

A Shift from State's Exclusivity to Respecting Party Autonomy: Conceptualising IP Arbitration in India

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The consumer-based and technology-driven economy has triggered competitiveness amongst companies. In the ever-evolving market space, the companies have recognised the significance of generating intangible assets such as trademarks, patents, and trade secrets to remain competitive. Due to globalisation, international business transactions with respect to these intangible assets have led to an increase in intellectual property disputes. Moreover, due to IP's complex nature, the risks involved in IP litigation can be burdensome in cross-border IP disputes coupled with the Court's cumbersome procedure. Given that the stakeholders prefer out-of-court dispute resolution systems like arbitration to resolve their commercial disputes, arbitrating IP disputes is slowly gaining traction. Even though India's courts have expressed their leaning towards arbitrating IP disputes, the same has become practically impossible due to various impediments in the existing mechanism. This article surveys the current IP arbitration regime and uncovers the existing impediments and loopholes in IP arbitration. Further, the article explores the possibility of liberalising the IP arbitration regime by taking cues from jurisdictions across the globe.

Keywords: Intellectual Property, Rights in *Rem*, Rights in *Personam*, IP Disputes, Dispute Resolution, Arbitration

An efficacious adjudicatory process is one of the prime factors which influence investors to invest in a country. Time and cost-effective dispute resolution mechanisms are some of the factors determining the ease of doing business. In India, the courts are plagued with the pendency of cases, close to 10.27 million¹ civil cases in District Courts and 4.13 million² civil cases in the High courts are yet to be disposed of as of now. The ever-increasing vacancy of judges³ and the courts being understaffed⁴ are prime reasons for the pendency apart from the procedural factors like adhering to aspects of the Code of Civil Procedure, 1908 and the Indian Evidence Act, 1872. Further, Hon'ble Justice DY Chandrachud had also opined that litigation is affected by problems like "*delay, expense, the rigidity of procedure and reduction in the participatory role of parties*".⁵

This being the scenario, arbitration emerged as an alternate dispute resolution forum. The Indian courts have also taken a pro-arbitration stand by actively enforcing arbitration clauses⁶, restoring to minimal interference⁷ in the proceedings and enforcing the awards without any delay.⁸

There have been many policy changes to make India an arbitration-friendly country, both in the domestic

and international circuit. The Arbitration and Conciliation Act, 1996 (Arbitration Act) was amended in 2015 to bring it in line with international standards.⁹ Recently, the Lok Sabha and Rajya Sabha passed the New Delhi International Arbitration Centre (NDIAC) Bill 2019, which came into effect on March 2, 2019.¹⁰ The Act focuses on setting up NDIAC (also declared an institute of national importance) to manage international and domestic arbitration. Irrespective of such attempts to make arbitration a preferred choice for dispute resolution, the policymakers have failed to address the prime issue that has vexed various courts, i.e., determining dispute's arbitrability. Neither does the Arbitration Act define the term 'arbitrability,' nor does it provide any comprehensive list of arbitrable disputes.

Intellectual property (IP) disputes are one among such disputes, which has been a subject matter of extensive debate lately. While previously, the courts of the State enjoyed sole jurisdiction over IP disputes, but in recent times, globally, there is a shift towards arbitrating these disputes. Even organisations such as the World Intellectual Property Organisation (WIPO)¹¹ and the International Chambers of Commerce (ICC)¹² have recognised a need for viable and efficient dispute resolution mechanisms for IP disputes. Moreover, the WIPO had also established the WIPO Arbitration and

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Mediation Centre in 1994 to resolve international commercial disputes between private parties, mainly focusing on disputes involving intellectual property, technology, and entertainment.¹³ The subject matter of these proceedings includes both contractual disputes (like licensing and technology transfer disputes) and non-contractual disputes (like patent infringement).¹³ Further, the WIPO Arbitration and Mediation Centre also administer cases referred by national courts and by other national adjudicative bodies.¹⁴

This article focuses on conceptualising an effective IP arbitration regime in India. Initially, the article briefly elucidates the aspect of arbitration as a desired alternative for resolving IP disputes. Then a comprehensive analysis of Indian jurisprudence on arbitrability of IP disputes is carried out. Then the article establishes the impediments in the current position of law in the light of judicial pronouncements and practicality. Later, an analysis of leading jurisdictions across the globe concerning IP arbitration is carried out. Based on global practices and taking cues from them, an effective arbitration mechanism to enforce and protect these rights is conceptualised by suggesting changes to the present regime.

Arbitration: Desired Alternative for Resolving IP Disputes

In *Shree Vardhman Rice and Gen Mills v Amar Singh Chawalwala*¹⁵ (*Shree Vardhman*), the Supreme Court opined that the matters relating to trademarks, copyrights and patents should be decided expeditiously by observing that, “[E]xperience shows that in the matters of trademarks, copyrights and patents, litigation is mainly fought between the parties about the temporary injunction and that goes on for years and years and the result is that the suit is hardly decided finally.”

