 ***DOI:** https://doij.org/10.10000/IJLSI.111559*

INTERNATIONAL JOURNAL OF LEGAL SCIENCE AND INNOVATION

[ISSN 2581-9453]

Volume 5 | Issue 2

2023

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Arbitrability of Intellectual Property Disputes: A Legal Analysis

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ABSTRACT

"The development of the doctrine of international arbitration, considered from the standpoint of its ultimate benefits to the human race, is the most vital movement of modern times."

- William Howard Taft

Intellectual Property assumes a significant position in the global economy. Disputes arising out of intellectual property are well recognised globally and the need for a shift in its resolution mechanism is felt. Despite the several protection regimes in place, intellectual property disputes are on a rise and are clogging the judiciary. A need for a shift from court-based litigation to effective Alternate Dispute Redressal Mechanisms is the need of the hour. Among the many ADR methods. Arbitration is the most desired dispute resolution mechanism for commercial disputes as it offers several advantages such as party autonomy, saving time and cost, confidentiality to name a few. However, Intellectual Property Disputes have certain characteristics that are complex and challenging. IPRs per se cannot be arbitrated as they are in nature of 'right in rem' but there have been instances where IP disputes have successfully been brought under the Arbitration regime. Arbitrability of IP Disputes remains a grey area in India. This paper aims to study the nature of Intellectual Property Rights and analyse the challenging concept of Arbitrability of IP disputes from an Indian view point. The paper further examines and probes into the pros and cons of engaging Arbitration as a means to resolve IP disputes, and the status of various jurisdictions shall be studied for the same. The author concludes by laying emphasis on the significance of arbitrating IP disputes, and reiterates the need to re-examine the Doctrine of Arbitrability and proposes the constitution of Special Arbitral Tribunals to deal exclusively with commercial arbitrations arising from IP.

Keywords: *Intellectual Property Disputes, Alternate Dispute Resolution, Arbitration, Rights in Rem, Special Arbitral Tribunal*

I. INTRODUCTION

Intellectual Property is one of the most significant aspects of business transactions in the

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current times. Intellectual Property has a well-built protection regime in place, be it nationally or internationally. The holder/owner of the Intellectual Property enjoys complete monopoly rights. Despite the protection accorded to IP, disputes are meant to occur. Once the dispute arises, the mode of resolution has to be determined. The traditional way to resolve IP Disputes is through court litigation. But with more and more cases, the need for other mechanisms is felt. Among the many available mechanisms, Arbitration has been the most successful for commercial transactions.

II. INTELLECTUAL PROPERTY RIGHTS AND ITS NATURE

Intellectual Property (hereinafter referred to as 'IP') has been defined by the World Intellectual Property Organisation (WIPO) as creations of the mind, such as inventions, literary and artistic works, designs and symbols, names and images used in the commerce.[2] WIPO was established under the Convention of 14 July 1967, and Article 2(viii) defines Intellectual Property Rights. As per the definition, Intellectual Property Rights include: literary, artistic and scientific works, performances of performing artists, phonograms, and broadcasts, inventions in all fields of human endeavour, scientific discoveries, industrial designs, trademarks, service marks, and commercial names and designations, protection against unfair competition, and all other rights resulting from intellectual activity in the industrial, scientific, literary or artistic fields.[3]

In short, IP Rights are the rights that are given to individuals to protect their inventions, discoveries and creations. It provides the owner of the IP to have exclusive right to utilise his IP. The IP Rights have a unique characteristic. Firstly. IP Rights are intangible rights. It is a property right and therefore; all the qualities of a property can be attributed to it. It can be purchased, sold, inherited, licensed like any other property. But a unique nature of IP is that IP rights are rights in rem.

Right in Rem means a right that is available against the whole world. The possession of IP Right creates a duty on the world at large not to interfere with the IP Right. But to classify them as only a Right in rem would be a faulty interpretation. IP Rights can be both right in rem and right in personam. For example, IP claims can arise out of contractual obligations and relations between the parties, as in the case of a licensing agreement or an agreement of Publication. IP Claims can also be in the form of Right in rem as in the case of registration of a Trademark or a patent. This dual nature of IP Rights is what creates a question regarding its arbitrability.

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[2] World Intellectual Property Organization, <https://www.wipo.int/about-ip/en/>, accessed 2 December 2022.
[3] Article 2(viii), Convention Establishing the World Intellectual Property Organization (WIPO Convention) 1967.

