

# Kluwer Arbitration Blog

## Arbitrability of IPR Disputes in India: 34(2)(B) or Not to Be

Vishakha Choudhary · Thursday, August 15th, 2019 · Young ICCA

### Introduction

The juxtaposition of laws that seemingly operate in different domains has posed a continual challenge to arbitration – conventionally, in the form of concerns over arbitrability of disputes. Here, arbitrability connotes the notion that a dispute, by its nature, is capable of being adjudicated beyond public fora, through a private tribunal chosen by parties. This ‘objective’ arbitrability differs from ‘subjective’ arbitrability, which is the scope of arbitrable disputes as defined in an arbitration agreement. This post deals with objective arbitrability. In the context of intellectual property rights (‘IPR’) disputes, concerns of objective arbitrability stem from the impact arbitral awards may have on non-consenting parties. Owing to insufficient legislative engagement with this issue, judicial position on arbitrability of IPR disputes in India remains unsettled.

### The notion of objective arbitrability in India

The significance of objective arbitrability is set forth in Section 34(2)(b)(i) of the Indian Arbitration and Conciliation Act, 1996, identical to Article 34(2)(b)(i) of the UNCITRAL Model Law. It stipulates that awards contemplating a non-arbitrable subject matter may be set aside.

The Supreme Court first shed light on the implications of Section 34(2)(b) in *Booz Allen and Hamilton v. SBI Finance* (‘Booz Allen’). The Court emphasised that the scope of arbitrable disputes must be limited to those concerning ‘rights in personam’ or personal rights enforceable against certain individuals. *A contrario*, ‘rights in rem’ exercisable against the world at large were excluded from the scope of arbitrable disputes. Based on this rationale, the Court identified an illustrative list of non-arbitrable disputes: criminal offences, disputes concerning family laws, insolvency and winding up, testamentary matters and tenancy disputes. Pertinently, the Court in *Booz Allen* cautioned against a strict application of the *rem – personam* distinction by famously clarifying:

*This is not however a rigid or inflexible rule. Disputes relating to subordinate rights in personam arising from rights in rem have always been considered to be arbitrable.*

Further, it also excluded from the scope of arbitration in India, disputes arising from statutes that vest exclusive jurisdiction in specified courts.

## The curious case of intellectual property rights

### *A case-by-case approach by the Bombay High Court*

The Bombay High Court in *Eros International v. Telemax Links India Pvt. Ltd.* ('Telemax') directly addressed arbitrability of IPR (Copyright) disputes. The legal provision at issue was Section 62(1) of the Indian Copyright Act, 1957, which states:

*Every suit or other civil proceeding arising under this Chapter in respect of the infringement of copyright in any work or the infringement of any other right conferred by this Act shall be instituted in the district court having jurisdiction.*

According to the Court, this provision only precludes infringement claims from being brought before a court hierarchically lower than the competent district court. Section 62(1) was not, however, intended to oust the jurisdiction of an arbitration tribunal. Based on this preliminary finding, the Court proceeded to analyse the nature of infringement claims. It noted that while an infringement action arising from a contractual relationship may succeed against a certain defendant, this decision would not necessitate the success of such action against a different defendant. Thus, while the overlying copyright is a 'right in rem' enforceable against the world at large, the specific contractual dispute over its infringement is a 'right in personam' action against a particular individual. Accordingly, the dispute was held to be arbitrable. Without explicitly referencing the *Booz Allen* obiter, the Court followed the Supreme Court's reasoning – that is, it refrained from summarily dismissing questions of arbitrability without assessing the nature of rights at issue. The Court's finding has been positively received in select subsequent decisions. (See e.g., *Deepak Thorat S/o Dinkar Thorat v. Vidli Restaurant Ltd.*, 2017 SCC OnLine Bom 7704.) Its decision also aligns with the literal approach to the interpretation of statutes followed by Indian courts. (See e.g., *Swedish Match AB & Anr. v. Securities and Exchange Board of India & Anr.*, (2004) 11 SCC 641.)

