ILE INTELLECTUAL PROPERTY AND CORPORATE LAW REVIEW
VOLUME III AND ISSUE I OF 2024
APIS – 3920 – 0008 | ISSN – 2583–6153

Published by
Institute of Legal Education
https://iledu.in

THE INTERFACE BETWEEN ARBITRATION AND LITIGATION IN IPR DISPUTES: STRATEGIC CONSIDERATIONS

AUTHOR - DR.CHITRA SINGH, ASSISTANT PROFESSOR, IFTM UNIVERSITY, MORADABAD

BEST CITATION - DR.CHITRA SINGH, THE INTERFACE BETWEEN ARBITRATION AND LITIGATION IN IPR DISPUTES: STRATEGIC CONSIDERATIONS, *ILE INTELLECTUAL PROPERTY AND CORPORATE LAW REVIEW,* 3 (1) OF 2024, PG. 12-18, APIS – 3920 – 0008 | ISSN – 2583–6153.

ABSTRACT

Arbitration, as one of the means of Alternative Dispute Resolutions is fast emerging as a suitable replacement for conventional courts, by foraying its wings into a gamut of new kinds of disputes, especially when the litigants involved are corporate houses. Courts in India have time and again, in various judgments held that disputes involving intellectual property rights, are non-arbitrable, more so, if the main question in issue is regarding the validity of the right. This is primarily because the court believes that since enforcement of IPR involves the aspect of public policy, it would be against the interests of the general public to make them the subject of arbitration proceedings. A couple of countries, like, U.S.A and Switzerland have been permitting arbitration of Intellectual Property Rights (hereinafter referred to as IPR) disputes since the latter of the twentieth century. Apart from these two countries, the scenario in a couple of other countries is also briefly discussed. Even though the law in India has not been yet developed to the extent that it expressly provides for arbitration of IPR disputes, but, it also does not prohibit it. Rather, it is silent on it, thus, providing for the scope of interpretation. This Paper, would therefore like to argue in favour of arbitrability of IPR disputes, the challenges that will be posed before us, and how they can be tackled. The paper concludes by suggesting a model, constructed keeping in mind the peculiarities of our nation, which could be adopted by the legislature for enabling hassle-free and efficient arbitrability of IPR disputes in India.

Key Words- Arbitration, Intellectual Property Rights, Alternative Dispute Resolutions, IPR Disputes

I. Introduction: The Current Position in Law

There are several judgments in the Indian jurisprudence which have tried to provide, by way of illustration, a list of instances where arbitration is not an option available to the parties, and all of them have, without any exception, not failed to include IPR disputes in the list. The latest case on the point being that of the Allahabad High Court in M/S Swatantra Properties (P) Ltd. v. M/S Airplaza Retail Holdings Pvt.[26], delivered on 28 May, 2018**,** which held as under:

"The following categories of disputes are generally treated as non-arbitrable:

(i) patent, trademarks and copyright;

(ii) anti-trust/competition laws;

(iii) insolvency/winding up;

(iv) bribery/corruption;

(v) fraud;

(vi) criminal matters."

Other authors have, in addition to the above listed matters, also included matrimonial disputes and matters relating to guardianship, eviction of tenants, testamentary matters etc. [27] The judges probably felt the need to do this as the Arbitration and Conciliation Act, 1996, (hereinafter the Act of 1996), is silent on what

[26] M/S Swatantra Properties (P) Ltd. v. M/S Airplaza Retail Holdings Pvt., 2018 (6) ADJ 564.

[27] O.P. Malhotra & Indu Malhotra, "The Law and Practice of Arbitration and Conciliation", (3rd Edn. 2015).

matters shall be arbitrable and what not.

In 2016, Justice G.S. Patel of the Bombay High Court, was faced with the question of arbitrability of IPR disputes in Eros International Media Ltd. v. Telemax Links India Pvt. Ltd.[28] The proceedings were initiated under section 8 of the Act of 1996. Relying on the distinction between rights in rem and rights in personam as provided in Booz-Allen & Hamilton Inc v. Sbi Home Finance Ltd. & Ors[29], the court rejected the argument that disputes related to infringement of copyright couldn't be arbitrated upon. The Plaintiff produced and distributed feature films and held the copyright for many of them. It had granted to the defendant, the right to distribute content to manufacturers of devices by which content could be 'pre- embedded' or 'pre-burned'. The matter arose out of a claim of the plaintiff that the defendant had infringed its copyright and demanded damages in relief. Their license agreement contained an express arbitration clause. There was no dispute on the fact that both the parties did initially, agree by way of free consent, to refer any dispute that might arise between them to arbitration.