III. Arbitration as a means of dispute resolution

Alternate Dispute Resolution Mechanisms have gained prominence. Arbitration, as defined by the World Intellectual Property Organisation (WIPO), is a process of dispute resolution wherein parties in consensus submits by an agreement to one or more arbitrators, a dispute between them for adjudication by the arbitrators. [4] Arbitration, today, is one of the most sought-after dispute resolution mechanisms. Arbitration, just like State Courts, are adjudicating bodies. But in Arbitration, the judge i.e., the arbitrator is chosen by the parties themselves. The advantage of this arrangement is that the parties can choose arbitrators who have expertise in the subject of dispute, have awareness of the relevant and applicable laws, customs etc,. The parties are free to determine the procedure for the conduct of the proceedings as well. It is less time-consuming and effective, as compared to the regular Court dispute resolution mechanisms. Moreover, it also provides a higher degree of flexibility to the parties involved. Maintaining Confidentiality is another aspect that makes arbitration attractive for disputes that involve complex and private information. The

As the definition states, the essential requirement for an arbitration proceeding is the existence of an agreement between the parties referring a dispute to Arbitration.

IV. Arbitrability as a subject:

For any arbitration proceeding to proceed further, the primary question is whether the said dispute is arbitrable or not. This question is generally called the question of ‘arbitrability.’ As discussed, Arbitration is the most sought after and attractive mode of dispute resolution, but not all commercial matters can be successfully brought under the regime of Arbitration.

Arbitrability, in simple words, means the jurisdiction of the arbitral tribunal. It means whether the arbitral tribunal can decide on the said matter.

The subject of Arbitrability can be understood through a collective study of legislations, the Court judgments and the jurisprudential theories.

Legislations and their interpretations:

In India, Arbitration is governed under the Arbitration and Conciliation Act, 1996 (hereinafter referred to as the ‘Arbitration Act.’) The Act does not provide a list of subjects that can be arbitrated. But the reading of the act suggests that there was no intention to exclude any specific

[4] World Intellectual Property Organization, <https://www.wipo.int/amc/en/arbitration/what-is-arb.html> accessed 2 December 2022.

kind of disputes from its ambit. [5]

Section 2(3) of the Act states – *"(3) This Part shall not affect any other law for the time being in force by virtue of which certain disputes may not be submitted to arbitration."* The Act comprehends that there may be few subjects that cannot be arbitrated and therefore, this clause provides a provision to exclude them from the regime of Arbitration. But the act per se does not specifically exhaust IPR from Arbitration.

Further, IP disputes come under the umbrella of commercial disputes. Commercial dispute has been defined under the Commercial Courts Act, 2015. Section 2(c) of the Act provides a list of disputes that can be categorised as a 'commercial dispute.' **Section 2(c) (xvii)** clearly states that *intellectual property rights relating to registered and unregistered trademarks, copyright, patent, design, domain names, geographical indications and semiconductor integrated circuits*; [6]and the disputes arising out of them are commercial disputes. The Commercial Courts Act, 2015 refers to the Arbitration Act at several instances. For instance, Section 10 of the Act clearly states that commercial disputes can be subjected to arbitration. But it does not state that IP Disputes, one of the kinds of commercial disputes, are barred from arbitration.

The **Copyrights Act, 1957** amends and consolidates the law relating to copyright. The Act does not make any reference to arbitration whatsoever. Moreover, **Section 62** of the Act specifically provides that any infringement of copyright in any work or any other infringement under the act shall be solely instituted before the district court having jurisdiction. There is no scope for arbitration in case of Copyright Act.[7]

But the **Patents Act, 1970** rekindles the hope for the proponents of the IP Arbitration. **Section 103(5)** of the Patents Act states that the High Court can refer the matter to an arbitrator where one of the parties is the government.[8] Thereby, creating a scope for arbitration of IP Disputes.

Thus, Indian legislations specifically have not put a blanket bar on Arbitration of IP Disputes. The interpretation of these legislations by the Courts have further strengthened the argument for Arbitrating IP Disputes.

Judicial Interpretation

The Judiciary has played a key role in deciding on the subject of arbitrability.[9] One of the

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[5] Arbitration and Conciliation Act, 1996 (Act 26 of 1996).
[6] The Commercial Courts Act, 2015 (Act 4 of 2016).
[7] The Copyrights Act, 1957 (Act 14 of 1957).
[8] The Patents Act, 1970 (Act 39 of 1970).
[9] Prachi Gupta, 'The Conundrum of Arbitrability Of Intellectual Property Rights Disputes In India: An Analysis', 15 July 2022.

