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Arbitrability of Intellectual Property Rights

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ABSTRACT

The evolving landscape of intellectual property rights (IPR) and their intersection with alternative dispute resolution (ADR) mechanisms have become pivotal topics in legal discourse. IPR protects creators' interests, yet disputes in this realm are inevitable, particularly in the digital age. Although Indian courts acknowledge the arbitrability of IPR disputes, a definitive procedure is lacking due to the absence of a statutory mandate for ADR in these cases, leading to inefficiencies and inconsistencies.

This paper advocates for aligning Indian law with international developments in IPR arbitration to foster a conducive business environment, protect intellectual property, and encourage innovation. Legislative reforms are proposed to codify and standardize IPR dispute resolution in India, enhancing its global standing in the IPR landscape.

Key cases, including Booz Allen and Hamilton Inc v SBI Home Finance Ltd, Eros International Media Ltd v Telemax Links India Pvt Ltd, and IPRS v Entertainment Network, illustrate the complexities and inconsistencies in judicial rulings on IPR arbitrability. Comparative analysis of global practices, such as those in France, Singapore, and Hong Kong, highlights the potential benefits of embracing arbitration for IPR disputes.

The paper suggests amending the Arbitration and Conciliation Act and various intellectual property statutes to explicitly include ADR mechanisms and provide clear guidelines for arbitrability. These reforms aim to ensure efficient, fair, and consistent resolution of IPR disputes in India.

***Keywords**: Arbitration, ADR, IPR, Intellectual Property Rights.*

I. INTRODUCTION

In the dynamic landscape of today's world, evolution and change have become the constants that shape every facet of our lives. The world of intellectual property rights and its convergence with alternate dispute mechanisms has been an emerging topic of discussion in the legal world. Intellectual property rights exist to safeguard the creative and moral interests of the creators of different facets from being forged and credited righteously. It is a known fact that disputes arise in this realm of law, especially in this digital age. The arbitrability of such disputes has been acknowledged by Indian courts but there is a lacuna in the course of setting a definite

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procedure. In India, the absence of a statutory mandate for Alternative dispute resolution in IPR disputes has created inefficiencies and inconsistency. This paper argues that this legal vacuum hinders effective dispute resolution.

When seen through the lens of courts and their judgments the need for active legislative reform is apparent and overdue. By aligning Indian law with international developments in IPR arbitration, much-needed coherence can be brought to this area of law. Such reform is essential to foster a conducive business environment, protect intellectual property, and encourage innovation. This paper aims to reiterate on this issue and propose legislative solutions, advocating for the codification and standardization of IPR dispute resolution in India. By taking steps towards this, India can ensure the safeguarding of intellectual property rights and innovation, ultimately enhancing its position in the global IPR landscape while promoting the endless advantages of implementing alternative dispute resolution mechanisms.

To delve into this issue, understanding what intellectual property rights aim to protect is important. Intellect property is a result of "inventive human endeavour"; Something that people create, like special symbols, new inventions, and artwork. People who create these things are given rights to protect them from being used by others without permission. there is an infringement of these rights arise when dispute are raised.

Generally, these disputes can be classified into three categories: disputes arising from contractual agreements, disputes involving damages caused by third-party infringement, and disputes concerning the validity and duration of intellectual property rights, often involving government authorities. Most rights can be broadly categorised as rights *in rem* or rights *in personam.* Rights *in rem* is an exercisable right against the world as a whole and rights *in personam* deals with rights which are solely protected against specific persons. The Supreme Court case of Booz Allen and Hamilton Inc v SBI Home Finance Ltd[3] (Booz Allen) which will be discussed in further detail later on, decided that only rights *in personam* can be arbitrated because they don't infringe upon the rights of a third person/party. However, determining whether an intellectual property dispute is arbitrable or not has become increasingly challenging due to the multitude of agreements governing licensing, assignment, and other aspects. The absence of comprehensive legislation or judicial precedents further complicates the matter, leaving it up to the judiciary to establish jurisprudence in this field. While intellectual property rights are generally protected against the world, the complexities of the commercial world introduce subordinate rights that are solely between private parties and

[3] *Booz Allen and Hamilton Inc v SBI Home Finance Ltd* (2011) 5 SCC 532 [37].

unaffected by state influence. In essence, a right granted by the state undergoes a series of contractual agreements with private parties, potentially leading to multiple parties being entitled to these rights in different forms and capacities.