Further, referring *Shree Vardhman*, the Supreme Court in *Bajaj Auto Limited v TVS Motor Company Limited*¹⁶ expressed its concern regarding the unsatisfactory State of affairs regarding IP disputes. Further, it reaffirmed the opinion of *Shree Vardhman* by directing all the courts and tribunals to proceed with cases involving such matters on day to day basis and give the final judgment within four months from the date of the filing of the suit.

In the light of the aforementioned judgments, it is clear that there are procedural difficulties in resolving IP disputes and a need for effective and quick resolution of such disputes. Arbitration is one such dispute resolution mechanism that offers a quick

resolution of disputes. The benefits of arbitration have been extensively discussed,¹⁷ explicitly referring to aspects such as tailor made adjudicatory process, discretion to choose the arbitrator(s), finality of the award, privacy and confidentiality. Further, it has been established that business entities prefer to arbitrate their dispute as it offers better prospect of cheaper and speedier dispute resolution.¹⁸

Arbitration is a desirable option, specifically with respect to resolving IP disputes as it offers, *first*, due to cross-border applicability of IP, arbitration allows to settle the dispute in a single forum and later be concerned only with respect to enforcing the award in interested jurisdictions. Arbitration also ensures effective enforcement of its IP rights as the entity need not spend time and resources on initiating proceedings in multiple jurisdictions.

Second, mostly the judges lack the skill and expertise to understand the factual matrix and technological intricacies associated with such disputes; further, this coupled with legal issues makes the adjudication even more time-consuming and costly. Therefore, as mentioned earlier, the parties could utilise their discretion to choose arbitrator(s) by appointing/ nominating one with domain specific knowledge and expertise. Moreover, the law cannot keep track of the ever evolving developments in the field of intellectual property and therefore, it is not enough to only have expertise, relevant experience and knowledge of the technology at issue, but also the operative rules of law.¹⁹

Arbitration of IP Disputes: Indian Jurisprudence

Irrespective of an organisation's size, it is common to have a portfolio of Intellectual Property and get involved in various licensing agreements with multiple market players across the jurisdiction. Due to the globalisation and cross-border applicability of IP, arbitration seems like an ideal model to swiftly resolve disputes and has been gaining prominence in the recent past. But in India, arbitrability of an IP dispute has been a subject matter considered by various courts. Before dwelling into the arbitrability of IP disputes, it is necessary to understand the term '*arbitrability*.'

What Is Arbitrability?

Neither does the Arbitration Act nor did the amendment brought to the Arbitration Act in 2015 define the term '*arbitrability*'. However, the Supreme Court in *Booz-Allen & Hamilton Inc. v SBI Home*

*Finance Ltd.*²⁰ (Booz-Allen) identified three facets of arbitrability. First, based on the nature and subject matter of the dispute, i.e., whether the dispute can be resolved by the arbitral tribunal or falls within the Court's exclusive jurisdiction. Second, the list of arbitrable disputes, the arbitration agreement should specifically include the dispute to be resolved through arbitration. Third, the dispute should be identified in the joint list of disputes referred to arbitration, i.e., the dispute should form an integral part of the pleadings and shouldn't arise out of the statement of claims or counterclaims. The Court further dealing with arbitrability of a dispute, categorically stated that disputes which arise out of '*rights in personam*' are arbitrable, and those which arise out of '*rights in rem*' are out of the scope of arbitration. At the same time, the Court affirmed that disputes related to '*rights in personam*' are arbitrable even if they form a subset of '*rights in rem*'.

Further, in *Vidya Drolia and Ors. Durga Trading Corporation*²¹ (Vidya Drolia), the Supreme Court came up with a fourfold test to determine the non-arbitrable subject matter. The Court also stated that these principles have to be applied with caution, and these tests are not watertight compartments rather, they aid in determining and ascertaining with a great degree of certainty as per law in India. According to the test, a dispute shall be out of the scope of arbitration if the cause of action and subject matter of the dispute,

- i. relates to actions *in rem*, that do not pertain to subordinate rights *in personam* that arise from rights *in rem*.
- ii. affects the rights of a third party.
- iii. relates to inalienable sovereign and public interest functions of the State.
- iv. is expressly or by necessary implication non-arbitrable as per mandatory statute(s).

Arbitrability of IP Disputes

This article mainly focuses on the first facet elucidated in *Booz-Allen*, i.e., nature and subject matter of dispute. Concerning IP disputes, the objections premised on this facet stem from two streams of thought. *First*, even though the IP rights are justified based on personality, Lockean and utilitarian theories,²² the power to recognise and grant these rights solely rests with the sovereign. Deriving from this rationale, making a private adjudicatory forum decide on infringements of such rights would

amount to diluting the sovereign's authority. Therefore, it is argued that only the sovereign has the power to extinguish any such right which it grants.