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earliest cases in this regard is the ***Mundipharma AG v. Wockhardt Ltd***.[10] This case dealt with Cross-border IP Dispute between a Swiss Company and the Indian Company. The Swiss company, through an agreement, gave the Indian Company the right to use their trademark. As per the agreement, any dispute arising out of the agreement was to be resolved through International Chamber of Commerce's Arbitration Rules. But the Court came down strongly against Arbitration and stated that any claim of infringement of copyright, and any relief sought in the form of injunction can never be the subject matter of arbitration or can be before any arbitral tribunal. Such matters shall be solely vested with the State Courts. The Court reflected a very restrictive approach and highlighted its hesitance to bring IP disputes under arbitration.

Later, ***the Ministry of Sound International Case***[11] provided a different perspective. The Court presented a pro-arbitration judgment and stated that if there exists a contract that specifies resolution of dispute through arbitration, then that contract should be honoured and should be made 'subject matter of arbitration.' The facts of the case involved a IP Dispute arising out of a contract. Through this judgment, the Court sent across a message that IP disputes could be subject to Arbitration provided that the parties intend to do so.

One of the prominent cases is the ***Booze Hamilton Case***[12]. The dispute in this case was not an IP Dispute, yet the judgment made it clear that the rights that originate from intellectual property can be subject to arbitration. In the case, three aspects of non-arbitrability are discussed. This is popularly called as "The Triple Test for Arbitrability" - First, whether the nature of the dispute is capable of being resolved through arbitration? Two, whether there is an arbitration agreement that covers the dispute? And third, whether the dispute has been referred to arbitration?

The court also stated that the any dispute, whether civil or commercial, be it contractual or non-contractual, that a state court is capable of deciding, is in "*principle capable of being adjudicated and resolved by an arbitral tribunal unless the jurisdiction of the arbitral tribunal is either expressly or by necessary implication excluded.*"[13]

One of the most recent judgments, that extensively dealt with arbitrability is the ***Vijay Drolia v. Durga Trading Corporation***[14] case. The facts of the case are no where close to IP Rights, but the Court answered the question of whether rights in rem could be arbitrated or not. The Court recognised that the meaning of non-arbitrability and when the subject-matter of the

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[10] *Mundipharma AG v. Wockhardt Ltd*, (1991) ILR 1 Delhi 606.
[11] *Ministry of Sound International v. Indus Renaissance Partners Entertainment Pvt. Ltd*, 156 (2009) DLT 406.
[12] *Booze Allen & Hamilton Inc v. SBI Home Finance Ltd*, (2011) 5 SCC 532.
[13] Supra
[14] *Vijay Drolia v. Durga Trading Corporation*, Civil Appeal No: 2402 of 2019.

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dispute is not capable of being resolved through arbitration needs to be addressed. The Court laid down a 4-Step test to determine circumstances under which certain matters shall be non-arbitrable:

(i) When the cause of the action is with respect to Right in rem.

(ii) When the cause of action has erga omnes effect- which means is not just limited to the parties involved but affects third parties as well.

(iii) When the cause of action has a public interest aspect involved.

(iv) When the said subject matter has been either, expressly, or impliedly been barred from arbitration by laws.

In ***Olympus Superstructures case***, [15] the Court has held that the Specific Relief Act, 1963 does not prohibit referring disputes relating to specific performance of contracts to arbitration.

Jurisprudential Theories and Tests: Another way of understanding Arbitrability is through jurisprudential theories and tests. One such test is the Relief Test. The Relief test, in short, assesses the relief prayed or seeked. In the case of ***Rakesh Malhotra v. Rajinder Malhotra***,[16] the Court discussed about the relief aspect of non-arbitrability. The Court held – 'Parts of the relief may be in rem and therefore, the nature of the reliefs sought and powers invoked necessarily exclude arbitrability.'

The remedies seeked in IP disputes generally are right in rem. It means that the judgment given the court or the tribunal shall also be in rem, i.e., against the world at large. But arbitration is binding only on the parties involved and not the world at large. From this angle, arbitration seems non-viable as the purpose of the dispute settlement itself is not met. The relief aspect, is therefore, vital and significant in determining the arbitrability of any matter. The Court in the case of ***HDFC Bank v. Satpal Singh***, [17] held that if the reliefs sought were in personam and that which could be granted by an ordinary civil court, then in such a case, the dispute would be arbitrable.

Thus, it is clear that the Courts in India have a different and varied opinion in different cases. While few of them have adopted a pro-arbitration perspective, judgments like Vidya Drolia, again raise speculations regarding the arbitrability. But based on the Indian cases, there surely has been a shift in the approach of IP Arbitration, but there is still a long way to go.