To understand the dilemma of rights *in rem* vis-a-vis rights *in personam*, the Booz Allen Test can be brought to light. In this landmark case, a loan was availed from SBI Home Finance Ltd. which was secured by mortgaging flats which were in their ownership. Consequent to this, both the companies agreed to enter a 'leave and licence' agreement with Booz Allen and Hamilton Inc. All four of the parties involved entered into a security deposit agreement which also contained an arbitration agreement. A dispute has arisen, and a suit was filed by SBI where they claimed redemption of money through the sale suit or selling the mortgaged property to secure the amount. The parties then prayed to the High Court that this matter should be referred to arbitration as per the stated agreement, but this was rejected. Then it was heard by the Supreme Court. The question and issue of whether or not the 'subject matter' of the suit was arbitrable by a private party was raised.

The court's ruling established that a mortgage constitutes the transfer of a property, making the lawsuit for the sale of such property an enforcement of the said right. Drawing a parallel between a decree for the sale of a mortgaged property and the winding up of a company, the court concluded that the act of enforcing a mortgage through a sale is a matter falling within the jurisdiction of the courts, rather than arbitration.

The court drew a distinction between Section 8 and Section 11 of the Arbitration and Conciliation Act, 1996, highlighting their contrasting aspects.[4] Section 8, with its wider purview, empowers the court to not only assess the legitimacy of the arbitration agreement but also evaluate the appropriateness of the subject matter for arbitration. Conversely, Section 11 relinquishes the court's authority to determine the arbitrability of a dispute, deferring such a decision to the tribunal.

After much deliberation, the court ultimately determined that the enforcement of a mortgage through sale is a matter to be decided by the courts, rather than through arbitration. It was recognized that removing the jurisdiction of civil courts would result in the complete elimination of the rights held by third parties. The reasoning behind this verdict has garnered the support of numerous esteemed scholars. The precedent set by the Supreme Court in this case serves as a foundation for delving into the topic of arbitrability in relation to IPR.

[4] Singhal, A. and Khatri, V. (2021) 'Recent developments concerning arbitrability of IPR disputes in India: a need for reform', Indian Law Review, 5:1, 1-18, DOI: 10.1080/24730580.2020.1800968.

Nevertheless, due to the intricate network of interconnected rights within the realm of IPR, a thorough analysis is required. It is crucial to comprehend the specific facts and circumstances of each case in the context of a party's rights concerning a third party.

This judgement has been advocated for by several other scholars as it clarifies on how arbitrators can adjudicate subordinate rights *in personam* which come from the realm of real rights.[5]This has been connected to rights being derived from a patent can be arbitrated upon but the specific validity of the patent on its own cannot be put to subject to arbitration proceedings. This case acts as a beginning point for conversations to start around the arbitrability of intellectual property rights. But IPR is a complex subject of law interlinking various rights, obligations and duties, a more detailed examination needs to be taken into consideration where the facts and circumstances of each case needs to be analysed with respect to the rights of a party and the third party.

II. INCONSISTENT JUDGEMENTS BY THE JUDICIARY

The case of Eros International Media Ltd v Telemax Links India Pvt Ltd[6] provides a significant legal precedent regarding the arbitrability of disputes related Intellectual Property infringement. In this case, Eros, a distributor and producer of movies with multiple copyrights, entered into an agreement with Telemax, allowing the latter to pre-install copyrighted content in devices. Eros filed a suit against Telemax for copyright exploitation and violation under Section 62 of the Copyright Act 1957. The case hinged on two primary issues: whether the Copyright Act of 1957 precludes arbitration, and if copyright infringement falls within rights in personam and is thus arbitrable.

