

INDIA – CONTRACTS AND LEGAL ISSUES

ACC / BLAKES EVENT DOING BUSINESS IN INDIA

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The logo for Blakes, featuring the word "Blakes" in a stylized, cursive script font.

Overview

- Legal Landscape
- Contracts
- Litigation and Arbitration
- Protecting Intellectual Property
- Standards and Conformity
- Labour Laws

2



Legal Heritage

Canada and India share a legal heritage based on English common law, and in some respects our legal systems are similar. But there are also differences. Canadian exporters need local legal counsel to avoid difficulties. Moreover, as any experienced exporter knows, international trade is inherently more complex than domestic trade, so retaining a legal professional who is familiar with the laws of the target market is just part of doing business there.

A common legal heritage is a significant advantage for Canadian firms as they tackle the Indian market

3



Legal Environment: Constitutional Framework

- Democratic Republic
- Quasi-federal structure: Union and States
- Prime Minister holds executive power
- Union Legislature enjoys defined and residuary powers
- Fundamental rights and duties are prescribed

4



The Legal Environment: Judiciary

- Independent and unitary
- Union judiciary: Supreme Court
- State judiciary: High courts and subordinate courts
 - High Court
 - Specialized tribunals
 - Subordinate courts
- English as language of Supreme Court and High Courts

5



The Legal Environment: Sources of Law

➤ Sources of law

- (i) Primary sources: Laws
 - Parliament and State legislature
- (ii) Secondary sources: Case law
 - Supreme Court
 - High Court
 - Specialized tribunals
 - Privy Council

6



Contracts

- **Legal jurisdiction:** It is vitally important to establish and be comfortable with the legal jurisdiction of the contract.
- **Legal counsel:** Exporters are advised not to sign any contract until it has been reviewed by competent legal counsel.
- **Negotiations:** Contract negotiations can be expected to go more slowly in India than in Canada – particularly if you are dealing with the Indian bureaucracy.
- **Different approaches to communication:** Indian parties may not disagree with you directly about contractual issues as this is considered impolite. Instead they may suggest that the matter can be discussed at another time or find some other way to avoid an outright negative response.
- **Flexibility:** It is recommended that Canadian firms build considerable flexibility into their approach so that prices and other contract conditions can be adjusted.

"A direct no from the Indian side in contract negotiations is uncommon"

7



Contract Enforcement

- Backlogged court system : it takes an average of 1,420 days to enforce a commercial contract in 2009.
- In 2009, India ranked 180th of 181 countries in enforcing commercial contracts.
- Drafting choice of law and forum provisions in the agreement is crucial.
- Damages is the primary remedy for breach of contract.

8



Contract Enforcement (Cont'd.)

- It is advisable to provide for a liquidated damages clause in contracts. To the extent possible, such a clause should be on the negotiation table and should be brought into the contract as a safeguard. India law does not distinguish between liquidated damages and penalties.
- Foreign IP owners should plan to rely on thorough, carefully negotiated contracts. The contract must be as "airtight" as possible with respect to the underlying substantive obligations so that Indian-based adjudicative bodies, whether courts or Indian-appointed arbitrators, will have objective standards to follow and verifiable evidence and data to evaluate, and subjective analysis will be minimized.

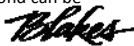
9



Performance Guarantees and Bonding

- **Contract performance guarantee:** Depending on the nature of the contract, your Indian customer may request some kind of contract performance guarantee to ensure that you perform your obligations.
- **Different forms:** These guarantees can take different forms and are usually referred to as bonds. In practice they can include standby irrevocable letters of credit, letters of guarantee and contract surety bonds.
- **Clear obligations:** If you agree to provide a performance bond, make sure that your contract clearly states your performance obligations as well as under what conditions the bond can be called.

10



Performance Guarantees and Bonding (Cont'd.)

