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Arbitrability of IP Disputes in India – A Blanket Bar?

Saniya Mirani and Mihika Poddar (West Bengal National University of Juridical Sciences) · Saturday, March 9th, 2019

Arbitration of IP disputes has inherent advantages of saving time and costs and ensuring confidentiality while also maintaining long-term business relations (see here). In India, arbitration will be especially useful in light of the enormous pendency of judicial cases.

However, arbitrability of any subject-matter is dictated by a country's public policy. In India, what forms part of arbitrable subject-matter is determined as per the test laid down in the Booz Allen Case, expanded upon by the Ayyasami Case. The following two categories of disputes are thereby inarbitrable in nature:

1. Disputes involving the adjudication of actions *in rem* as opposed to actions *in personem*, such as, disputes relating to criminal offences, guardianship matters etc. (hereinafter, the first test of arbitrability);
2. Disputes arising out of a special statute, which are reserved for exclusive jurisdiction of special courts, such as, matters reserved for small causes courts[1] (hereinafter, the second test of arbitrability). (See here and here)

These tests evince that arbitrability is dependent upon the nature of the claim made in a dispute, i.e., whether the claim is *in rem* or statutory in nature. This principle should guide the arbitrability of IP disputes too.

The IP Regime in India: A Primer

Before understanding the arbitrability of IP disputes, it is essential to understand the functioning of IP regime in India. The scope of this article is limited to analysing arbitrability of patent, copyright and trademark regimes. These regimes allow a "*statutory monopoly*" to be given to the creator of an intangible asset, conferring an exclusive right to exploit it. There are corresponding statutory remedies to enforce this right. For instance, there exist statutory remedies for infringement of copyright, trademark and patent.[2] As per the statute, these remedies must be granted by civil courts. The statutory mention of courts, as a forum to grant these remedies, creates the first hurdle in arbitrating IP disputes.

Lack of a Supreme Court precedent settling the issue

The Supreme Court of India has not conclusively settled the issue of arbitrability of IP disputes. In the *Ayyasami Case*, patents, trademarks and copyrights were listed in the category of inarbitrable disputes. However, the main issue before the court was of arbitrability of fraud (discussed here and here). Thus, categorization of IP disputes as inarbitrable was only *obiter dictum*. Therefore, this decision cannot be read to bar arbitrability of IP disputes.

Different positions of Indian High Courts

Both the aforementioned tests of arbitrability have been used to hold IP disputes inarbitrable. In the Mundipharma Case, the issue was whether a claim of 'copyright infringement' was arbitrable. The Delhi High court held the dispute to be inarbitrable given that infringement of copyright is a statutory claim, having definite statutory remedies that are to be granted exclusively by civil courts. This ruling thus seems to echo the second test of arbitrability that bars arbitrability of disputes arising out of special statutes which are reserved exclusively for civil courts.

Subsequently, in the SAIL Case [Suit No. 673/2014], a claim of 'trademark infringement' was held to be inarbitrable by Bombay High Court reasoning, "*the rights to a trademark and remedies in connection therewith are matters in rem and by their very nature not amenable to the jurisdiction of a private forum chosen by the parties*". Accordingly, the dispute was held to be inarbitrable on the basis of the first test of arbitrability that makes actions *in rem* inarbitrable.

The Eros Case brought about the first winds of change to this negative trend. The Respondent was granted a copyright license to distribute the Petitioner's films. The license contained an express negative covenant which prohibited the use of copyrighted films upon termination of contract. Respondent violated this term. Thus, the Petitioner initiated arbitration for 'violation of the contractual covenant' – a claim although sourced purely in contract, still required an infringement of copyright to be established.

The Bombay High Court held for the first time that it would be too broad, impractical and against all commercial sensibilities to hold that the entire realm of IP disputes is inarbitrable. Accordingly, the case rightly noted the nuance that that IP disputes arising purely out of contracts are arbitrable because they are actions *in personam*, i.e. "*one party seeking a specific particularized relief against a particular defined party*". Thus, the case applied the first test of arbitrability. The court went a step ahead to state that, a finding of infringement had to be made for proving such a contractual breach and that an arbitrator was empowered to make such a finding of infringement as 'infringement' can only be in *personam*. Thus, an infringement claim could now be determined by arbitration.[3)]

However, even when the dispute is *in personam*, the second test of arbitrability can be applied, to hold the disputes arising out of special statutes as inarbitrable. This test was refuted in EROS reasoning that the statute nowhere provides that the court is an 'exclusive' forum, and thus, arbitration should be allowed. We argue that the holding of inapplicability of the second test was correct. The second test is applied where there is an underlying public policy objective in keeping disputes in the hands of courts. For instance, labour disputes are made inarbitrable by Industrial Disputes Act, 1947, for the reason that a public fora can address the power imbalance prevalent

between employers and employees in labour disputes. However, in such IP disputes, similar considerations are not always in play. Thus, the EROS decision rightly refuted the second test of arbitrability.