Second, the notion of IP rights having an effect *in rem*, there arises an argument of public policy *viz.* public interest objection.²³ This argument emanates from principles of public law *vis-à-vis* private law and the legal tradition of having a separate adjudicatory mechanism. Deriving from this rationale, arguments are premised on the ouster of arbitral tribunals based on exclusive jurisdiction, i.e., as a matter of public policy, if a particular subject matter falls with exclusive jurisdiction of a specific forum, arbitral tribunals cannot decide on such disputes.

Sovereign Authority

The sovereign authority is the most abstract legal argument against the arbitrability of IP disputes. Even though not all IP rights are granted and protected by the State, this argument extends to include the whole IP rights realm. There is no challenge to the fact that the State has the power to grant certain IP rights, and only the State, through its sovereign authority, can extinguish those rights. But this sovereign authority should not be construed in a manner to interpret that only the State has the power to resolve disputes arising out of such IP rights. For example, consider patents, the State grants limited time to a patentee to monopolise an invention. This should be looked upon as a trade-off between the State and the patentee, i.e., in view of the public interest to encourage and incentivise scientific and technological advancements, the monopoly over the invention is granted to the patentee. Still, this monopoly is not absolute as it eventually comes into the public domain.

It is irrefutable that the State has the inherent authority to extinguish the rights created, granted, and protected by it, but extending this argument to exclude the scope to arbitral tribunals from settling any dispute arising out of IP rights would be unreasonable and unacceptable. If this argument holds good, most commercial disputes such as disputes arising out of leasing, tenancy dealership agreements, etc. cannot be referred to arbitration as most private commercial rights are granted by the State. Further, the Bombay High Court had also opined that even though IP rights are special rights, they are merely species of property. Hence, IP laws do not stand distinct from the general body of law.²⁴ Since the State shows a willingness to recognise and enforce an award made on such commercial disputes, it is

reasonable to yield a certain part of its adjudicatory power to the arbitral tribunals, except for those claims made on invalidity or revocation of IP.

Ouster Based on Exclusive Jurisdiction

One of the most common arguments to exclude a subject matter from being arbitrated is that a particular issue falls within a specific forum's exclusive jurisdiction. This argument gains strength from the conjoint reading of Sections 2(3), 34(2) (b), and 48(2) of the Arbitration Act. Section 2(3) states that this Act won't operate against any law that specifies that certain disputes cannot be resolved through arbitration. Section 34(2) & 48(2) of the Arbitration Act empowers the courts to set aside an award if the dispute's subject-matter cannot be settled by arbitration. Even though the Supreme Court in *Booz-Allen* held that disputes that arise out of 'rights in personam' are arbitrable, the Bombay High Court held that if a statute vests exclusive jurisdiction upon a specific court or tribunal to adjudicate certain disputes, such disputes cannot be arbitrated.²⁵ This finding of the Court was based on the public policy rationale.²⁶

Later, the Delhi High Court in *HDFC v Satpal Singh*²⁷ (Satpal Singh) examined whether an arbitral tribunal is barred from adjudicating upon recovery of debts. It was argued that the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDB Act) vested exclusive jurisdiction on the Debt Recovery Tribunal (DRT) to decide on such disputes. The Court categorically stated that DRT is merely replacing the Civil Court, and the RDB Act did not vest any special rights or powers on DRT. Further, the Court held that only in scenarios "where a particular enactment creates special rights and obligations and gives special powers to the Tribunals which are not with the civil Courts, those disputes would be non-arbitrable."²⁷ But, *Vidya Drolia*²¹ expressly overruled *Satpal Singh*, which held that the disputes which are to be adjudicated by the DRT under the DRT Act are arbitrable. Even though the arbitrability of disputes under the RDB Act was overruled, the rationale of 'special rights and obligations' elucidated in *Satpal Singh* still holds good. It can be applied to determine the arbitrability of the dispute along with the tests laid down in *Booz-Allen* and *Vidya Drolia*.²¹

The Bombay High Court delivered contradictory judgments in *Eros International Media Ltd. v Telex Links India Pvt. Ltd*²⁸ (Eros Int.) and *Indian Performers Right Society Limited v Entertainment*

*Network Ltd.*²⁹ (IPRSL) regarding ouster based on exclusive jurisdiction. In *Eros Int.* the Court stated that merely because Section 62 of the Copyright Act 1957 and Section 134 of the Trade Marks Act 1999 confers jurisdiction on the District Court, it cannot be argued that the copyright and trademark disputes cannot be referred to arbitration. The Court further categorically observed that such provisions only mark the entry-level of such disputes in the judicial hierarchy. Whereas in *IPRSL*, the Court in a similar case held that since Section 62(1) of the Copyright Act 1957 mandated suits relating to infringements to be brought before the District Court, it cannot be referred to arbitration.

