



## **DRAFT PATENT (AMENDMENT) RULES 2019**

### **FICCI Recommendations**

FICCI welcomes the initiative by the Department for Promotion of Industry and Internal Trade, Government of India, to amend the Patent Rules and appreciates the opportunity provided to industry to comment on the proposed revisions.

The comments provided herein are based on the inputs received from our members that include sectors such as Pharmaceuticals, ICT, manufacturing, electronics, among others. The attached proposal/inputs has/have been the outcome of several hours of intense discussions with varied stakeholders. The discussions also focused on business dynamics of sectors and the complexity involved.

While efforts to simplify Form 27 are reflected in the draft proposal, industry members are of the collective opinion that some parts of the revisions proposed will create further ambiguity and huge administrative burden for patentees.

### **Positive aspects of Draft Patent Amendment Rules 2019**

- I. **Proposed Amendment in Rule 21:** Industry welcomes the proposed amendment to remove the mandate of submission of verified English translation of priority and make submission compulsory only when invited by the appropriate office is welcomed.
  
- II. **Proposed Amendment in Rule 131:** While the earlier rule mentioned that the Form 27 is required to be submitted every year, there was no clarity as to the timeline. The proposed rule clarifies the timeline for submission of Form 27, which is also welcomed.

- III. Also, removal of “licensee specific information” and the requirement to specify “whether public requirement have been met” from the current Form 27, besides acknowledgment of the fact that modern day products may incorporate an entire “gamut of patent portfolios” are positive propositions.

### **Areas of Concern regarding Draft Patent Amendment Rules 2019**

We would especially like to direct your attention to point at serial numbers 4 and 5 of the proposed revisions, which call for “product to patent mapping” as also “identifying the value accrued in India”, both these proposed changes have the potential to expose patentees to unnecessary legal challenges in case of inadvertent non-compliance and unnecessary administrative burden.

Indian industry and business believe that the spirit of the “National IPR policy”, “Make in India” and “Digital India” programs are to encourage creativity/innovations and incentivize indigenous local manufacturing. Imposing undue and unreasonable administrative burden on the patentee will negatively affect foreign investments, local manufacturing, and domestic IP footprint and innovation cycle. This also goes against the spirit of “ease of doing business” in India.

At the outset, it is important to understand the legislative intent of the working statement requirement while balancing the information sought with our existing international treaties such as TRIPS, the Paris convention, and the underlying philosophy to protect innovations while also creating a framework for commercialization of these innovations without imposing overly complicated administrative burdens.

Our detailed inputs regarding the proposed revisions to Form 27, and especially paragraph 4 thereof are provided below:

**1. The proposed amendments are not in line with the TRIPS agreement:**

The proposed amendments to Form 27 are not in line with the spirit of the TRIPS agreement, which cautions countries against making IP protection and enforcement costly and complicated. We would also like to draw your kind attention to the following sections of the TRIPS agreement. Please refer to Article 41(2) and 62(4), reproduced below:

**Article 41(2):**

*Procedures concerning the enforcement of intellectual property rights shall be fair and equitable. They shall not be unnecessarily complicated or costly or entail unreasonable time limits or unwarranted delays.*

**Article 62(4):**

*Procedures concerning the acquisition or maintenance of intellectual property rights ... shall be governed by the general principles set out in paragraphs 2 and 3 of Article 41.*

**2. Ambiguity in key terms and expressions:**

As per the provisions of Section 146(2), every patentee and every licensee (whether exclusive or otherwise) shall furnish in such manner and form at such intervals (not being less than six months) as may be prescribed statements as to the "extent" to which the patented invention has been worked on a commercial scale in India.

