



3rd National Moot Court Competition – 2016

MOOT PROPOSITION

1. Aryavarta is a country in South Asia with its capital at Sinhabad. The Government of Aryavarta, in pursuance of its dream to take the country's economic growth to greater heights, lifted the economic barriers and allowed foreign companies to trade freely in its markets while providing them various incentives in the form of stronger intellectual property protection as well as tax concessions. As a result of such measures by the government, the country witnessed greater participation of foreign companies in its domestic markets.
2. RGS Public Ltd (hereinafter referred to as 'RGS') is a company incorporated under the laws in force in the state of Delaware, the United States. The company is engaged in the development, manufacture and sale of kits used for 3D printers. The kit was marketed under the brand name RiskaTM and proved to be an immensely successful product in the entire brand line of RGS. The said kit is covered under patent US420100B2 and the legal status of patent reads active and in force. RGS has granted patents on the said kit in Aryavarta and European Union (EU) apart from the US. The Aryavarta patent in force is AR420100 and has a priority date of 22-09-



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1997. The patented invention is with regard to a 3D printer kit that employs Robocasting (an emerging technology used in 3D Printers). The kit increases the efficiency of the printers significantly. Use of the kit in 3D printers greatly enhanced the sale of 3D printers globally as it resulted in high value addition to the final product. Riska™ was sold under 2 different sale schemes. Under the first scheme (hereinafter referred to as ‘SCHEME-1’), Riska™ was sold without any terms and conditions of purchase and the customers were to pay full price of the kits. Under the second scheme (hereinafter referred to as ‘SCHEME-2’), a discount of 40% was given. However, there were certain terms of use attached to the kit and such terms were included in a shrink-wrap contract alongwith the product. The shrink-wrap contract mentioned above, *inter alia*, had the following clauses:

The customer understands, agrees and undertakes that:

- i. Once the cartridge in Riska™ is exhausted, the customer shall get it refurbished by authorized sellers of Riska™ only.
- ii. Under no circumstances the customer shall re-sale Riska™ to any other person or entity.
- iii. The customer shall purchase the cartridges, required for the Riska™, only from authorized sellers of Riska™.



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3. There was another scheme (hereinafter referred to as 'SCHEME-3') floated by RGS for those customers who purchased Riska™ under the SCHEME-1. The newly introduced scheme had given an option to the customers to enter into an agreement with the seller that would enable them to re-fill their cartridges at lower prices in exchange for being bound by the same terms and conditions of use as required under SCHEME-2. Hence, all customers who availed this scheme subsequently entered into a contract as stated above. The quality of cartridges, according to RGS, was essential for good quality of printing from the printers embodying Riska™.
4. RGS incorporated a holding company in Singapore named Zen Pte. Ltd (hereinafter referred to as 'Zen') and assigned all the patents and trademarks in Aryavarta to Zen. Zen manufactured Riska™ for RGS in Singapore owing to low cost of manufacturing. Another company Melaka Ireland Ltd. (hereinafter referred to as 'Melaka') was incorporated in Ireland by RGS. Melaka was granted a license to manufacture, sell and export Riska™ in the European Union under the same sale schemes as in the United States.
5. Sartri Pvt. Ltd (hereinafter referred to as 'Sartri') is a company incorporated under the laws of Aryavarta and engaged in manufacture and sale of kits (obsolete technology as compared to Riska™) for 3-D printers and sold the same under the brand name 'SAR' (registered trademark in Aryavarta) in