Now, would this mere conferment of jurisdiction on a specific court or tribunal exclude the scope of arbitration? Statutes in general concerning civil disputes confer jurisdiction based on territory, pecuniary value, and nature of their subject-matter. But can it be interpreted to mean that statute specifically reserves such disputes to be referred to a specific court or tribunal? A logical application of this reasoning would make arbitration redundant as it cannot settle any such disputes. Therefore, concerning ouster based exclusive jurisdiction and implied non-arbitrability, it essential to have a prohibition against waiver of jurisdiction. This is applicable only if the statute gives special rights or obligations and creates or stipulates an exclusive forum for adjudication and enforcement. The same has been observed in *Vidya Drolia*,²¹

"Implicit non-arbitrability is established when by mandatory law, the parties are quintessentially barred from contracting out and waiving the adjudication by the designated court or the specified public forum. There is no choice. The person who insists on the remedy must seek his remedy before the forum stated in the statute and before no other forum."

Further, on April 4, 2021 the Tribunals Reforms (Rationalisation and Conditions of Service) Ordinance, 2021 was promulgated which dissolves certain appellate bodies and transfers their functions to other existing judicial bodies.³⁰ One such appellate body that has been dissolved is IPAB which was entrusted to carry out various functions under the Trade Marks Act, Copyright Act, and Patents Act. Now, the High Courts would assume and carry out those functions. It is also pertinent to note that the IPAB was heavily criticised for slower rate of

disposal of cases,³¹ delays in appointment of chairpersons of IPAB, delays in appointment of technical members concerning patents, copyright and trademark which has paralyzed the functioning of IPAB.³²

Since the IPAB has also been dissolved and as long as the statute doesn't create any 'special rights and obligations' and empowers such adjudicatory forums with special powers, disputes can be referred to arbitration. Therefore, any designation *per se* cannot exclude the jurisdiction of arbitral tribunals.

IP Disputes and Arbitration: Examining Judicial Pronouncements

Most of the disputes that are non-arbitrable have been so declared by courts. Very few disputes have been expressly barred by statutes from arbitration. The journey of arbitrability of IP disputes is not different either. It had gone through judicial scrutiny in many instances resulting. As law is an instrument of social change, it can never be static. It changes along with the society, and the judiciary plays an important role in this change as they interpret and redefine their laws through their decisions. Hence, in this part of the article the law regarding non-arbitrability has been analysed in depth considering the judicial pronouncements.

Mundipharma AG v Wockhardt Ltd.

*Mundipharma AG v Wockhardt Ltd.*³³ is one of the earliest cases that dealt with arbitrability of IPR disputes. In this case, Mundipharma AG and Wockhardt Ltd entered into agreement concerning licensing of technology wherein Wockhardt Ltd. was granted license to manufacture, package and sell pharmaceutical preparations containing PVP-I within the territory of India. Further, the agreement also contained clauses relating to arbitration and confidentiality. It provided that during the currency of the agreement and three years after that, Wockhardt would not compete with Mundipharma AG.

Disputes arose and Mundipharma sought interim relief restraining Wockhardt from infringement of copyright over packaging, breach of confidentiality and breach of license agreement. Mundipharma wanted these disputes to be referred to arbitration in accordance with the licensing agreement. The Court opined that relating to civil remedies in case of infringement of copyright has to be instituted in the district court having jurisdiction. Therefore, the Court held that disputes arising out of copyright infringement could not be the subject-matter of arbitration. In this

case, the Court had superficially dealt with the arbitrability of copyright disputes without giving any detailed reasoning for holding such disputes to be non-arbitrable.

Ministry of Sound International Ltd. v Indus Renaissance Partners Entertainment (P) Ltd.

In *Ministry of Sound International Ltd. v Indus Renaissance Partners Entertainment (P) Ltd.*³⁴ (MSIL v IRPEL), MSIL had entered into a licensing agreement with IRPEL wherein MSIL had granted IREL to use the registered trademarks such as 'Ministry of Sound', 'Ministry of Sound' with device of crown, 'The Ministry', 'Ministry', 'MOS', 'labels', etc. in connection with the night club owned by IPREL. Further, this agreement also had a clause dealing with arbitration that expressly provided that either of the parties can seek injunctive relief in case of breach of confidentiality or infringement of IP rights. After non-payment of the license fee, MSIL terminated the licensing agreement. Disputes arose, and MSIL filed a suit seeking an injunction and damages against IPREL. In response, IPREL filed an application seeking the matter to be referred to arbitration in accordance with the licensing agreement.