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[15] *Olympus Superstructures Pvt. Ltd. v. Meena Vijay Khetan and Others*, (1999) 5 SCC 651.
[16] *Rakesh Malhotra v. Rajinder Malhotra*, MANU/MH/1309/2014.
[17] *HDFC Bank v. Satpal Singh*, 2013 (134) DRJ 566 (FB).

V. Arbitration v. Court litigation

Once the question of Arbitrability is settled, the next major question that arises is why Arbitration should be preferred over the already-established Court mechanism. It is to be noted that the IP rights are strong only if it can be enforced. As discussed, IP Rights have few characteristics which can be resolved in an efficient matter only through arbitration. Firstly, IP disputes are not limited to certain jurisdictions. Therefore, the risk of multiple court proceedings, in different jurisdictions creates unnecessary burden on the parties. The possibility of bias, in an inter-state IP Dispute, when matter is adjudicated by the home court also cannot be ignored. Furthermore, the Court litigation procedure is very restrictive. The adjudicator or a judge is a person who is expected to be the jack of all trades (in law context) and therefore, might not be an expert in IP. But in Arbitration, the parties shall determine the arbitrator and the expertise so needed to resolve the dispute shall be given preference in determining the same. Moreover, Court litigations are rigid, and are pre-established. It cannot be tailored as per the parties needs and on the basis of circumstances. Another important reason that makes arbitration attractive over court litigation is the aspect of confidentiality. Court litigations are public proceedings unlike arbitration, which takes place within four walls.

VI. International scenario

IP Arbitration is not a state-specific issue. IP is a cross-border transaction as well, and therefore, the approach of the world in arbitrating IP Disputes need to be considered.

The World Intellectual Property Organisation (WIPO) is the global organization that governs IP Rights and laws. WIPO was established through the Convention Establishing the World Intellectual Property Organization, which was signed at Stockholm on July 14, 1967. One of the highlights of the WIPO is the establishment of WIPO Arbitration and Mediation Centre. The WIPO Arbitration and Mediation Centre is based in Geneva, Switzerland and has been established to promote the resolution of intellectual property disputes through Alternate Dispute Resolution mechanisms. To achieve the same, the Centre has set up its own WIPO Mediation, Arbitration and Expedited Arbitration Rules.

WIPO Arbitration Process: All the proceedings in WIPO Arbitration are consensual, which means that there should be consensus between parties to submit the dispute to the WIPO Arbitration Centre. The Centre has recommended Contract clauses that the parties can add in their contracts, the IPR Contracts, for easy resolution of disputes. At the Centre, there are two kinds of Arbitration- WIPO Arbitration and WIPO Expedited Arbitration. WIPO Expedited Arbitration means a kind of arbitration in which time frame of the proceedings is shortened and

thus, reduces the total cost of the parties.

More than the functioning of the WIPO Arbitration Centre, the reason for its establishment has more significance to us. The need for a mechanism to resolve IP Disputes between different countries was felt globally. The lacunae concerning the specificity of IP and its disputes was internationally acknowledged.

WIPO Arbitration and Mediation Centre, till date, has resolved numerous IP Disputes successfully. For example, IP transactions between parties is long-term and based on trust and collaborations. Thus, parties aim to resolve the disputes amicably and consider settlement proposals. WIPO Arbitration and Mediation Centre provides a platform for amicable dispute resolution. In addition to this, the Centre also provides assistance and advice by designing arbitration agreements exclusively for a specific IP Disputes. This feature makes the Centre appealing as it is highly beneficial in commercial transactions. The researcher analyses the position of three countries that have taken major steps towards Arbitrability in IP Disputes. They are United States, Singapore and Hong Kong.

United States: United States is one of the countries that has expressively stated arbitration in IP Disputes. The federal statutory law states that the parties can agree to arbitrate patent dispute. Chapter 29 of the discusses the Remedies for Infringement of Patent and Other Actions. **Section 294** discusses at length 'Voluntary Arbitration.'[18] But this statutory recognition has been given only to patent disputes, and not other IP Disputes like that of copyright. It reads – "*A Contract involving a patent or any right under a patent may contain a provision requiring arbitration of any dispute relating to patent validity or infringement arising under the contract. In the absence of such a provision, the parties to an existing patent validity or infringement dispute may agree in writing to settle such dispute by Arbitration.*"

This statutory recognition expressly states the position of the State, and gives no room for doubts, varied opinions, and perspectives.