The court ruling clarified that provisions like Section 62 of the Copyright Act 1957 and Section 134 of the Trade Marks Act 1999 did not preclude arbitration. It emphasised that the use of the term "district court" in these parts indicated that disputes may not be heard by courts lower than the district court within that jurisdiction. In accordance with the nature of property rights under various legislation, these conflicts might be addressed to an arbitrator. The court also affirmed the distinction between rights in personam and rights in rem, holding that IPR disputes might be arbitrated if the rights and remedy sought were entirely aimed against the respondent.[7]

However, a more nuanced examination of the arbitrability of infringement claims is necessary.

[5] Aceris Law, International Arbitration and Intellectual Property IP Disputes, https://www.acerislaw.com/international-arbitration-and-intellectual-property-ip-disputes/ (last visited 28 Sep. 2023).
[6] Eros International Media Ltd. v. Telemax Links India (P) Ltd., 2016 SCC OnLine Bom 2179.
[7] Ibid.

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A contrasting perspective was presented in the case of IPRS v Entertainment Network.[8] Here, the dispute involved the Indian Performing Right Society (IPRS) and a private radio FM operator. The arbitrator's award was challenged on the grounds that it was a right in rem, affecting not just the parties but also other artists and composers not part of the copyright society.

The court in IPRS distinguished this case from Eros v Telemax based on the remedies sought. While Eros was mostly about copyright infringement, IPRS was about the plaintiff's right to collect royalties from a larger audience. The arbitrator's decision limited IPRS's power to demand royalties from across the world, going beyond a basic in personam case. The court determined that not every infringement or royalty issue is solely in personam; some, like as the IPRS case, have an in rem effect, affecting a broader range of parties.[9]

The distinction made by the court in IPRS highlights the complexity of IPR disputes. While Eros provided a general guideline for arbitrability based on the relief sought and the parties involved, cases like IPRS demonstrate that the nature and scope of the dispute can significantly impact arbitrability. In essence, when an arbitration decision extends beyond the immediate parties and affects a broader spectrum of rights and entities, it becomes an action in rem, falling outside the traditional scope of arbitration.

This nuanced analysis underscores the importance of carefully considering the nature of each IPR dispute to determine its arbitrability. Not all disputes can be uniformly categorized as in personam or in rem; the specific details of the case, including the relief sought and the potential impact on third parties, must be thoroughly examined. As the legal landscape evolves, courts and arbitrators must continue to refine their understanding of arbitrability in the context of complex IPR disputes, ensuring that the principles of fairness, justice, and legal consistency are upheld in every case.

The arbitrability of Intellectual Property Rights (IPR) disputes remains a contentious issue in Indian jurisprudence. While civil remedies like injunctions, damages, and account of profits are available for IPR infringements, the Delhi High Court's ruling in Mundipharma AG v Wockhardt[10] set a precedent that claims seeking such remedies cannot be arbitrated, a stance reiterated in the IPRS case. This approach, if extended, could render IPR disputes non-arbitrable, a situation described in the Eros case as legal "thermonuclear devastation."[11] This

[8] Indian Performing Right Society Limited) v Entertainment Network (India) Ltd MANU/MH/1597/2016
[9] ibid
[10] Mundipharma AG v. Wockhardt Ltd. MANU / DE / 0612 / 1990
[11] Supra 6

scenario, however, doesn't align with the objective of the law, potentially overwhelming the courts and delaying dispute resolutions.