MSIL objected to the said referral on many grounds, one among them being copyright and trademark does not come under the arbitrable subject matter. The Court ruled negative with respect to the subject matter objection, thereby referring the dispute to arbitration. The Court reasoned its decision by stating that the licencing agreement is a commercial document and the agreement was for authorising the licensee to use the copyright/trademarks. Further, the Court also stated that the tribunal is capable of giving injunctive relief as the agreement was governed by English Law. Here, it is pertinent to note that even though the agreement was associated with licensing IP rights, the Court distinguished the nature of the dispute and held it to be a contractual one and not IP dispute.

Steel Authority of India v SKS Ispat and Power Ltd.

In *Steel Authority of India v SKS Ispat and Power Ltd.*,³⁵ Steel Authority of India (SAIL) had filed a suit seeking a permanent injunction and claiming damages against SKS Ispat & Power Ltd (SKS Ispat) for infringing SAIL's trademarks and against passing off by the defendants of their goods as SAIL's goods. SKS Ispat had filed a petition under section 8 of the Arbitration Act seeking the matter to be referred to arbitration in the view of the arbitration agreement.

The Court had dismissed the petition seeking referral by observing that the reliefs of infringement and passing off did not fall within the jurisdiction of the arbitrator. The Court reasoned its position by stating that trademark and allied rights were matters *in rem* and were not amenable to resolution by arbitration. Further, the Court categorically observed that the disputes regarding infringement and passing off does not arise out of the contract.

Eros International Media Ltd. v Telex Links India (P) Ltd.

In *Eros International Media Ltd. v Telex Links India (P) Ltd.*,²⁸ *Eros and Telex* signed a term sheet that granted Telex content marketing and distribution rights regarding certain films. The parties were to enter into a comprehensive agreement that would supersede the term sheet which also had an arbitration clause. Disputes arose between the parties and Eros filed a suit for infringement against Telex and seven others who claim to have used the copyrighted material pursuant to a sub-licence from Telex. After the infringement suit, Telex filed a petition under Section 8 of the 1996 Act for referring the dispute to arbitration. Eros argued that the dispute was not arbitrable as the jurisdiction of the arbitral tribunal has been ousted by the exclusive jurisdiction of the competent District Court.

The Court rejected the said contention of Eros and held the dispute to be arbitrable. The Court reasoned its stand by stating that,

- a) Merely because a statute confers jurisdiction on the District Court regarding infringement matters cannot be a ground for holding the disputes in the matter as non-arbitrable. Provision of such nature only defines the entry-level of such actions in the judicial hierarchy does not vest the said forum with exclusive jurisdiction.
- b) Actions of infringement between two claimants of copyright are not actions *in rem* but are only actions *in personam*. Moreover, these actions cannot be characterised as actions *in rem* if the commercial parties have consciously chosen arbitration as a method of dispute resolution.

As discussed above in the previous section, it is pertinent to note the same Court immediately after *Eros* pronounced a judgment²⁸ which had the contrary view towards arbitrability of IP disputes and the same cannot be amenable to arbitration as it ousted by the conferment of exclusive jurisdiction on competent District Court to resolve copyright infringement disputes.

Impact Metals Ltd v MSR India Ltd

*Impact Metals Ltd v MSR India Ltd*³⁶ is a dispute arising out of a manufacturing agreement executed between Impact Metals and MSR India to manufacture and supply certain goods of MSR India. The agreement provided the specifications, trade secrets, and any other designs, documentation, drawings, test information, data, and information regarding the design and manufacture of MSR India's products, and the agreement also contained an arbitration clause. Subsequently, MSR India filed a suit complaining that Impact Metals stole their invention and filed an application for grant of patent rights in respect of an invention which was of MSR India. Due to which it sought an injunction restraining Impact Metals from using MSR India's IP rights.

Objecting to MSR India's claims, Impact Metals filed an application under Section 8 seeking reference of the dispute to arbitration in view of the arbitration clause. The Trial court rejected petition of referral. In the revision petition, the Hyderabad High Court held that the dispute was covered by the agreement between the parties and was hence to be referred to arbitration.

It is pertinent to note that the Court expressly rejected the argument in the light of *Booz Allen* that the dispute could not be referred to arbitration since the Copyright Act 1957 conferred jurisdiction specifically on the District Court. Further, it also held that there neither an explicit nor implicit bar on arbitrating such disputes. Further, even the Supreme Court refused to interfere with the decision of the Hyderabad High court.³⁷

Hero Electric Vehicles Pvt. Ltd. v Lectro E-Mobility Private Ltd

*Hero Electric Vehicles Pvt. Ltd. v Lectro E-Mobility Private Ltd*³⁸ is a dispute arising out of Family Settlement Agreement (FSA) and Trademark and Name Agreement (TMNA) of Manjul Group, and the said agreements were also amenable to arbitration. The FSA divided the Group into four family groups (F1-F4) and the TMNA granted the exclusive rights to use the mark "Hero" and its variants, concerning electronic vehicles including electric bikes to the Hero Exports (F1). Similarly, it granted the rights of the mark "Hero" and its variants for other classes of goods to the remaining family groups which also included granting the rights of the mark to Lectro E-Mobility (F4) for bicycles. The dispute arose when Lectro E-Mobility started using the marks 'Hero' on electric bicycles having a throttle. Hero Exports sought to

restrain Lectro E-Mobility from using the Hero Mark. Subsequent to which Lectro E-Mobility sought the dispute to be referred to arbitration under Section 8 of the Arbitration Act.