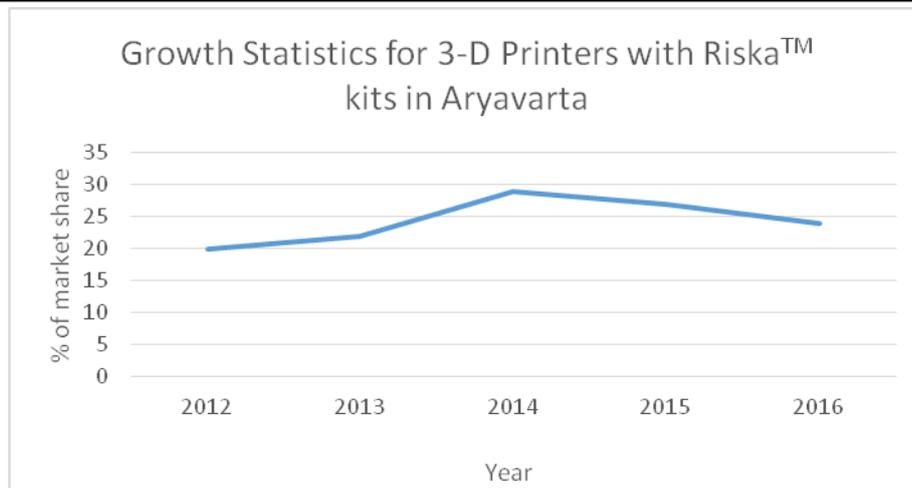
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the domestic market. RGS as a part of its business expansion plan made Zen to grant an exclusive, non-transferrable, non-alienable, non-licensable license in respect of Aryavarta patent to Sartri. Sartri stopped manufacturing and selling SAR and started importing Riska™ from Zen. Sartri sold Riska™ in the domestic market through its authorized outlets under all three existing schemes prevailing in the US and EU. Riska™ was sold in Aryavarta market at a price of Rs 1, 00,000 (Rupees One lakh only) per unit and earned a profit of Rs. 25,000 (Rupees Twenty five thousands only) per unit. For the license arrangement with Zen, Sartri agreed to pay an amount of 24 crores in four equal installments payable before the closing of each financial year and a running royalty of 15% of the price per unit of Riska™.

6. Sartri was able to cement its position in the domestic market of Aryavarta by the introduction of Riska™ since it was the only supplier in the market for the said kit. Robocasting being one of the leading technologies in the contextual field led to an increasing number of people switching over to this technology. The following graph shows the growth statistics for sale of 3D printers embodying Riska™ in Aryavarta.



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7. In 2014, Sartri came to understand that some refurbished kits under the brand name Riska™ were being sold in the market by un-authorized entities. As a part of customer feedback program, Sartri found out that there were multiple complaints from the customers regarding the bad quality of the printing when used with Riska™ kits. On further investigation, Sartri found out that there were certain number of refurbished kits flowing in the market which affected the printing quality and resulted in loss of goodwill and customer relationship for Sartri.

8. Vinshuk Pvt. Ltd, (hereinafter referred to as 'Vinshuk'), a company incorporated under the laws of Aryavarta, is a manufacturer and seller of spare parts of 3-D printers. It devised a new business strategy and decided to sale refurbished Riska™ kit after importing pre-used Riska™ from EU markets. For obvious reasons, Vinshuk was able to sell Riska™ kit at a much cheaper price than that of Riska™ sold by Sartri and its authorized



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sellers. Vinshuk contacted 'Hun Shui' a company based in Thaikwando, a European country, to collect the used kits sold under the SCHEME-2 and SCHEME-3. The plan was to collect said pre-used kits from the EU market, import them into Aryavarta and then refurbish the same to sell at cheaper rates under brand name 'Visaka'. Vinshuk contacted Aksmit Impex, an import-export company incorporated under Aryavarta law, for import of pre-used Riska™ from Thaikwando. Aksmit Impex bought pre-used Riska™ kits from Hun Shui, imported them into Aryavarta and supplied them to Vinshuk. Vinshuk sold the imported Riska™ kits in the domestic market at Rs. 75,000 (Rupees Seventy Thousands only) per unit and earned, after all the deductions, a profit of Rs 20,000 (Rupees Twenty Thousands only) per unit.