The Bombay High Court continued to heed the Supreme Court's warning in subsequent decisions such as *Indian Performing Rights Society v. Entertainment Networks*, 2016 SCC OnLine Bom 5893 ('IPRS'). Unlike the *Telemax* case, the Court in *IPRS* was tasked with deciding whether averments of the Claimant's right to claim royalties in relation to broadcasting of a sound recording were arbitrable. The arbitrator decided against the need to obtain a license from the Claimant, differentiating between rights held in original music works and in sound recordings. However, the Court on review found that by virtue of this decision:

*[IPRS's] ...rights as a licensor were destructed in the impugned award not only against the claimant, but also against the world at large.*

By distinguishing the case at hand from *Telemax* based on the implications of the relief granted for

third parties, the Court clarified that arbitrating the case would have implications for IPRS's rights to collect royalties on their works from third parties as well. Moreover, it would also affect several other copyright owners in the underlying musical works who were not parties to the arbitration in question. Therefore, the award was rightly set aside.

### Disregarding the *Booz Allen* caveat

Unfortunately, similar analyses were absent from other decisions on arbitrability of IPR disputes. In *Impact Metals v. MSR India* ('Impact Metals'), the Hyderabad High Court failed to consider the nature of the remedies or rights at issue to assess such arbitrability. Instead, it summarily based its decision on the illustrative list in *Booz Allen*, which did not expressly exclude IPR from arbitrable subject-matters. This decision sets a dangerous precedent for arbitration of 'rights in rem' by failing to account for the implications this might have on rights of third parties. Further, the confidentiality of arbitral awards may prejudice interested third parties against whom such *erga omnes* legal decisions are rendered.

The *Ayyaswamy v. A Paramsivam* ('Ayyaswamy') decision paved way for further confusion. This Supreme Court decision declared patents, trademarks, and copyright disputes to be non-arbitrable in an obiter. The case is often viewed in academic discourse as a complete limitation on the arbitration of IPR disputes in India. Notably, this obiter is a 'general' remark by the Court, not rendered in relation to any particular set of facts. To rely on this generic statement in ignorance of the clarification made in the *Booz Allen* decision would be imprudent.

The *Lifestyle Equities CV v. QD Seatoman Designs Pvt. Ltd.* decision provides some clarification. The Court reasoned that the list of 'non-arbitrable disputes' in the *Ayyaswamy* judgment merely reiterates scholarly opinion and does not constitute the Apex Court's *ratio*. Further, it went on to apply the *Booz Allen* caveat to reiterate that disputes relating to patent use and infringement (here, a right of 'better usage' vis-à-vis the other party) concern 'rights in personam', and therefore, are arbitrable.

## **Conclusion**

IPR form a crucial constituent of commercial transactions and are comprised in the bundle of rights therein. To *ipso facto* declare them non-arbitrable would upset the purpose of the Arbitration Act, impair the efficacy of commercial arbitration and disregard party autonomy. Thus, the inflexible stance adopted in the *Impact Metals* and *Ayyaswamy* decisions is misconceived.

Admittedly, it is important to keep 'rights in rem' beyond the reach of arbitration. In light of the progressive reforms of the 1996 Act in recent years, this could be achieved through legislative clarifications. For example, both the United States of America and Switzerland permit the arbitration of patent infringement claims, provided that the consequent award is registered with the relevant patent authority or board. (See 35 United States Code (U.S.C) § 294(d); Article 193.2, Swiss Federal Act on Private International Law, 1989.) This simultaneously safeguards the complementary interests of effective arbitration of IPR disputes and public interest in 'rights in rem'. A similar legislative provision could be emulated in India. Further, the 'arbitrable' aspects of intellectual property could be clarified via legislation, as is the case in Hong Kong. (See Part 11A,

Hong Kong Arbitration (Amendment) Ordinance, 2017 [Ord. No. 5 of 2017].) Clarifications concerning the scope of counterclaims permissible in IPR arbitrations (such as express exclusion of counterclaims challenging the validity or registration of IPR) are also crucial. Swift action here is essential to set ghosts of the past to rest.

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