not the principle of exhaustion applies or not is a matter dependent on the particular statute before the court.
- Content of copyright in the case of cinematographic works is different from that in the case of literary works, dramatic works, etc.
- *“The phrase “copy in circulation” was found in describing the copyright vis-à-vis literary, musical and dramatic works. It found no application in cinematographic works. On a plain reading of Section 14, the phrase was used to limit the copyright in the case of literary, musical and dramatic works only. In defining copyright vis-à-vis cinematographic works, the phrase was not used at all.”*
- *“Under Section 14(1)(d), in the case of cinematographic works, the right is **“regardless of whether such copy has been sold or given on hire on earlier occasion”**.” (Emphasis supplied)*

Relevant Judicial Decisions (Contd.)

- ❖ ***Warner Bros. Entertainment Inc. & Ors. v. Mr. Santosh V.G.* [CS (OS) No. 1682/2006, Delhi High Court, April 13, 2009] [Contd.]**
- This is in express contrast to the position regarding literary works. Hence, the nature of the bundle of rights which make up the copyright is different in the two cases; and the wording of the statute did not leave any room for the principle to be applied to cinematographic works.
- “...*Parliament having intervened in one category of copyrights to grant a limited kind of exhaustion and consciously chosen not to extend it to others, sleight of judicial reasoning cannot extend its application...*”
- 5 • Furthermore, on the question of parallel imports of cinematographic works, the Proviso to Section 51(b)(iv) states that importation for private use of the importer is not deemed to be an infringement. The very fact that this proviso was inserted into the statute would indicate that importation for commercial, non-private use would be tantamount to infringement.

Relevant Judicial Decisions (Contd.)

- ❖ ***John Wiley & Sons & Ors. v. Prabhat Chander Kumar Jain & Ors.* [CS (OS) No.1960/2008, Delhi High Court, May 17, 2010]**
- Copyright is a bundle of rights, meant for authors and creators so that they may reap the benefits of their creations. The said rights also enable the owners/right holders to exploit their work to the maximum by controlling the distribution of their work. This can be done through multiple licensing arrangements which can be further subjected to territory-wise distribution
- The rights defined under Section 14 of the Act are subject to the provisions of assignment and licensing and their limitations thereof. Further, the rights of a licensee are not the same as those of the owner
- Applying the plain rule and giving it its natural and existing meaning, Section 51 of the Copyright Act talks about infringement of the rights of the owner which are different from that of the licensee. It may be possible that the bundle of the rights of the owner may include the rights of the licensee, but the infringement of the rights has to be measured from the rights of the owner and not from the limited rights of the licensee.

Relevant Judicial Decisions (Contd.)

- ❖ ***John Wiley & Sons & Ors. v. Prabhat Chander Kumar Jain & Ors.* [CS (OS) No.1960/2008, Delhi High Court, May 17, 2010] [Contd.]**
- The limited applicability of definition of an owner of copyright to include exclusive licensee only for the purposes of Chapter XII indicates the legislative intent which is to give benefit to the copyright owner to have the additional right to sue for the purposes of suing for infringement of copyright through the exclusive licensee clear.
- The legal propositions which emanate are discussed as under:
 - 7 ■ That the court will measure the infringement of the copyright from the rights of the owner of the copyright when the owner is before the court for violation of its rights.

Relevant Judicial Decisions (Contd.)

- ❖ ***John Wiley & Sons & Ors. v. Prabhat Chander Kumar Jain & Ors.* [CS (OS) No.1960/2008, Delhi High Court, May 17, 2010] [Contd.]**
 - That the rights of the owner may be broader than the limited rights of the exclusive licensee, although the exclusive licensee has the independent right to sue for infringement of the copyright.
 - The rights of the owner and exclusive licensee may not be the same and the rights of the exclusive licensee shall also be subject to the fetters imposed by the agreement between the licensor and licensee.
- First sale doctrine was applicable only qua the exclusive licensees and not the owners who will continue to have a cause of action.
- The purchaser after purchasing from the exclusive licensee cannot by claiming the principle of exhaustion or extinguishment of rights defeat the rights of the owner. This is the only harmonious interpretation possible by invocation of doctrine of first sales in the present case.

Relevant Judicial Decisions (Contd.)

- ❖ ***John Wiley & Sons v. International Book Stores & Ors.* [CS(OS) No. 2488/2008, Delhi High Court, May 20, 2010]**
- Copyright proprietor of any literary or artistic work has exclusive rights, under Section 14 to authorize the sale of the subject of copyright.
- If such copyrighted works are sold, or offered for sale, or copied, or rented out, or even performed in public, without license or authorization, such copies are infringing copies, and such actions are deemed to be infringement under Section 51.
- Market segmentation- either vertically, or horizontally, in terms of geographical areas, or in terms of copies authorized to be made, or sold or rented, is an integral part of a copyright proprietor's legitimate strategy to exploit his exclusive rights.
- The sale, and offer for sale, meant for exclusive use in India, targeting overseas buyers, constitutes acts of infringement under Section 51.

Conclusion

- ❖ As per the First Sale Doctrine, once a person has bought a lawfully produced copy of a copyrighted work, he is free to further sell or dispose that copy without permission of the copyright owner.
- ❖ In relevant part Section 14 states by virtue of having a copyright the owner of such copyright would have the sole right “to issue copies of the work to the public not being copies already in circulation”.
- ❖ Therefore, copies already in circulation can be further issued by the subsequent owners of those copies. While subsequent owners are bound by other conditions of the Copyright Act i.e. ‘Grey Markets’ i.e. second-handbook stores are legitimate only because of first sale doctrine.
- ❖ Doctrine of privity of contract makes it amply clear that a contract is binding only on the parties to the contract and not any third party. However, a stance is taken that the terms of a licensing agreement are binding upon any person who subsequently purchases the copy.

10

THANK YOU!

Questions?

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11

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