When the dispute actually arose, the plaintiff tried to escape the arbitration clause by advancing the following arguments:

1. that by virtue of section 62 of the Indian Copyright Act, 1957 and section 134 of the Trade Marks Act, 1999, which provide that infringement and passing off actions cannot be brought in a court lower than the District Court, the arbitration clause was rendered null and void and that the jurisdiction of the arbitral tribunal was completely ousted. The counsel also relied on the ratio of Premiere Automobiles Limited v. Kamlakar Shantaram Wadke[30], which held that the jurisdiction of a civil court could not be ousted if the statute expressly provided for the civil court to be the appropriate forum,

2. that matters relating to copyright infringement or passing off of trademarks were non-arbitrable as enlisted in several precedents, some of which have been mentioned above. The first contention was rejected on the ground that it was too far-fetched an extension of the principles relating to ouster of jurisdiction of the civil court. The court held that section 62 only meant that a matter relating to copyright infringement could not be instituted in a court lower than the district court, that is, the district court was to be the court of first instance. The implication that section 62 ousted the jurisdiction of the arbitral tribunal was not accepted by the court, and it therefore held that such an interpretation would defeat the very purpose of both the legislations, the Indian Copyright Act, 1957, as well as of the Act of 1996.

As far as the second contention is concerned, the court rejected it on the ground that a matter relating to infringement of a copyright was one exclusively between the parties to the suit and an arbitration tribunal was as competent as any other civil court of original jurisdiction to grant the reliefs prayed for. Since the decision would be binding only on the litigating parties it would involve enforcement of a right in personam.

However, the court also expressed caution on the point, that where the matter in issue related to the validity of a copyright or a trademark itself, an arbitral tribunal would be incompetent as the matter would involve the enforcement of a right against the entire world at large, that is, a right in rem. Rights in rem have public policy implications and therefore, the courts have been reluctant in permitting arbitration of such matters.

II. Ratio of the Booz Allen case

Almost all the cases in Indian jurisprudence which deal with arbitration, do mention the ratio of Booz-Allen & Hamilton Inc v. SBI Home Finance Ltd. & Ors.[31] The judgment cites various

[28] Eros International Media Ltd. v. Telemax Links India Pvt. Ltd., 2016 (6) ArbLR 121 (Bom).
[29] Booz-Allen & Hamilton Inc. v. SBI Home Finance Ltd. & Ors., AIR 2011 SC 2507.
[30] Premiere Automobiles Limited v. Kamlakar Shantaram Wadke, 1976 SCR (1) 427.
[31] Booz-Allen & Hamilton Inc. v. SBI Home Finance Ltd. & Ors., AIR 2011 SC 2507.

celebrated authors like Rusell, Mustill and Boyd to explain that not all matters are capable of being disposed of by way of arbitration. It is not a question of whether a particular matter is arbitrable or not, but, whether it ought to be made a subject of arbitration, that is; whether the award passed by the tribunal is enforceable as against the entire world at large or not. There are several limitations of an arbitration proceeding as compared to conventional litigation methods. Some of them are as under:

1. Public Policy

The adjudicators in an arbitration proceeding are appointed by the parties themselves and not by the State. Such a person is incompetent to issue summons, impose liability for contempt of court, commit to prison etc. Adherence to the award passed by him is conditional upon the consent of the parties. The rationale is that it would be against the interests of the general public to make them bound by an arbitrable award, the competence and jurisdiction of which to decide the matter, they did not originally consent to. Also relevant under this head, is the distinction between private fora and public fora. The former may be appropriate to enforce rights in personam. In fact, at one point, the court does also concede to the fact that for certain matters, the private fora alone are suitable. This is inclusive of commercial matters, involving trade secrets, business reputation etc. where resort to a public fora may adversely affect the interests of the parties. But, again, if these decisions are made enforceable against the entire world, it would adversely affect the interests of the general public.