The term "commercial scale" has to be clearly interpreted to facilitate submissions of Form 27. Also, the phrase 'approximate value accrued in India' in Form 27 is ambiguous. Valuation is a complex subject matter and it is not clear which valuation method may be applied to arrive at accrual of INR value in India and how does it serve the requirement of Section 146(2). Further, there are several stages in the value chain of patent commercialization which are not quantifiable in INR even though the patent may have been worked. It is not clear whether 'approximate value accrued in India' should be interpreted as one of manufacturing cost of product (production value), gross sales value of the product, net sales value of the product, market value, gross import value, net import value or anything else. It would be worthwhile to point out that different regulatory and tax authorities may interpret the phrase 'approximate value accrued in India' in a different manner.

Furthermore, it is also not clear how the information required in paragraph 4 helps to determine that an invention has been worked in India when the "extent" to which the invention has been commercially worked cannot be determined from the approximate value accrued in India without considering various other factors. Hence, such information, which is based on ambiguous undefined terms should not be asked for by the Controller and Form 27 para 4 should be deleted.

**3. Product to patent mapping is impractical in and creates a huge administrative burden in the High-Tech sector:**

The legislative intent for the working statement requirements was probably to ensure, especially in the case of drugs/active pharmaceutical ingredients, that such products are available to the public in the quantities and costs desired. In the case of the pharma sector, it may be possible in some cases, based on the language of the claims, to map products with patent(s) especially given the fact that the pharma sector is vertically integrated.

However, with regard the High-Tech sector, performing an analysis of patent to product mapping for each patent in the patent portfolio is an enormously complex task and consumes extraordinarily huge resources in terms of man-hours. It is impractical if not almost impossible for a patent holder to accurately maintain such patent-product mapping, given the fact that a High-Tech product is a combination of multiple sub-components and several hundreds of patents

Such a patent mapping is usually done during licensing negotiations to prove that a product implements a patented technology. That itself involves several hours of engineering work to derive any conclusion. This is a complex exercise given the fact that a patent portfolio will cover patent families comprised of several patented inventions.

In the pharma industry, it is usual that the patentee is the manufacturer of a product onto which only a small number of patents can be read. In High-Tech domain, however, it's rather complex where there are multiple entities involved in a value chain ranging from operators, vendors, chip set makers, patentees, software developers etc. Further, in the High-Tech industry several patents may read onto a single High-Tech product and vice-versa, a single patent may read onto several High-Tech products. Thus, the proposed revisions in Form 27 create patent-product mapping requirements that are difficult for the High-Tech sector to comply. Considering the need for promoting "ease of doing business in India", larger investments, continued innovation cycle, it is imperative that Form 27 is made simple.

**4. Complexity of High-Tech products makes it difficult to find out "approximate value accrued in India"**

i. A complex High-Tech product can be comprised of multiple sub-components that may be procured from multiple entities including being imported and re-exported from India several times. Thus,

it is difficult to carry out product by patent mapping. As an illustrative example, a base station comes to one's mind. Similar is the situation with other electronic products such as smartphones. The intellectual property for the mobile processor comes from a variety of countries throughout North America, Europe and Asia. The chip is designed and fabricated in the U.S. and assembled and tested in Malaysia. The processor is then integrated into a phone that is designed in Taiwan and assembled in China with other components, such as the display and memory, coming from Korea. The completed phones are sold throughout the world, including in both China and the U.S.

Also, for technology industry, working of patents may be carried out through licensees of the patentee. A typical licensee of patented technology generally has worldwide sales, India being one of the markets. For providing the quantum and value accrued in India for the worked patent, the patentee may have to solely rely on the details pertaining to India provided by its licensees. It has been observed that it is considerably difficult for licensees, operating in different jurisdictions, to segregate region-wise sales. This means that the information provided by licensees to patentee may not be precise and even be significantly different from the actual value accrued in India.

What makes things even more complex is that, the product cost can vary at different times of the year based on the marketing strategy. The cost can also vary depending on the channel it is being deployed through.