Hero Exports argued that issues in controversy would operate *in rem* and hence not amenable to arbitration. The Court opined that the disputed is amenable to arbitration and observed that it would be more appropriate for Hero Exports to present the dispute before the Arbitrator and seek any relief in accordance with the law. In support of the said order the Court referred *Vidya Drolia*,²¹

“Where a valid arbitration agreement exists, the decision also underscores the position that, ordinarily, the disputes between the parties ought to be referred to arbitration, and it is only where a clear ‘chalk and cheese’ case of non-arbitrability is found to exist, that the court would refrain from permitting invocation of the arbitration clause.”

The said order of the Court is in line with the test laid down in *Vidya Drolia*. The court also recognises the fact that the trademark in question in the suit already stood granted prior to the FSA and TMNA; but emphasised and gave due regards to the fact that the dispute at hand was arose out of the contractual assignment vide the execution of the FSA and the TMNA, and thus exists solely in *personam*.

Practical Applicability of Current Position of Law

From the above-discussed judgements, it is clear that the position regarding arbitrability of IP disputes is evolving. Still, at the same time, numerous judgments show that the courts favour arbitrating disputes arising out of licensing, technology transfer agreement, or any commercial contract involving IP as long as they don't involve the validity of such IP.³⁹ Yet this stand of the courts cannot be practically worked out as disputing parties resort to raising vexatious and dressed-up defenses such as the validity of IP or raising allegations of fraud to oust the jurisdiction of the arbitral tribunal. Concerning allegations of fraud, the Supreme Court in *A. Ayyasamy v A. Paramasivam*⁴⁰ categorically observed that it is essential to identify whether the allegations are '*fraud simpliciter*' or '*complex fraud*', as the arbitrator(s) can only decide on the former and barred from adjudicating the allegations of complex fraud. Therefore, it is essential to determine if such allegations of fraud or claims of invalidity or

revocation of IP is raised with *mala fide* intent to wriggle out of arbitration.

To illustrate the practicality of IP arbitration in India, let us consider a situation where the licensee acted beyond the scope of the patent licensing agreement. One of the common defenses in infringements suits arising out of breach of licensing agreement is to either approach Intellectual Property Appellate Board (IPAB) with a revocation petition under Section 64(1) of the Indian Patent Act, 1970 or to file a counterclaim in the infringement suit. On looking at the nature of defense, it is clear that it would be out of the tribunal's scope to decide on said defense as competent authority to decide the revocation is IPAB. Similarly, only a High Court can determine the counterclaim. If the respondent(s) raise these defenses in arbitration, it'll result in ousting the jurisdiction of the tribunal under current practice as there are specific forums (IPAB) entrusted with deciding on validity of patents Even if the respondent is allowed to proceed with necessary actions at the competent forum, it will make the arbitration process redundant as the tribunal cannot proceed with bifurcated claims or cause of action⁴¹ and decide on such claims which are arbitrable.

Therefore, in a nutshell, the current position of law in India allows to resolve IP disputes through arbitration as long the subject matter and cause of action of the dispute does not fall under the category of inalienable function of the State, neither explicitly nor implicitly barred by any statute, and relates to rights *in personam* without affecting the rights of third parties. But, even in such cases where the disputes are concerned with commercial rights and obligations or regarding infringement of IP rights, there is still a possibility of such disputes not capable of being arbitrated as claims of fraud, counterclaim of IP, the invalidity of IP, etc. can either be raised as a defense or forms part of supplementary issues to be decided to resolve the primary dispute. Hence, there arises a need to address these impediments to ensure the practicality of IP arbitration.

Arbitration of IP Disputes: A Global Perspective

This section of the article examines the position of selected jurisdictions (Switzerland, United States, Germany, Hong Kong) on the arbitrability of IP disputes with respect to both legislative and judicial aspects. The position of each jurisdiction would be specially analysed on arbitrability of validity claims arising out of the IP disputes. The jurisdictions

discussed in this section are by no means an exhaustive list concerning the arbitrability of IP dispute. Instead, these jurisdictions are chosen as they allow arbitrating validity claims, and hence, each jurisdiction is analysed to determine their varied approach in regulating IP arbitration.

Switzerland

Switzerland is one of the first countries that dealt with the arbitrability of IPR as early as 1945. The Federal Supreme Court categorically stated that Article 76 of the Federal law on patents did not confer any exclusive jurisdiction on State courts to adjudicate on Patent disputes.⁴² This acknowledgement from the Supreme Court paved the way for arbitrating IP disputes in Switzerland. However, the Supreme Court did not affirmatively deal with the arbitrator's power to rule on such IP's validity. Later, the Swiss Federal Office for Intellectual Property also expressed their opposition to arbitrating patent validity issues.