The public, by virtue of the Social Contract Theory for formation of State, had only consented to the authority of the State or bodies subordinate to it. The public policy argument, puts forth that it would be wrong to now subject the public at large to the authority of an arbitration tribunal, which is not a State entity.

2. Real and Sub-ordinate Rights

Mustill and Boyd have provided and the Apex Court was pleased to accept the distinction as provided by them between 'Real' and 'Sub-ordinate' rights. The former are rights in rem, that is, capable of being enforced against the world at large, whereas, the latter are rights in personam, which are enforceable only on the parties. Also, the latter derive their roots from the matter. The illustration provided by the court was that the validity of a patent itself is non-arbitrable but an issue involving its infringement is arbitrable. Sub-ordinate rights derive their existence from the real rights and are dependent upon the former for an adjudication concerning them. As per the ratio, while real rights cannot be made a subject of arbitration, sub-ordinate rights may well be arbitrated upon.

3. Court's Power to decide upon the arbitrability of the matter

The court differentiated between its powers under section 8 and 11 of the Act of 1996. Section 11(6) (c) provides for an appointment of an arbitrator by the Chief Justice or any person so authorized by him. Under section 8, the court, if it deems fit, may refer a matter before it to arbitration, if there exists an arbitration agreement between the parties.

When a matter comes before the court under section 11, it is not competent for the court to apply its judicial mind to deliberate upon its arbitrability. That remains the domain of the arbitral tribunal. All that needs to be done by the court is to assist the parties by appointing an arbitrator, provided the very existence of the arbitration clause between the parties is not itself disputed.

The situation is very different when the matter is one under section 8. The court may, before referring the matter to arbitration, determine whether the matter ought to be referred to arbitration or not, despite there being a valid arbitration clause between the two parties.

III. Position in other countries

There are countries which allow arbitration of all kinds of IPR disputes, including disputes relating

to the validity of the patent, trademark, copyright itself. The model adopted by the United States of America (hereinafter U.S.A) appears to be a good precedent. Other names are that of Switzerland and Belgium. Brazil, Japan and China, allow the same, but with a couple of exceptions and reservations. Most of these countries are signatories to 1958 New York Convention for the enforcement of foreign arbitral awards. While they may have no problems enforcing the awards of a foreign arbitral tribunal so long as the award is not contrary to public policy or the ordre public of the state, there may still be reservations in enforcing domestic arbitral awards, especially those dealing with validity of the intellectual property, which are not self-executing and need the power and authority of the domestic courts to be enforced. In the United Kingdom, for example, arbitral decisions are subject to review by the judiciary. Also, parties have the right to appeal from them, though, the parties may, by consent, waive the right to appeal or that of judicial review of their awards. Even in the United States, which is supposedly the most liberal nation as far as arbitrability of IPR disputes is concerned, if the award seeks to invalidate the intellectual award, the state appointed authority for the concerned intellectual property must be notified for them to be able to make the necessary changes in their record.

In many of the above named countries, there are no clear precedents allowing the arbitration of IPR disputes. There are mere propositions given by distinguished scholars as to what is their interpretation of the current law. In order to rebut the argument of public policy, the scholars have emphasized on the fact that decision of the arbitral tribunal respecting the validity of the intellectual property, be enforceable only inter partes, that is, applicable only to the parties to the arbitration. The world at large is free to challenge the validity of the intellectual property at any time in the domestic civil courts. This needs to be done because, sometimes, issues of infringement cannot be decided unless the validity of the intellectual property is itself established, as the party liable to pay compensation, may deny it by using the defence of invalidity. Hence, the preliminary issue of validity is crucial to the final adjudication. But its scope is limited only for the determination of rights among the parties inter se and the subject matter remains very much valid for the world at large.

From what can be summarized by the status of arbitrability of IPR disputes in other states, it can be reasonably concluded as follows-

1. Arbitration proceedings which tend to resolve IPR disputes and involve parties belonging to two different nations are more likely to be enforced if the award has been passed by a foreign arbitral tribunal.
2. Arbitration is a more favored form of dispute resolution for IPR disputes when the parties are commercial enterprises.
3. To avail the well-established benefits of arbitration (speedy, cost effective, respects confidentiality/trade secrets/reputation between the parties etc.) the parties might have to let go of the rights which would have otherwise been available to them in conventional methods, by drafting an arbitration clause that clearly portrays their consent and willingness.