A crucial distinction exists between rights in personam and rights in rem in IPR matters. While rights in personam disputes can be arbitrable, if the dispute surpasses these boundaries, courts need to be vigilant. The case of Impact Metals v MSR India[12] highlighted this complexity. The dispute centered around alleged theft of IPR, with MSR India seeking arbitration under Section 8 of the 1996 Act. The district court rejected the application, stating that the relief (permanent injunction) fell outside arbitration's jurisdiction. However, the High Court of Andhra Pradesh disagreed, referencing the Booz Allen principle[13] that all civil or commercial disputes are arbitrable unless expressly excluded.

Despite the High Court's decision, the application of the Booz Allen principle was flawed. The court failed to actively engage with the facts of the case, merely stating that arbitration wasn't expressly excluded. Such decisions, overlooking potential third-party rights affected by arbitral awards, could set problematic standards. Given the absence of a definitive Supreme Court ruling and a clear legislative mandate, these disparate judgments are likely to persist.

The lack of uniformity in court decisions and contradictory interpretations of statutes like Section 62 of the Copyright Act 1957 underline the urgency for a comprehensive legislative framework governing the arbitration of IPR matters which is the need of the hour. An exhaustive code would establish consistent guidelines, ensuring fairness, clarity, and the protection of all parties involved, making the resolution of IPR disputes more efficient and just.

III. COMPARING JUDICIAL TRENDS AND STATUTES

The preceding analysis delves into the intricate realm of Intellectual Property Rights (IPRs) and their adjudication within the context of arbitration. It becomes evident through these examinations that the extension of arbitral tribunals' mandate to decide upon actions in rem, specifically the invalidity of IPRs, is a complex and contentious matter, particularly in India.

In India, the prevailing sentiment towards arbitration casts a shadow on its jurisdiction over issues involving the existence or validity of IPRs. This reluctance stems from the fundamental nature of IPRs; trademarks and patents are publically registered and granted by a public authority. Consequently, the validity of these rights is perceived as a matter that should remain within the purview of state jurisdiction, with decisions carrying an erga omnes effect, meaning they are enforceable against everyone. Traditional arbitration awards, in contrast, are inter

[12] Impact Metals Ltd. and Ors. vs. MSR India Ltd. and Ors. MANU/AP/0646/2016
[13] Supra 3

partes, binding only the parties directly involved in the arbitration process. This fundamental difference in scope has led to criticism and challenges, especially when parties exploit claims of invalidity strategically to evade the jurisdiction of arbitral tribunals.

Examining global practices offers intriguing comparisons. France, for instance, has historically excluded IPR disputes from arbitration due to the public nature of these rights. However, case law evolution led to a nuanced approach where arbitral tribunals could retain jurisdiction over disputes if challenges to title validity were incidental to ancillary claims. The resulting arbitral awards, though, remain inter partes in nature.[14]

In Singapore, a significant shift occurred with the Intellectual Property (Dispute Resolution) Act, 2019. This legislation expressly stated that IPR disputes were arbitrable, expanding the scope to include issues such as enforceability, infringement, subsistence, and validity of IPRs. While these arbitration awards have limited applicability (inter partes), this change marked a departure from the previous notion that only national authorities or courts could adjudicate IPR disputes.[15]

Hong Kong followed suit with the Arbitration (Amendment) Ordinance in 2017, clarifying that IPR disputes could be resolved through arbitration. These international developments underscore a growing acceptance of arbitration in IPR disputes, with recognition that while such resolutions are limited in their applicability, they offer a viable alternative to traditional litigation.[16]

However, India lags behind in this evolution. Disputes regarding the infringement of IPRs and royalty issues remain entangled in legal ambiguity, exacerbated by inconsistent interpretations of laws like Section 62 of the Copyright Act 1957. Additionally, the case of Sukanya Holdings v Jayesh H Pandya[17] highlights a critical concern: possible non-arbitrability of certain matters, such as validity or rectification claims, might invalidate the arbitrability of other components of the dispute.