In 1975 the Federal Office notified that tribunals could determine the validity of patents⁴² making disputes concerning the validity of IP arbitrable. Moreover, if such award is recognised by the certificate of enforceability issued by the Swiss Court having jurisdiction over the seat of the tribunal under Article 193 of Federal Statute on Private International Law, it will be recorded in the federal intellectual property register,⁴³ which makes the award have an *erga omnes* effect.

Further, the Swiss law restricts the inarbitrability only to such issues, which interplays with core areas of public policy, such as expropriation of IP or mandatory licensing. Thus, Switzerland has empowered the tribunals with the same jurisdiction as the national public authorities by allowing them to adjudicate all types of IP disputes concerning claims, infringement, and validity.

United States

The United States of America was initially ill-disposed towards arbitrating IP disputes. In *Beckham Instruments, Inc v Technical*⁴⁴, the Court held that "The complex principles of patent law which a court must consider and apply when deciding issues of validity and infringement, affect important questions of public policy and public rights." However, a different approach was evident as the Court in *Sherk v Alberto-Culver Co.*⁴⁵ recognised the importance of arbitration by observing that the public policy

favouring enforcement of an arbitration agreement would prevail over the domestic policy. Disputes involving Trademark and Copyright have also seen a similar trend. The Court in *Kamakazi Music Corp. v Robbins Music Corp.*⁴⁶ allowed copyright matters to be decided by an arbitration tribunal but excluded the tribunal from ruling on the validity of the copyright. This approach was turned, and the courts have held that validity⁴⁷ and ownership of copyrights⁴⁸ can be arbitrated.

Further, various decisions⁴⁹ of the Court, coupled with the amendment to the US Patent Act in 1984⁵⁰ expanded the ambit of arbitrability of a dispute. In *Rhone-Poulenc Specialites Chimiques v SCM Corp*⁵¹ and *Re Medical Engineering Corporation*,⁵² the Court held that disputes arising out of patent infringement to be arbitrable. Title 35 US Code § 294 approves "*arbitration any dispute relating to patent validity or infringement arising under the contract.*" It also lays down that the award's effect would be *inter partes*, i.e., binding only between the parties to the arbitration and has no impact on any other person. It also stipulates that the award can't be enforced until either party the United States Patent and Trademark Office's (USPTO) notifies the USPTO's director, who enters the award in the patent register.

Germany

Germany, in the past considered IP disputes outside the scope of arbitration. The liberty to settle a dispute outside the purview of the Court was limited. There was a clear division in adjudicating infringement disputes and the validity of patents.⁵³ In 1996, the *Bundesgerichtshof (Federal Court of Justice)* ruled that patent cases are arbitrable except for those cases that involve the patent's validity.⁵⁴ Further, in 1998 changes were made to the German Code of Civil Procedure (ZPO), where Section 1030 dealt with the term arbitrability⁵³ and laid down two requirements for the same. First, the dispute's subject matter should involve proprietary rights; second, disputes concerning non-pecuniary claims arbitrable as long as they reach out of court settlement.

Therefore, infringement disputes, which are private law claims, were supposed to be instituted at the standard Court of the first instance for civil actions. The validity of patents, which is a public law issue, was determined by the Federal Patent Office, and any dispute involving validity claims was vested with *Bundespatentgericht (Federal Patent Court)*.⁵³ But, the Federal Patent Court, even though it takes up

issues which deal with public law, it is considered to be a court of private law as its decision can be only appealed to *Bundesgerichtshof* (*Federal Court of Justice*), which deals with civil matters and not to *Bundesverwaltungsgericht* (*Federal Administrative Court*).⁵³ Therefore, this, in a sense, resulted in split jurisdiction in adjudicating patent disputes with the Federal Patent Court's dualistic nature.

Hong Kong

Hong Kong has always been one of the most arbitration-friendly jurisdictions.⁵⁵ To make it even more appealing for the parties to arbitrate, it introduced the Hong Kong Arbitration Ordinance, 2017, which applicable to arbitrations commenced on or after 1 January 2018.⁵⁶ The Department of Justice, in its statement on objectives of the policy, stated that to promote and develop itself as a pro-IP Arbitration jurisdiction, it was essential to clarify Hong Kong's position on the arbitrability of IP disputes.⁵⁷ The ordinance clarified that any dispute over IPR could be arbitrated and effectively enforced. Further, the ordinance also regulates the validity of a patent can be the subject matter of arbitration⁵⁸, and any such award passed shall act only *inter partes* and does not affect any right or liability between a party to the arbitral proceedings and other licensees.⁵⁹

Conclusion

In this technology-driven world, coupled with the limited scope of IP monopoly, the Court's inability to efficiently adjudicate various IP disputes has become readily apparent. The arbitration offers tailored mechanisms that are intended to ensure a fair resolution of the disputes by adequately accommodating the interests and needs of the parties through an efficient and speedy process unhampered by the cumbersome procedure of the Courts and technicalities of statutes. Even though there have been many pro-IP arbitration judgements from the courts in India, the ambiguity revolving around the same hasn't been comprehensively dealt with to encourage parties to arbitrate IP disputes, resulting in such disputes getting resolved by litigation.