IV. Dealing with the Public Policy argument

The main objection in the public policy argument was that since intellectual properties are State grants, a third individual, chosen by the parties themselves, cannot render them invalid. If we dig deeper into the roots of the issue, we might realize that the argument of public policy could be extended to all kinds of property disputes. Even real property, or as it is known in India, tangible immovable property are, fundamentally are granted by the States. The State is the owner of all property within its territorial jurisdiction and the citizens can at most be said to possess delegated ownership

or sub-ordinate ownership. Therefore, by application of this logic, even an arbitration seeking to invalidate ownership of tangible immoveable property must also be restricted by virtue of it being contrary to public interests. In fact, arbitration of such disputes should be all the more restricted as permitting the same would amount to authorizing a third party to decide upon ownership of a property, of which it is well established that the individual is not the absolute owner, with the State retaining its power to acquire any private land. Intellectual properties are absolute assets of their inventors, creators and owners, and except as provided for under section 100 (1) of the Indian Patents Act, 1970, even the State cannot stake its claim on them by virtue of any property acquisition legislation. Under Section 100 (5) of the said act, except in case of national emergency or extreme urgency, where the Government (whether Central, State or otherwise) has used or authorized the use of such patent, it is required to inform the patentee of the use to which such patent was put.

Since the parties are the sole and complete owners of their intellectual property, they should have full liberty to choose the manner in which they wish to solve any dispute related to that property. The only role that State plays while granting intellectual property is to check whether the claim is bone fide or not. For example, for a claim of patent, the Controller General of Patents of the Indian Trademark Office will examine whether it falls under any of the clauses of section 3 of the Indian Patent Act, 1970, of not being an invention, whether it is novel, or whether someone else has filed for an identical patent at a previous date. These are just guidelines to verify the veracity of the claim of the owner and if the property stands up to all these tests, the Patent Office is bound to declare the ownership in favour of the rightful holder of the patent. The only areas in which arbitration would then be able to operate in are those involving breach of contract, where the parties have voluntarily entered into a contract and have given themselves some rights and taken upon themselves some duties by virtue of that agreement. Evident as it might be, even the propounders of the ordre public argument wouldn't be comfortable in taking it so far.

William Grantham has propounded two ways of dealing with the aspect of public policy:

"The first approach to resolving the conflict between the public policy domain and the private dispute resolution domain is to substitute arbitration for judicial or administrative exercise of the state's rights and responsibilities.

A second approach to the public-private conflict with respect to the validity and/or ownership of state intellectual property grants is to examine the degree of deference given to the parties' choice before public policy is implicated." [32]

The first approach is already in force in the U.S.A. Giving the decision of the arbitrator the force of the State is a good way to counter the public policy argument. For Example, in the U.S.A, if the arbitrator decides the patent or the trademark to be invalid, the decision is not upheld until the Patent or the Trademark office, as the case may be, is notified.

With regard to the second approach, what Grantham proposes is that the decision of the tribunal respecting the validity of the intellectual property would only be applied so far as it is necessary for determining the rights of the parties. The word 'parties' here includes the arbitrator. What he means by restricting the power of the parties is actually that even the tribunal does not have the authority to give decisions having the force of erga omnes principles. The tribunal can go into questions of validity only to determine whether there has been an infringement or not. The status of the intellectual property with respect to the world at large, remains intact.

Moreover, he emphasized on the fact that parties would have to waive some of their rights

[32] William Grantham, "The Arbitrability of International Intellectual Property Disputes", Vol.14, Berkeley Journal of International Law, 173 (1996).

in case they choose to enjoy the benefits of arbitration. He cited precedents from USA's jurisprudence wherein the courts have upheld the 'no-contest' clause, that is, clauses in the arbitration agreement by the effect of which the parties waive their right to contest the validity of the intellectual property before the tribunal. This argument was buttressed by the fact that public policy or interests of the public at large are not affected adversely when parties voluntarily waive some of their rights.

In the recent years, arbitration has especially been a preferred form of dispute resolution when conflicts relating to intellectual property arise between two multi-national corporations. The American courts have also been more than pleased to encourage them.