A pivotal question emerges from this analysis: should India reconsider its stance on the arbitrability of IPR validity issues? One solution could be aligning with the models presented by France and Singapore, where arbitration is allowed for ancillary issues like validity. This approach would prevent the bifurcation of cause of action, as seen in the Sukanya Holdings

[14] Peterson P (*'IBA Subcommittee on Recognition and Enforcement of Arbitral Awards: Report on France'*) <https://www.ibanet.org/Document/Default.aspx?DocumentUid=60B63851-43E2-4A2D-B9A9-FA8CA2ACC863>> accessed 24 September 2023
[15] Singapore Arbitration Act 2002
[16] Hong Kong Arbitration (Amendment) Ordinance 2017
[17] Sukanya Holdings (P) Ltd. v. Jayesh H Pandya, MANU/SC/0310/2003

case, ensuring a more streamlined and efficient resolution process. While the resultant awards would remain limited in scope, applicable only between the involved parties, such an approach might reduce the burden on the already overburdened judicial system and provide a more efficient resolution avenue for IPR disputes.

In conclusion, the global landscape of IPR arbitration is evolving, with countries like France and Singapore embracing arbitration for ancillary IPR issues. India stands at a crossroads, where thoughtful reconsideration of its position could pave the way for a more efficient, accessible, and globally aligned dispute resolution mechanism in the realm of Intellectual Property Rights.

IV. CONCLUSION AND WAY FORWARD

An examination of Indian legal rulings regarding the arbitrability of intellectual property rights (IPR) disputes reveals a notable shift in approach. India has moved away from a blanket prohibition on arbitrating IPR claims, opting instead to consider the arbitrability of these disputes based on the specific rights involved. When the dispute pertains to issues of ownership and/or validity, it is typically reserved for the jurisdiction of state courts. Given the increasing significance of IP in the realms of business and commerce, efficient dispute resolution mechanisms are imperative to save both time and money. In light of this, we propose several reforms to address these concerns.

To begin with, a comparative analysis reveals that other jurisdictions have allowed arbitral tribunals to handle validity issues, but any resulting awards would apply solely to the involved parties (inter partes). Traditionally, matters of validity, which have in rem implications, were considered the exclusive domain of courts. However, prevailing perspectives now favor arbitration in these cases. This paper suggests that India should consider adopting a similar approach to ensure that a substantial portion of IPR disputes is not excluded from arbitration simply because one party raises a validity concern to undermine the arbitral tribunal's jurisdiction. Another option, bifurcation of the dispute, is explored, but it is noted that this may not be feasible given existing judicial pronouncements.

Secondly, the path forward may involve codifying the law and providing legal authorization for the arbitration of IPR disputes. One option is to amend the Arbitration and Conciliation Act to establish a list of conflicts that may and cannot be brought to arbitration. This technique, like the current Schedules V and VII of the Act, can provide a comprehensive list of arbitrable conflicts under the Act by listing conditions suggesting arbitrator bias or ineligibility. A framework like this would provide a point of reference for courts to establish the arbitrability

of IPR issues, addressing the existing absence of statutory direction.

Lastly, the dispute resolution provisions in numerous intellectual property statutes, most notably the Trade Marks Act of 1999 and the Copyright Act of 1957, do not currently allow for the employment of alternative dispute resolution (ADR) processes. Currently, several of these statutes require parties to seek settlement in district courts. As previously mentioned, this clause has resulted in divergent interpretations by different courts. These statutes should be modified to allow for the use of ADR processes in order to improve uniformity and predictability. Such a move would be especially useful as India attempts to establish itself as a global intellectual property powerhouse.

In conclusion, the evolving landscape of IPR dispute resolution in India underscores the need for thoughtful reforms to ensure that arbitration can effectively address the complexities of these disputes. By considering international precedents, codifying the law, and promoting the use of ADR mechanisms, India can enhance the efficiency and credibility of its IPR dispute resolution framework, ultimately bolstering its standing in the global intellectual property arena.

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