9. Sartri filed a notice with the custom officials under the IPR Enforcement Rules, 2007. The custom officials seized the consignment containing the pre-used Riska™ kits imported by Aksmit Impex. The notice for the same was given to concerned parties. Being aggrieved, Aksmit Impex filed a writ petition under Article 226 of Constitution of Aryavarta before the High Court of Sinhabad (hereinafter referred to as 'High Court'), against the Commissioner of Customs for violation of their fundamental right to



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property. Sartri, along with Zen, filed a patent infringement suit in the High Court against Vinshuk, Aksmi Impex and Hun Shui.

10. In the meantime, the Revenue Department of Aryavarta launched an inquiry into the transactions entered into by Sartri with Zen. The returns filed by Vinshuk were also put under scrutiny. Vinshuk had claimed deduction under Section 37 of the Income Tax Act, 1961 for expenditure incurred on import of Riska™ during the previous year 2014-15. However, the Revenue Department rejected the same on the ground that the expenditure was used for an activity prohibited by patent law of Aryavarta. The matter went up to the Income Tax Appellate Tribunal (hereinafter referred to as 'ITAT') which decided the matter in favour of Revenue Department. Vinshuk filed an appeal against the decision of ITAT in the High Court.

11. Sartri had claimed deduction on 15 % running royalty paid to Zen as according to Sartri it was a revenue expenditure. Additionally, it apportioned Rs. 10,000 from the revenue generated from every unit of Riska™ towards the payment of lump sum royalty amount and also claimed it as a revenue expenditure. The matter related to Sartri's expenditure adjustments was taken up by the Transfer Pricing Officer (TPO) who concluded that the arrangement between Sartri and Zen is not according to Arm's Length Price and therefore the same was required to be adjusted.



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TPO disallowed the deductions on royalty payments as he found that 15 % royalty rate was excessive in nature based on Comparable Uncontrolled Price (CUP) method. According to the TPO, the only other supplier in the market was Vinshuk which sold comparable product (Visaka). During the inquiry, it was also found that Melaka paid 5% as royalty to RGS for the sale of Riska™ in the EU. Sartri contended before the Income Tax Commissioner (Appeals) that Riska™ and Visaka were not comparable products owing to the fact that one was sold under a valid license agreement and the other being an infringing product. Being aggrieved and dissatisfied by the order of the Income Tax Commissioner (Appeals), Sartri appealed to ITAT, Sinhabad which upheld the order of Commissioner (Appeals) on similar grounds. Being aggrieved and dissatisfied by the order of ITAT, Sartri appealed against the decision of ITAT before the High Court under Section 260(A) of the Income Tax Act, 1961.

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12. With respect to appeal filed by Vinshuk against the order passed by ITAT disallowing the deductions claimed under Section 37 of the Income Tax Act, 1961, the High Court decided to hear the matter only after patent infringement suit was decided. In the patent infringement case, Aksmi Impex pleaded before the High Court that it was a mere importer and had no role in infringement of any patented product and that the consignment seized



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by the Custom Officials was not in accordance with law. Vinshuk raised its defence on the ground that Sartri had already exhausted its rights in the patented product once it had sold them and hence it cannot assert patent rights any further. Moreover, Vinshuk contended that the conditions on sale of the patented product were highly restrictive in nature and Sartri and Zen had misused the patent rights. Hun Shui contended that it had no liability whatsoever under primary and/or secondary theories of infringement. The High Court held that there was no patent infringement. Subsequently, in the tax matter related to Vinshuk, the High Court held that the revenue expenditure claimed as deduction by Vinshuk was allowable under Section 37 of the Income Tax Act, 1961 since no case of infringement was proved against Vinshuk. Sartri's appeal was dismissed by the High Court upholding the order passed by ITAT.