While the enactment of a legislation enabling arbitration of copyright, trademark and other intellectual properties is yet to be done, in August 1982, patent disputes were made arbitrable by the addition of section 294 to Chapter XXIX of the United States Code Title 35 on Patents.[33]

The provision states in no uncertain terms that the arbitral award shall be valid only as far as the resolution of the dispute between the parties is concerned. The tribunal may proceed as if any other ordinary civil court of competent jurisdiction would have proceeded, thus, also enabling it to consider the defenses regarding validity and infringement of patents as provided for under section 282 of the same legislation. A condition precedent for enforcement of the award is notification of the award to the Director, that is, to the State authorized officer who maintains the record of the patents and their owners.

V. Conclusion: A Model for Arbitrating IPR disputes in India

Since arbitration of IP disputes is still at a very nascent stage in India and there are as of now, no judicial precedents or legislation which even remotely put forward the possibility of the same, formulating an ideal, fool-proof model might prove to be a difficult task. Adopting the American or the Switzerland model lock, stock and barrel might not be a very good idea as the social conditions of our nation are very different from those in any other state and therefore, any model that we seek to adopt must take into the consideration the peculiar circumstances in our nation. Nonetheless, the following model appears to the author to be implementable:

The Legislature should enact a legislation enabling arbitration of intellectual property disputes so that courts do not hesitate in allowing the same, should a factual scenario present itself before them.

1. Parties need to voluntarily enter into express arbitration agreement specifying their willingness to subject themselves to arbitration, should any dispute arise between them, whether concerning the validity of any intellectual property or not.
2. Unlike United Kingdom, any clause that purports to make parties waive their right to approach the civil court must not be permitted in India. This is because if parties were allowed to waive their rights to approach he civil courts for a remedy, whether by way of an original suit, appeal or application for judicial review, it would definitely invite the obstruction of the public policy argument. Therefore, notwithstanding the award of the arbitral tribunal, not only the public at large, but also the parties to the arbitration proceeding must be allowed to take recourse of the remedies that can be provided by the civil courts.
3. Where the existence and veracity of the arbitration clause is not disputed, the arbitral tribunal should be empowered to decide on even validity related matters, apart from infringement of IP disputes.

[33] Patents Act, 35 U.S.C. § 294 (1982).

4. The award of the tribunal shall be notified to the Controller General of Patents or to the relevant authority which maintains the record of the particular intellectual property, as the case may be. If the tribunal has deliberated upon the validity of the intellectual property and

(i) If the validity has been upheld, the award may be enforced without any further ado, that is, the status quo should be maintained, but,

(ii) If the IPR has been held to be invalid, the Copyright Board or the Controller general of Patents as the case may be, shall be necessarily required to review the award. If, after application of its judicial mind, the authority is satisfied that the tribunal was right in passing such award, it shall make the necessary changes in its record. This is a deviation from the American model in that the award of the tribunal is not proposed to be enforceable only inter partes. Rather, it shall be enforceable against the world at large, provided the award has been revisited and reviewed by the competent State authority, just as it would do for any other ordinary claim challenging the validity.

5. Third parties' rights shall not be affected whatsoever, and they may opt to institute a suit regarding their grievance at any time, whether before, during or after the proceedings of the arbitral tribunal.

6. The State may even set qualifications and eligibility criteria for the arbitrators who seek to adjudicate on IPR related issues. These could require them to be retired personnel or senior officers of the Copyright Board etc. That way, the person deciding on the validity of the intellectual property in arbitration would be the same as in conventional methods, but, only in a different capacity and with a different set of procedures applicable to him. The only drawback, if any, with this suggestion is that the parties' choice of choosing the arbitrators will then become limited to only the available list of qualified arbitrators. Though there may be a counter argument to the effect that restricting the parties' discretionary power in an arbitration would amount to defeating the very purpose of alternative dispute resolution mechanisms, the same can be rebutted by accepting that the parties will still, however, benefit from other advantages of an arbitration proceeding, like, pocket-friendly, faster, more informal, protection of the entity's reputation etc. to name a few. The suggestion only seeks to limit their power of choosing the arbitrator, with all their other freedoms being intact.

The above presented model could first be implemented as a pilot experiment for a few years. Implementation in only a few states as of now would also serve the matter. New ideas and developments are welcome and the same could be incorporated as and when it becomes feasible for the legislature to do so, maybe even in stages. If the process proves itself to be efficient to the satisfaction of a considerable number of jurists and scholars, the last updated version of the model could be adopted in full swing.