

ASSIGNMENT OF COPYRIGHT: OUTSOURCING TRANSACTIONS IN INDIA

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India: an outsourcing destination

India is fast developing into a preferred outsourcing destination for large multinational companies carrying out research and product development. Two main alternative models have emerged:

- (i) Establishing wholly owned subsidiaries in India, or
- (ii) Outsourcing to third party service providers. Here the BOT (Build, Operate and Transfer) model is gaining preference. In this model, foreign companies enter into contracts with Indian vendors under which the latter builds a dedicated work unit for the former with an option to the foreign company to have the, ownership of the work unit transferred to its name in few years.

A serious concern for all companies outsourcing to India is protecting ownership of their copyrights.

Effect of nature of relationships

The nature of relationship of the author/first owner of the copyrighted work is either that of an employer/employee or an independent contractor.

With reference to copyright of work developed by an employee, the ownership belongs to the employer in the absence of a contract to the contrary. However, in the event of copyright created by an independent contractor, the copyright belongs to the contractor.

In most cases, the contracts between the developer and the outsourcing company are of the nature of an independent contractor. The challenge here is to ensure that the ownership of the copyrighted work is protected and the copyright in the product developed belongs to the company outsourcing the development of the work.

Legal provisions

Sections 18 and 19 of the Indian Copyright Act, 1957 (“ Copyright Act”) govern assignment of copyrights. Section 18 prescribes that a prospective owner of a copyright in a future work may assign, to any person the copyright, either wholly or partially, although the assignment shall take effect only when the work comes into existence.

According to the provisions of Section 18, the assigning of copyright in future works in an outsourcing transaction is a two pronged process. Firstly, the vendor company must specifically enter into an assignment agreement with each independent contractor as and when the work product comes into existence.

In turn the vendor company who has entered into the contract with the foreign outsourcing entity (for whom the product is being developed) will require to specifically assign the copyright in the product developed in favour of the foreign entity.

For example, in the case of software development, there can be more than one copyright in the product being developed. The specific independent contractor(s) must make specific assignments in favour of the Indian vendor company, who must, in turn, assign the same in favour of the foreign company outsourcing the development of the work.

Section 19 of the Copyright Act lays down that an assignment must be in writing and signed by the assignor, and the copyrighted work must be identified and must specify the rights assigned. Further, in the event the assignee does not exercise the rights assigned to him within a period of one year, the assignment in respect of such rights is deemed to have lapsed unless otherwise specified in the agreement. If the period of assignment is not stated, it is deemed to be five years from the date of assignment, and if no geographical limits are specified, it is presumed that the assignment extends to India.

In *Indian Performing Rights Society v Eastern Indian Motion Picture Association* AIR 1977 SC 1443, the Supreme Court held that an existing and future right of a music composer and lyricist is capable of assignment, subject to the conditions that the assignment shall take effect only when the work comes into existence and the assignment is required to be in writing, signed by the assignor or his duly authorized agent.

In view of the above provision, in an outsourcing transaction, it is necessary that the deed of assignment must specifically state that the assignment is in perpetuity and worldwide, and that the assignment does not lapse in the event the assignee does not exercise rights assigned within a period of one year from the date of assignment. Moreover, the assignment of copyright shall identify the work and specify the rights assigned.

Moral rights exception

Under section 57 of Copyright Act, moral rights of an author cannot be assigned. The only exception to this rule is the making of copies or adaptation of computer programmes in order to utilise the computer programme for the purpose for which it was supplied or to make back-up copies purely as a temporary protection against loss, destruction or damage which does not amount to infringement of copyright and the author does not have the right to retain or claim damages in respect of adaptation of a computer programme for the purpose described above.

Enforcement of assignment agreements

In the event of dispute relating to assignment of copyright, the complaint from an aggrieved party goes before the copyright board. The board after holding such inquiries as are necessary pass, may such orders as it deems fit, including an order for recovery of royalty payable. The Board cannot pass any order to revoke the assignment unless it is satisfied that the author is the assignor and that the terms of assignment are harsh to the assignor. In any event, no order of revocation of assignment can be made within a period of five years from the date of assignment.

The assignment agreement can be enforced either by filing a suit for damages under Section 73 of the Indian Contract Act, 1872 (“Contract Act”) or by a civil suit for specific performance under Section 10 of the Specific Relief Act 1963 (“Specific Relief Act”) In the event, the damages are specified in the agreement, the damages payable will be limited to that amount.

The copyright owner can enforce its civil rights under the following provisions of the Copyright Act:

- (i) Section 55 dealing with civil remedies for infringement of copyright, and

- (ii) Section 58 dealing with right of owners against person possessing or dealing with infringing copies.

Damages under the act are compensatory, not punitive and do not involve the imposition of a penalty.

Limitation of Damages Payable

The remedy of accounts of profits is given in order to prevent unjust enrichment of the defendant. The making of a real, though unrealised profit by the unauthorised use of another's intellectual property is plainly an advantage, which is capable of resulting in unjust enrichment.

The right to claim liquidated damages is enforceable under Section 74 of the Contract Act and where such a right is found to exist no question of ascertaining damages really arises. Where the parties have deliberately specified the amount of liquidated damages there can be no presumption that they at the same time intended to allow the party who has suffered by the breach to give a go-by to the sum specified and claim instead a sum of money which was not ascertained or ascertainable at the date of the breach.

Other reliefs by criminal proceedings

The aggrieved party can also file a criminal action for breach of trust under Section 405 of the Indian Penal Code, 1860. Section 63 to 70 of the Copyright Act deals with offences relating to infringement of copyright. The offences include offences by companies.

Governing Law and Jurisdiction

In many outsourcing contracts the governing law is invariably foreign law. In view of Section 13 of the Code of Civil Procedure, 1908, if a foreign judgement is contrary to laws of India, the courts in India will not recognise the foreign judgment. The Indian courts will also not recognise foreign judgments, if they are not given on the merits of the case.

Assignment of Copyright in the Context of the proposed Competition Law

Section 3 of India's proposed competition law, (presently, not in force) deals specifically with anti-competitive agreements and excludes agreements made under the provisions of the Copyright Act.

In India, there are no trade secret or data protection laws at present. Therefore, assignment of copyright ownership can only be protected by a contract.

Conclusion

Companies employ hundreds of people for years on research work. They invest a lot of money in research. When the product is ready for commercial use, it is the ownership of Intellectual Property Rights over the product that protects them.

Foreign companies outsourcing to India must pay careful attention to their contracts with vendors and ensure the assignment agreements adhere to the provision under the Copyright Act.