Singapore: Singapore has enacted the Intellectual Property (Dispute Resolution) Act of 2019. This enactment is a major step for Arbitration in IP Disputes because it amended the Singapore's Arbitration Act and the International Arbitration Act and brought IP Disputes under the umbrella of IP Disputes, irrespective of whether it's the central issue or not. But unlike US, this is applicable for all kinds of IP Disputes including patent, trademark, GI, Copyright etc.[19]

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[18] 35 U.S.C § 294(a).
[19] Singapore Intellectual Property (Dispute Resolution) Act 2019.

Hong Kong: Another country that has taken major steps is Hong Kong. Hong Kong aims to become the leading centre for arbitration, and thus to achieve the same, the country has put sustained efforts. One of them being the Arbitration (Amendment) Ordinance 2017, also called the 'Arbitration Ordinance' which states that '*disputes over IP Rights may be arbitrated and that it is not contrary to the public policy of Hong Kong to enforce arbitral awards involving IP rights.*'[20] The said Arbitration Ordinance introduced a new part 11A that specifically elaborated on 'IPR and IPR Dispute.' **Section 103F** states that an arbitral award cannot be set aside merely because the subject matter is IP.[21] This policy is similar to that of Singapore in terms of defining IPR. As per the definition, IPR includes patent, trademark, GI etc.

VII. The road ahead

The legal analysis of Arbitrability of IP Disputes in India highlights one important aspect that the international community has made consolidated efforts to introduce Arbitration in IP. The Courts in India have given varied opinions that has created different interpretations. This uncertainty can be resolved if the legislations specify the stand. It is the legislative lacunae that seems to be the reason behind the confusion. One of the solutions for this lacuna could be statutory recognition. The Arbitration in IP Disputes needs to be statutorily recognised as seen in the case of Singapore and US. But in India, IPR is regulated via different statutes, and therefore it is more feasible if a separate common legislation can be introduced. Moreover, it is time that the Supreme Court, the Apex Court of the country, revisits and examines the doctrine of 'Arbitrability' and thereby fills the vacuum created by the diverse judgments.

Recently, the Delhi High Court, on the basis of the recommendations of a Two-judge committee, created a separate division called the Intellectual Property Division (IPD) to efficiently address the IPR backlog. This step is indeed a step forward in improving India's IP Protection and enforcement system. But creating a division in only one High Court is not enough.

India can also establish Specialised Arbitral Tribunals that can cover resolution of commercial IP Disputes. These tribunals should contain panel of the IP experts who are well-equipped to resolve disputes arising out of Intellectual Property. These tribunals can have a broad jurisdiction. These tribunals can be similar to specialised Courts, and can be established through a statute, to resolve IP Disputes. Further, India' s National IP Policy should be implemented efficiently to bring IP disputes under the regime of arbitration.

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[20] Hong Kong Arbitration (Amendment) Ordinance 2017.
[21] Id.

Though the paper discusses at length about Arbitration as a means to resolve IP Disputes, the author acknowledges that IP Disputes can be better resolved through an integration of other ADR mechanism like Mediation, Conciliation etc, as well.

VIII. Conclusion

In light of the above discussion, it can be stated that arbitrability of IP Disputes is indeed a grey area and the debate of whether IP Disputes should be arbitrated or not, still continues. As seen, the Indian Courts have given different and varied opinions. Few of them are pro-arbitration and the rest are anti-arbitration. Though there has been an evolution of theory of arbitrability, IP Disputes cannot be brought completely under the regime of arbitration owing to its peculiar feature if Right in Rem in matters of IP rights available against the world. Nevertheless, for other IP Disputes arising out of contracts – Licensing agreements, Publishing Agreements etc, arbitration is the best resolution process. The Courts, through their judgments, have reiterated that there exists no blanket ban on arbitration in IP Disputes. Moreover, another important step towards arbitration can be seen in the National Intellectual Property Rights Policy 2016. One of the objectives specified in the rule reads *'strengthening of enforcement and adjudicatory mechanisms for combating intellectual property rights infringements.'* It can be said that the Policy hints at resolving IP Disputes through other mechanisms, one of them being arbitration. Thus, the doors of arbitration remain open.

Internationally, arbitration in IP has been discussed a lot. Countries have taken pro-arbitration steps as discussed. If a comparison is drawn, it is evident that India lags behind. It is time that India takes inspiration from other countries and WIPO Arbitration and Mediation Centre and establishes a mechanism through which IP Disputes can be resolved more efficiently. The pros of Arbitration in IP surely overpower the cons, and is the most feasible and efficient despite resolution mechanism.

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