- ii. A scenario much like the above, applies to manufacturing just about any electronics device, such as a PC, car stereo, smartwatch, TV, or even embedded electronics like the control boards for appliances. In such a situation, it is difficult to map each such product with huge portfolio of patents.
- iii. Further, many global companies sell the products through OEMs, distributors, subsidiary companies where such companies may decide to include certain features of the patented invention and in certain instances, they may decide to not include certain versions of technology. It is impossible for patentees to know which of patents are implemented in each product in the Indian market besides difficulty in obtaining sales figures per region.

Given the fact that there are penal provisions pertaining to providing false/incorrect information related to working of patented invention, there could be severe repercussions in providing information as being

asked for under the amended Form 27. Though the proposed Form 27 uses the term “approximate value accrued,” but the inclusion of the term “approximate” does not provide enough guidance as to the repercussions of making inadvertent errors due to the afore-mentioned difficulties in calculating this amount.

**5. Value accrued in India cannot be easily apportioned:**

A typical manufactured or imported High-Tech product covers a huge set of patent portfolios owned by different patentees. For example, the value of a mobile phone could be attributable to several different technologies, such as cellular technology, Bluetooth technology, audio and video processing technology and the like. All these technologies would contribute different values to the product and may belong to different patentees. Similarly, a Base station will not only be covered by the patents of a patentee that manufactures the Base station, but the Base station will also be covered by various other patents licensed from other patentees covering different technologies.

Many of these patents are procured by way of licensing/cross-licensing too. Generally, in the case of licensing, the portfolio of patents comprises patent families that are patented in multiple countries. In a High-Tech industry, the global patent licensing agreements are signed and are not jurisdiction wise (country wise). This offers a licensee freedom to operate globally.

Considering the above, the approximate value accrued in India will not be a true reflection of the value of patents of a particular patentee only since a high-tech product is usually an amalgamation of all patents included in the product for different technologies owned by different patentees. Thus, providing the value of the entire product while furnishing working details of patents of one of these technologies may not be a good reflector of the value of the patented technology. Thus, the accrued value, as envisaged under the amended Form 27, may not be an accurate representation of working of the patent(s) in question.

**6. Information required under amended Form 27 impinges on confidentiality obligation of patentees:**

The proposed Form 27 requires patentees to share details of all related patents that are implemented in a product for which accrued value is to be provided. Information about related patents is generally included in Patent License Agreement (PLA) signed with licensees. Such PLAs are subject to confidentiality obligations imposed on the patentees and revealing confidential details could be a breach of patentee’s

contractual obligations. In effect, the new requirement mandates that the patentee violates the terms agreed upon with third parties, which could invite legal actions against the patentee.

**7. Information may be misused by unwilling licensees:**

Another practical problem that may arise is that the information provided under amended Form 27 may be misused by third parties that are in litigation or licensing negotiations with patentee. *In the Indian context particularly*, the information of related patents required under amended Form 27 includes information regarding the Indian portfolio of the patentee. This could give rise to a situation where the third parties in licensing discussions may tend to apportion the applicable royalty with respect to only the disclosed Indian related patents, thereby posing unnecessary limitations for patentees' licensing programs. It is worthwhile to point out that the global industry practice is to license the entire global portfolio and apply a royalty rate based on the global portfolio. Consequently, this could entail more litigations or protracted negotiation discussions, which would not be a desired outcome of the proposed amendment.

**8. Requirement to provide details of product when the subject matter of patent is a process is vague:**

The amended Form 27 assumes that the process would always pertain to a process for obtaining/manufacturing a product. To the contrary, the process could also be a methodology implemented in the product. It is unclear under the amended Form 27, whether a patentee is required to furnish information on quantum and value of products accrued in India in the case a patent relates to a patented process implemented in the products. If the amended Form 27 does not intend to cover such a process, then the proposed Form 27 does not cover all use cases for inventions. It is also not clear under proposed Form 27 how to handle the case of a product that implements related process patents and product patents and whether the information on "related patents" should be provided separately for product and process patents, thus requiring an apportionment of value between the two. It is similarly unclear on how to report accrued value for patents that contain both product claims and process claims. To the contrary, if information of products implementing a patented process is envisaged to be provided under the amended Form 27, such information would have the inherent problems (breach of confidentiality obligation, misconstruction by third parties, inaccuracy in value etc.) as discussed in the previous paragraph.