Since the Eros and Euro Kids cases, other IP disputes that are purely born out of such negative covenants in contracts have also been upheld as being arbitrable.[4)]

Analysis and conclusion

In earlier cases of Munidpharma and SAIL, where arbitrability of IP disputes was tested, the petitioners raised statutory claims of infringement of copyright/trademark, and expected statutory or public law-based remedies in return. Thus, the only gamut of IP disputes whose arbitrability had been tested hitherto were those that were purely born out of IP statutes. However, IP disputes are not merely statutory, but can be contractual as well.[5)] With increase in quantum and complexity in commercial transactions, the arbitrability of purely contractual IP disputes arose very recently in recently in the EROS and Eurokids cases. These cases have rightly not applied SAIL's holding about the inarbitrability of purely statutory I.P. claims to contractual IP claims.

Thus, as per the current position in India, there is no blanket bar on arbitrability of IP disputes. Instead, arbitrability is determined on the basis of nature of claims raised. Disputes of royalty, geographical area, marketing and other terms of the license agreements, which are purely contractual, would be arbitrable. Parties in India can and should freely arbitrate such disputes. However, a dispute of validity/ownership of an IP right should be decided by the court/assigned public administration, for the dispute would result in a judgement affecting the general public's right to use the respective asset.

The position of infringement claims is dependent upon each case. Statutory infringement simpliciter would not be arbitrable in accordance with the *Mundipharma* and *SAIL* cases; while infringement arising purely out of contract will be arbitrable in accordance with EROS, Euro kids cases. However, often as is the case, if a counter-claim about the validity of IP right is raised against an infringement claim, the counter-claim needs to be resolved by the court for it would then be an action in rem. Pending such resolution, the arbitration may be stayed.

This position on arbitrability will ensure a balance of rights between inventor/author and the general public, with inventor/author retaining the right to arbitrate contractual rights and courts retaining jurisdiction over claims that affect the general public. Such a balance is desirable for effective functioning of the IP regime as well. The possibility of easy dispute resolution would encourage inventors. Retaining the courts' jurisdiction over matters where the public's right to use copyrighted works and patented inventions is affected, would also ensure a robust public domain and safeguard public interest.

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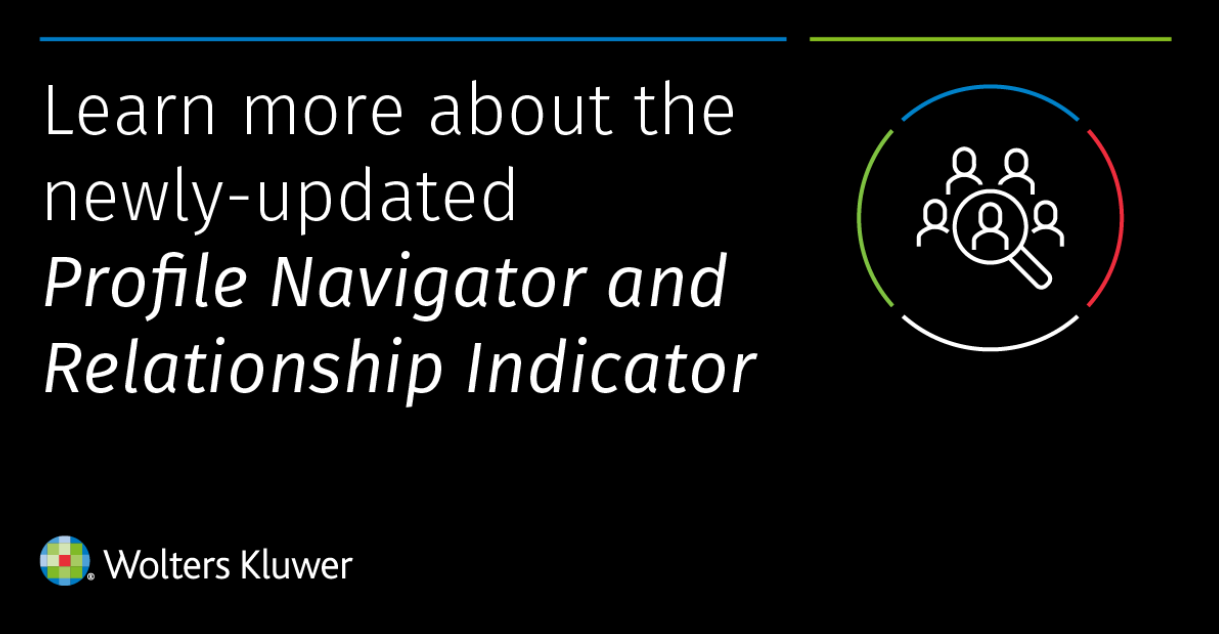

References

?1 Natraj Studios Private Ltd v. Navrang Studios & Another, 1981 AIR 537

?2 See, Chapter XII, Copyright Act, 1957; Section 135, Trade Marks Act, 1999; Chapter XVIII, Patents Act, 1970.

?3 Note that this ratio had been upheld by an earlier case from the same high court called Eurokids International Media Ltd. v. Bhaskar Vidyapeeth Shikshan Sanstha (2015) 4 Bom CR 73. However, Eurokids case was never referred to by EROS, as should have been done in light of the precedential system followed by India.

?4 Deepak Thorat v. Vidli Restaurant Limited, 2017 SCC OnLine Bom 7704

?5 In some cases, an entire contract may be about an IP right. For instance, license agreements, joint research and development agreements, etc. In other cases, the IP rights may form a part of a larger commercial transaction, such as, mergers, acquisitions, distribution agreements.

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