- **Export Development Canada (EDC):** The most significant risk for the Exporter may be a wrongful call of the bond. It is noteworthy that EDC offers performance security insurance and guarantees to mitigate this risk for the Exporter and its bank - <http://www.edc.ca>

Be careful to ensure clarity in the contract and the bond as to when the bond can be called

11



Litigation and Arbitration

- **Litigation:** Litigation in India is likely to be a time-consuming, expensive and possibly not in your best interests.
- **Alternative route:** arbitration or alternate dispute resolution (ADR).
- ADR uses a tribunal to consider the questions over which the parties are in conflict and to decide how to resolve them.
- An increasing number of Indian lawyers are working in this field and some are beginning to specialize in specific industry sectors.
- You can find out more through the ADR Institute of Canada at www.amic.org or the US equivalent – the International Centre for Dispute Resolution – www.adr.org

Don't be in a hurry to turn to the courts

12



Litigation

- There are no statutory restrictions regarding the choice of law or forum of a contract in India.
- Express intention of the parties is decisive. The intention must be *bona fide* and not opposed to public policy.
- Foreign law must be pleaded in an Indian court like a fact and proven with evidence.
- « Anti-Suit Injunctions » are a recent trend in India: Indian parties seek anti-suit injunctions from Indian courts to restrain the foreign party from filing a litigation in a foreign jurisdiction. It becomes cumbersome for the foreign party to contest such proceedings in India.

13



Litigation (Cont'd.)

- Try to avoid delays by doing your ground work and by working closely with the Indian attorney and regularly following up on each stage of the litigation.
- Litigation could end up being quite costly: court fees and attorney fees, etc.
- The Courts do not award the actual cost incurred to the winning party.

14



Arbitration

- *Arbitration and Conciliation Act, 1996.*
- India is a signatory of the *New York Convention*.
- Arbitration has gained popularity as an alternative dispute resolution mechanism, since litigation can be time-consuming.
- Certain statutes exclude the jurisdiction of private arbitration e.g. insolvency and criminal matters
- The parties to an arbitration may decide on the number of arbitrators, but it must not be an even number. If parties fail, a sole Arbitrator is appointed by the Chief Justice. However, if the provisions of a statute provide differently, such provisions shall prevail.

15



Conciliation (Cont'd)

- *Arbitration and Conciliation Act, 1996.*
- It is a more flexible alternative to arbitration and litigation.
- Part II of the *Arbitration and Conciliation Act* deals with conciliation based on UNCITRAL Conciliation Rules.
- Non-binding procedure.
- Neutral conciliator appointed from the industry assists the parties in reaching a mutual settlement.

16



Protecting Intellectual Property (IP)

- Many Canadian firms own proprietary technology such as industrial processes or patented machine designs or computer software.
- Protecting intellectual property usually involves registering patents, trademarks and copyrights with the appropriate institutions and authorities.
- You can find out more about this protection and how to register them at the Canadian Intellectual Property Office at www.cipo.gc.ca

How significant is the IPR risk in India ?

17



Patents

- Patents are granted for new inventions or any new and useful improvement of an existing invention and are intended to prevent people or businesses from making, using or selling them without the patent owner's permission.
- Having a Canadian patent does not protect your IP in India. If the invention is patented in Canada, but not in India, then the invention falls in public domain in India and would have no protection. So if you market an unprotected product there, any Indian company can copy it.
- To obtain an Indian patent, you must go through the office of the Controller General of Patents, Designs and Trade Marks whose website is www.patentoffice.nic.in
- Retaining an Indian lawyer who is familiar with the process is recommended.

Consult your Canadian lawyer and his Indian Associate

18



Patent Law

- Patents in India are governed by the *Patents Act, 1970* (as amended in 1999, 2002 and 2005).
- Both process and product (drugs, chemicals, and agricultural products) can be patented for all inventions, including micro-organisms.
- Minimum protection: 20 years from the date of filing (compliant with TRIPS Agreement).
 - The TRIPS Agreement sets out minimum standards of intellectual property protection for Member States.

19



Patent Law (Cont'd)

- Public order exemptions.
- Compulsory licensing: A compulsory license may be granted by the Indian Government if it considers that the patented invention has not been made available to the public at a reasonable price.
- Unlike trademarks or copyrights, an act of infringement of a patent entails only a civil remedy of injunction, damages, seizure and forfeiture of infringing material.