**9. Facilitate ease of doing business and reducing the burden on Patentee:**

Rule 131(1) states the statements in Form 27 shall be furnished every calendar year within three months of the end of each year. The data which the applicant has to furnish in paragraph 4 covers approximate value accrued through manufacturing or importing. It is recommended that information sought be restricted to working on commercial scale in the previous financial year. Most companies finalize their audited reports for previous FY and finally file the same in Aug/Sep of the Annual Year. Moreover, there are many tax benefits or differential taxation applied for income from sale or licensing of IP assets which are also not available for calendar year. The figures for calendar year are not available and may not be correct and may be treated as a false statement u/s 122 leading to heavy penalties punishable with imprisonment which may extend to six months or with fine or with both. This requirement is an undue burden on the patentee to maintain records differently from those maintained in its regular business.

**10. Burden on Non Exclusive Licensee :**

If licensed patent or patents is/are used in any product along with a product manufacturer's own patents, a separate Form 27 may have to be filed for each in-licensed patent even though the licensee may be a non-exclusive licensee. This would also expose business confidential information and may also lead to disruption in the commercialization of patented invention. Further, in many cases patent portfolios are cross-licensed with various entities, does this mean that patentee as well as all cross-licensees need to file Form 27 for working a patented invention in India even if such information can be provided only by the patentee.

**11. Unreasonable Penalties**

Due to the ambiguous nature of the information being sought in Form 27 and the lack of clarity, there is a high probability of inadvertently providing incomplete information. At the same time, unintentionally providing incomplete/incorrect information may result in attracting penalties as mentioned in Section 122.

**12. Reinstate the statement "Give whatever details are available"**

The proposed Form 27 assumes that the patentee is in custody of desired information. However, this may not be true especially in the case of industries that are heavily horizontally integrated, e.g., the electronic sector where there are multiple patentees, multiple patents, multiple suppliers of different components, assemblers in a value chain etc. It is difficult to gain desired information from every stakeholder involved in a value chain.



The statement, "Give whatever details are available" in the existing Form 27 does not find its presence in proposed revision, as shown below:

3. Give whatever details are available.

(i) The patented invention:  
{ } Worked { } Not worked [Tick (✓) mark the relevant box]  
(a) if not worked: reasons for not working and steps being taken for working of the invention.  
(b) If worked: quantum and value (in Rupees), of the patented product:

Considering the above, we propose that revised Form 27 reinstates the statement "Give whatever details are available", which will not only help in truly incentivizing innovators but will also benefit the public at large by saving deserving potential litigations from dismissal due to inadvertent non-compliance.

**13. Proposed amendments pre-empt that every patented invention must be commercially worked**

- In the case of a research-based institutions/corporates, in the scheme of R&D, several inventions are developed that are simultaneously patented. Sometimes, these inventions may not essentially form part of the final product launched in the market place. The reasons could be many such as change in market dynamics, technology losing its shelf life, technological upgrades that offer better results etc.
- Further, sometimes the inventions are used by the company itself to increase production efficiencies, manufacture better products etc.
- In the case of complex product, there are multiple small inventions that make up a final invention that form part of the product. Such small inventions may not be worked as such, but form key building blocks used in a final innovative product.
- Seeking inputs for each and every patent not being worked will create huge administrative burden. This has rather more bearing on ardent patent filers that file large number of patents such as defense, telecommunications, ICT, software, and aeronautical companies etc.
- Thus, seeking reasons or justification for "not working" a patent is not necessary as patentees may end up providing a standard answer. which may not provide the patent office with sany useful insights

**14. Administrative burden will disincentivize domestic patent footprint and IP commercialization activities in India.**

There are substantial efforts being made by the Government of India through CIPAM (Centre for Intellectual Property Asset Management), Intellectual Property Office, Department of Electronics and Information Technology (Deity) besides others in spreading huge awareness about the importance of IPRs, including encouraging innovations from tech savvy start-ups. These initiatives are very encouraging. However, such administrative burdens that calls for information that is otherwise not really required and is difficult to manage, will lower India's domestic patent footprint. There are news-reports that hint that domestic companies are filing patent applications abroad instead of filing in India.