13. Being aggrieved and dissatisfied by the decision of the High Court in the patent infringement matter, Sartri and Zen directly filed an appeal before the Supreme Court of Aryavarta under Article 136 of Constitution of Aryavarta. They contended that the High Court erred in upholding the exhaustion doctrine in foreign sales since the purported sale was not at all a sale but a conditional license for mere use and therefore the first sale doctrine was not applicable. According to the appellants, the High Court further erred in



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holding the terms of sale as restrictive. Sartri contended before the Supreme Court that the High Court was wrong in holding that the conditions of the license imposed unreasonable restrictions on the alienating powers of the transferee (the customers who bought Riska™ in EU) and therefore void under Section 10 of the Transfer of Property Act, 1882. Moreover, the appellants contended that Aksmi Impex cannot legally import Riska™ as such act did not come within the four squares of Section 107A of the Patent Act, 1970. Sartri has also appealed the tax matter against the decision passed by the High Court. During the proceedings in the Supreme Court, it has raised a new ground that the CUP method used by TPO under the provisions of Section 92C (1) of the Income Tax Act, 1961 is unconstitutional as CUP method would not be possible to apply in a federal structure like Aryavarta where taxing rights are distributed between State and Centre .

14. The Supreme Court has

- a) Taken up the writ petition filed by Aksmi Impex in the High Court
- b) Admitted the appeal filed by Sartri in the tax matter
- c) Admitted the appeal filed by Sartri and Zen in the patent infringement matter.

All these matters and issues raised therein are clubbed together and posted for final hearing on November 13, 2016.



Note:

1. The patents are hypothetical and used for the sole purpose of this moot proposition.
2. Laws of Aryavarta are in *pari materia* with the laws of India except for the following :

A. Constitution of Aryavarta, 1950

Article 21- Protection of Life, Personal Liberty and Property

No person shall be deprived of life, liberty and property except according to procedure established by law.

B. Transfer of Property Act, 1882 (Assume that the following provisions are in force in EU and Ireland)

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Section 6 – What may be transferred

1. Unless the context otherwise requires, property of any kind whether tangible or intangible may be transferred under this Act.
2. Property of any kind may be transferred, except as otherwise provided by this Act or by any other law for the time being in force.



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- (a) The chance of an heir-apparent succeeding to an estate, the chance of a relation obtaining a legacy on the death of a kinsman, or any other mere possibility of a like nature, cannot be transferred.
- (b) A mere right of re-entry for breach of a condition subsequent cannot be transferred to anyone except the owner of the property affected thereby.
- (c) An easement cannot be transferred apart from the dominant heritage.
- (d) An interest in property restricted in its enjoyment to the owner personally cannot be transferred by him.
- (dd) A right to future maintenance, in whatsoever manner arising, secured or determined, cannot be transferred.
- (e) A mere right to sue cannot be transferred.
- (f) A public office cannot be transferred, nor can the salary of a public officer, whether before or after it has become payable.
- (g) Stipends allowed to military, naval, air-force and civil pensioners of the government and political pensions cannot be transferred.
- (h) No transfer can be made (1) insofar as it is opposed to the nature of the interest affected thereby, or (2) for an unlawful object or consideration within the meaning of section 23 of the Contract Act, 1872 (9 of 1872), or (3) to a person legally disqualified to be transferee.



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Section 10 - Condition restraining alienation

Transferor shall have no right to put unreasonable restrictions on the alienating power of the transferee if such transfer is absolute in nature.

C. Patents Act, 1970

Section 48A - Infringement of Patent

1. (a) Except as otherwise provided in this Act, whoever without authority makes, uses, offers to sell, or sells any patented invention, within Aryavarta or imports into Aryavarta any patented invention during the term of the patent therefor, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within Aryavarta or imports into Aryavarta a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.



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2. The reliefs which a court may grant in any suit for infringement include an injunction (subject to such terms, if any, as the court thinks fit) and, at the option of the plaintiff either damages or an account of profits.
3. Decisions of courts of common law countries are recognized in the courts of Aryavarta.
4. The participants are advised not to frame arguments regarding constitutionality of any law on grounds of Article 21. They are further advised to focus on issues of Exhaustion/First Sale Doctrine rather than challenging the validity of the claims provided.