20



Trademarks

- Trademarks are words, symbols, sounds or colors that distinguish goods and services from those manufactured or sold by others and indicate the source of the goods.
- As with patents, registering your trademarks in Canada doesn't protect them in India, so Canadian firms will have to register them in India through the Controller General of Patents, Design and Trademarks.

www.patentoffice.nic.in

21



Trademark Law

- Trademark in India is governed by the *Trade Marks Act, 1999*.
- Fully compatible with TRIPS Agreement and with international systems and practices.
- The TRIPS Agreement provides that initial registration and each renewal of registration shall be for a term of not less than 7 years and the registration shall be renewable indefinitely.
- Actual trademark registration term in India : Max. of 10 years from the date of application.

22



Trademark Law (Cont'd)

- Subsequent registration may be renewed for a 10 year period or for a lifetime on payment of the prescribed fee.
- Registration of a trademark is not mandatory. Passing-off actions may protect unregistered trademarks.
- Remedies: civil remedies and criminal liability.

23



Copyrights

- Copyrights apply to original works of authorship, including literary, dramatic, musical, artistic and certain other intellectual works.
- A Canadian copyright, unlike patents and trademarks, does protect your work in other countries provided they have signed the *Berne Convention* or the *Universal Copyright Convention*, or are a World Trade Organization (WTO) member.
- India has signed both, so if you have registered your copyright in Canada, its protected in India as well.
- In addition, in 1999, the International Copyright Order was issued, thus extending the provisions of the Indian *Copyright Act, 1957* to nationals of all World Trade Organization (WTO) Member countries.

How significant is the IPR risk in India ?

24



Copyright Law

- Copyright in India is governed by the *Copyright Act, 1957* (as amended in 1999).
- Fully compatible with TRIPS Agreement.
- Registration of copyrights is not mandatory.
- The term of copyright – 60 years beginning from the next calendar year following the year in which the author dies, or since the work is first published for certain works.

25



Copyright Law (Cont'd)

- India recognizes and protects computer software and programs under the *Copyright Act*.
- Criminal liability is also provided for in relation to a registered work and the minimum punishment provided for is six months imprisonment, which may extend up to three years.

26



IP Enforcement in India

- India is a member of the World Intellectual Property Organization (WIPO).
- India is a signatory to major international IP harmonization conventions.
- India is also a member of the World Trade Organization (WTO), and has complied with the obligations of the TRIPS Agreement.
- Remedies: civil remedies (injunctions, damages, or accounts) as well as criminal penalties. However, criminal prosecution is available only in trademark and copyright cases, but not in cases involving patents or designs.

27



IP Enforcement in India (Cont'd)

- Provisional measures, such as injunctions and *ex parte* search warrants and seizure orders, known as "*Anton Piller*" orders, are available through the Indian courts to stop infringement and to contain any damages.
- Fast-track system (specialized forums): Intellectual Property Appellate Board – Appeals on IP prosecution (patent).
- Arbitration is available in India for IP rights under the *Arbitration and Conciliation Act*.

28



Reality of IP Enforcement

- India has made substantial improvements to its IP regime in the last decade, but the actual implementation and enforcement of IP rights remains weak and ineffective compared to US and Canadian standards.
- Even with its increasingly dependable and modernized legal system, foreign investors doing business in India must thoroughly and carefully address IP ownership, infringement and piracy concerns.
- The United States retained India on its "Priority Watch List" of intellectual property rights violators (April 2009).

29



Reality of IP Enforcement (Cont'd)

- Civil litigation in India remains a relatively marginal enforcement tool.
- As mentioned previously, the court system is backlogged
- Foreign IP owners should plan to rely instead on thorough, carefully negotiated contracts

30



Minimize IP Risks

- Understand the Intellectual Property rights;
- Set Up an Internal Intellectual Property Protection Team;
- Examine the Work Entities that Can be Copyrighted/ Patented;
- Screen Potential Employees, Vendors, and Partners;
- Control use of intellectual property rights by local associates;
- Define IP violation clause;

31



Minimize IP Risks (Cont'd)

- Prepare appropriate contractual safeguards;
- Pay Attention to Use of Unauthorized Software/ Third-party Products;
- Enforce Central Repository;
- Conduct Regular IP Audit;
- Enforce the Use of References;
- Develop Awareness.