Considering the foregoing, the proposed Form 27 must be further amended by dispensing with the requirement to furnish details of quantum and value accrued in India for worked patents. Such information may be furnished on a need basis, such as upon receipt of an application for grant of Compulsory License or upon asking of the Hon'ble Court in a patent infringement suit. To support this, emphasis is laid on Section 146 (related to furnishing information related to working of invention) of the Patents Act, which does not prescribe the type of information to be furnished. The type of information to be furnished is provided under Rule 131 and Second Schedule under the Patents Rule, amendment whereof is within the powers of the Patent Office/DIPP. Thus, even if the patentee provides a statement regarding whether the patented invention has been worked and the mode of working (such as licensing/importation/manufacture in India), it should suffice the mandate under Section 146. Any further details, like quantum and value, should only be required if the need for so arises at a later stage. The patentee could be asked to furnish an undertaking that it would make every reasonable effort to provide detailed information if required by the Patent Office in case of an application received for issuance of compulsory license and/or court order. In the event the invention has not been worked, the patentee should provide a reasoning therefor. This should satisfy the requirement under Section 146 and thus, proposed Form 27 needs further amendment. It is interesting to note that the form (designated as Form no. 58) for submitting statement of working under the Patents Rules, 1972 was based on a similar approach as is being suggested now. Particularly, the earlier form (copy attached herein as Annexure-A) for furnishing working information did not require any type of details of quantum and value of patented product to be provided and the form was very generic in respect of the extent of information to be furnished by the patentee. Thus, whatever changes are being suggested to Form 27 for simplification of the requirement, under the present comments, is in line with what the Patent Office itself prescribed in

1972 and continued to use for many years. It is also interesting to note that the guiding provision - Section 146(2) - remains unaltered since 1972. Thus, if a simplified form for submitting statement of working was within the provisions of the Act in 1972, a simplified Form 27 would remain so within the ambit of the current Act.

## FORM 27

*(Suggested Format)*

**THE PATENTS ACT, 1970**

**(39 of 1970) & The Patents Rules, 2003**

**STATEMENT REGARDING THE WORKING OF THE PATENTED INVENTION ON COMMERCIAL SCALE IN**

**INDIA**

*[See Section 146(2); rule 131(1)]*

1. Insert name, address and nationality.	In the matter of Patent No. _____, of _____ I/We _____ Nationality: _____
2. State the year to which the statement relates	The patentee (s) or licensee (s) hereby furnish the following statement regarding the working of the patented invention referred to above on a commercial scale in India for the year.....
3. Worked/ Not worked 4. "Give whatever Details are Available"  Manufactured locally/ Imported.	(i) The patented invention: (a) <input type="checkbox"/> Worked <input type="checkbox"/> Not worked [Tick (v) mark the relevant box]  (b) If worked: (b1) Manufactured in India. Yes <input type="checkbox"/> or No <input type="checkbox"/> [Tick (✓) mark the relevant box] (b2) Imported from other countries. Yes <input type="checkbox"/> or No <input type="checkbox"/> [Tick (✓) mark the relevant box]
5. To be signed by the	Dated this ..... day of .....20 Signature.....

person(s) giving the statement.	
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The facts and matters stated above are true to the best of my/our knowledge, information and belief.

To

The Controller of Patents,

The Patent Office, Delhi/Mumbai/Chennai/Kolkata