A substantial number of foreign investments in India involve some level of IP licensing or technology transfer agreements. If a restrictive regime on arbitration of IP disputes is continued to be followed, parties would seldom choose India as the seat of arbitration. Therefore, in the interests of India's aspirations of becoming arbitration-friendly jurisdiction, it is high time that the

State recognises the necessity to shift from exercising State's exclusivity to respecting party autonomy even in the IP regime. Moreover, the parties do not forgo the statute's substantive protections, instead trade the judicial procedure for a flexible, efficient, and seamless arbitration mechanism. Therefore, liberalising arbitrability of IP disputes would be a significant boost for the IP sector and further realise India's aspiration to become an international arbitration hub.

Suggestions

The absence of unambiguous and comprehensive legal regulation on the arbitrable subject matter has vexed the Indian courts. It is understandable that with the ever-evolving nature of disputes and complexities associated with them, it will be unrealistic to expect the legislators to come up with an exhaustive list of arbitrable matters. Regarding the arbitrability of IP disputes, the Bombay High Court in *Eros Int.*²⁸ and *Vidya Drolia*²¹ has expressly rejected the inherent non-arbitrability of IP disputes, thereby evincing the trend towards arbitrating IP disputes. Simultaneously, the practical applicability of the same makes these pronouncements redundant for the reasons discussed in the previous sections. Premised on impediments discussed in the previous section and considering the trends across various jurisdictions, the following suggestions are proposed.

Disputes Involving Intellectual Property Rights (Including Issues of Validity) are Arbitrable

Even though IP rights are characteristically '*rights in rem*' operating against the world at large, at the same time, not every cause of action arising out of IP disputes consequentially have an action *in rem*. Therefore, as far as IP disputes are concerned, it is recommended that all claims should be arbitrable, including claims of validity, provided the claim does not fall within the domain of state monopoly or inalienable functions of the State such as expropriation of IP, or mandatory licensing. The rationale behind allowing the arbitral tribunal to decide on disputes dealing with the validity of IP, as it is more efficacious to let the tribunal decide instead of staying the arbitration proceeding and to commence parallel proceedings before the competent forum to decide on the invalidity of IP. Moreover, if the arbitration proceeding is stayed until a competent forum decides on validity, the rationale behind arbitrating disputes, i.e., an efficacious, cost-effective, speedy out of court settlement of a dispute, would be nullified or mitigated.

Recognise the Award *Inter Partes*

Concerning the effect of the tribunal's award, broadly, there are two approaches adopted by the various jurisdictions. First, pragmatic and progressive like Switzerland by recognising the award with *erga omnes* effect. Second, like Hong Kong, recognise the award *inter partes*, thereby not affecting anyone except the parties involved in the arbitral proceeding. India could recognise the award *inter partes* and reserve the authority to decide on validity claims with existing adjudicatory authorities, which would have an *erga omnes* effect. Since the declaration of nullity and invalidity of IP with *erga omnes* effects interplays with a public economic interest, it would be ideal to leave it to the jurisdiction of the statutorily recognised authorities.

Statutory Recognition of Arbitral Tribunal as Appropriate Forum

Amending the respective provisions of various IP legislations to include viz. recognise arbitral tribunal as an appropriate forum to resolve the disputes along with the already existing adjudication process. Giving this statutory recognition would ease the enforcement of awards awarded in such disputes. Thus, the judgment debtor can't seek to set aside the award based on either the claim of non-arbitrable subject matter or in conflict with the public policy by restoring exclusive jurisdiction arguments.

Applicability of *Res Judicata* (Bar to Re-litigate the Invalidity Claim before Competent Forum)

The principle of *res judicata* shall squarely apply to parties in arbitration,⁶⁰ and they shall not relitigate the invalidity claim before a competent forum or make the award have effect *in rem*. Anyone except those who were party to the arbitral proceedings can proceed with claims of invalidity of IP under a competent forum. But, in any such proceedings claiming invalidity or revocation, the award passed by the tribunal (including findings of invalidity) will not have any bearing or evidentiary value. Concerning other information or documents such as submissions, pleadings, the testimony of witnesses, transcripts, etc. which were part of arbitration cannot be made part of any future proceedings, and the same would be protected by confidentiality under Section 42A of the Arbitration Act.

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