32



Standards and conformity

- Indian product standards are comparable to international standards and don't usually present difficulties to exporters.
- The Bureau of Indian standards (BIS) is responsible for developing national standards and is the only institution in the country that is permitted to do so.
- The BIS is also India's World Trade Organization (WTO) Enquiry Point, which is responsible for notifying India's trading partners of new standards and conformity assessment procedures or of changes to existing ones – see the website at www.bis.org.in

33



Standards and conformity (Cont'd)

- The BIS also operates a system of certification and conformity-assessment labs in India, which can test and certify foreign compliance with Indian standards. The tests can be done in India or Canada see the website at www.bis.org.in/cert/fm.htm
- Information on standards from the Canadian perspective can be obtained from the Standards Council of Canada (SCC) at www.scc.ca

The SCC can also alert you when foreign regulators change requirements related to your products.

34



Labour Laws

- India belongs to the International Labour Organization (ILO) and complies with ILO conventions.
- Both the central government and state governments have enacted laws on labour that cover issues such as resolution of industrial disputes, working conditions, labour compensation, insurance, child labour and equal remuneration, etc.
- The website of the Ministry of Labour and Employment is at www.labour.nic.in

Legislation is listed at
www.labour.nic.in/act/welcome.html

35



Labour Laws (Cont'd)

- Labour law is a subject in the concurrent list of the Indian Constitution and is therefore in the jurisdiction of both central and state governments.
- That is why both central and state governments have enacted laws on labour issues.
- The framework of Indian labour law differentiates between:
 - an employee,
 - a workman (person falling below the specified income level), and
 - an apprentice.
- Most labour legislation focuses on workmen.

36



Principal Labour Laws in India

- *Industrial Disputes Act, 1947;*
- *Industrial Employment (Standing orders) Act, 1946;*
- *Trade Union Act, 1926;*
- *Factories Act, 1948;*
- *Equal Remuneration Act, 1976;*
- *Minimum Wages Act, 1948;*
- *Payment of Wages Act, 1936;*
- *Payment of Bonus Act, 1965;*

37



Principal Labour Laws in India (Cont'd)

- *Employees Provident Fund and Miscellaneous Provisions Act, 1952;*
- *Payment of Gratuity Act, 1972;*
- *Workmen's Compensation Act, 1923;*
- *Maternity Benefit Act, 1961;*
- *Employees' State Insurance Act, 1948.*

38



Reality of Labour Laws in India

- There are many labour laws in India: over 50 labour laws at the national level, and many more at the level of state governments that monitor the functioning of labour markets.
- The *Industrial Disputes Act (1947)* requires companies employing more than 100 workers to seek government approval before they can fire employees or close down [Section 25M of the *Industrial Disputes Act*].
- Employment contracts are not flexible in India. The Indian labour laws leave no room for free contracting.

39



Reality of Labour Laws in India (Cont'd)

- For instance a firm, which wants to manufacture a product that has volatile demand - like fashion garments, and wish to offer workers higher wages, but make it clear to them that they could be given a month's notice and asked to leave. Such a contract will have no legal standing because the *Industrial Disputes Act* specifies in advance how and when workers may and or may not be retrenched. Such contracts are therefore non-existent.
- The *Contract Labour Act, 1970* prohibits companies from hiring temporary workers, and women are not permitted to work night shifts.

40



Reality of Labour Laws (Cont'd)

- According to the World Bank's 2009 Overview of India, the Indian labour laws are said to have constrained the growth of the formal manufacturing sector:

"India's labor regulations - among the most restrictive and complex in the world - have constrained the growth of the formal manufacturing sector, where these laws have their widest application. Better-designed labor regulations can attract more labor-intensive investment and create jobs for India's unemployed millions and those trapped in poor quality jobs."

- However, India has a large pool of English speaking technical persons, skilled workers and an abundant supply of potential employees, which proves to be a major source of attraction to foreign investors.

41



Thank you for your attention

Questions?

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42