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Arbitrability of Intellectual Property Dispute: A Pragmatic Dispute Resolution Mechanism

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Abstract: ***Conventionally, conflicts over intellectual property rights have been addressed primarily in national courts. Nonetheless, there has been a considerable inclination towards arbitration in recent years. For example, the number of cases decided under the WIPO Arbitration and Mediation Rules is constantly increasing, and the number of specific IP-related arbitral institutions is rising as well. This is due, in part, to the territorially limited reach of state court procedures, which no longer match the needs of modern international commercial processes. The transition to arbitration is appropriate since arbitration is particularly well suited to settling intellectual property conflicts. Arbitration is a private process, which is especially beneficial in IP issues due to the sensitive nature of the material involved. Furthermore, specific knowledge is necessary to properly settle technological disputes, a challenge that might be overcome by choosing adequately competent arbitrators.***

Keywords: WIPO (World Intellectual Property Rights Organization), Arbitration, IP (Intellectual Property), Arbitrators

1. Introduction

The Intellectual Property (IP) landscape is governed by international treaties such as TRIPS Agreement and national legal frameworks that control ownership, conduct, exploitation, and enforcement of IP rights. The majority of jurisdictions have vested authority in national courts to decide disputes regarding the aforementioned problems. The variability of IP manifestations and the many ways in which it may be used by and via the originator upsurges the number of IP-related issues. The World Intellectual Property Organization (WIPO) provides a useful guide to these types of disputes.

There are crucial questions with regards to the future of arbitration and its role in IP dispute resolution. What do trends show and where are arbitration professionals focusing their efforts? Can arbitration keep pace with innovation and technological advancements? What advantages will we see in arbitration compared to other methods of dispute resolution? What does the future hold for IP arbitration?

Latest trends:
Arbitration cannot take place without the occurrence of a valid arbitration agreement, which is usually the outcome of a contractual relationship. Alternatively, and in the absence of a contract, parties may still enter into an arbitration agreement after a dispute has occurred, but this is rare. As a result, state courts are typically used to resolve simple disputes about ownership or infringements of intellectual property rights.

Currently, the parties have now seemed to prefer an arbitral award over a state court judgment is because, it is possible to enforce foreign arbitral awards foreign jurisdictions. A foreign arbitral award is simply recognised on request, provided that the duly authenticated original award and the original arbitration agreement is enclosed, and with a translation of these documents if needed. [1] Thus, the advantage of arbitration over state court proceedings is obvious because it remains far easier to enforce a foreign IP arbitral award than a judgment of a foreign national court.

This principal shift – away from ordinary proceedings towards alternative dispute resolution (ADR) in the field of intellectual property has also been recognised by public authorities. It is very evident that ADR is gaining popularity and is becoming more integrated in ordinary IP state proceedings.[2] Australia and Mexico, for example, provide alternative dispute options for the resolution of IP and technology disputes and in England and Poland, there is an optional cooling-off period by means of mediation in trademark opposition proceedings.[3] There have also been institutional developments in Singapore, where the Intellectual Property Office of Singapore developed a mediation option for trademark and patent proceedings, under its collaboration with WIPO, and an expert determination option for patent proceedings. Korea, Brazil, Spain, the United States and Germany, among others, collaborate with WIPO to develop or enhance their ADR services, especially mediation.[5]

Especially in Europe, this trend may be partially attributed to a decision of the Court of Justice of the European Union (CJEU) from 2017 (Case C-75/16).[4] In that decision, the

[1] (Article IV of the New York Convention)

[2] Woller, Michael/Pohl, Michaela: IP Arbitration on the Rise, Kluwer Arbitration Blog, 16 July 2019 (accessed 3rd December 2021, http://arbitrationblog.kluwerarbitration.com/2019/07/16/ip-arbitration-on-the-rise/).

[3] Kim,vHwan/DeFosse, Jonathan/Szlarb, Natalia: The Growing Importance of International Arbitration for Intellectual Property Disputes, The National Law Review, 13 March 2020 (accessed 4th December 2021, https://www.natlawreview.com/article/growing-importance-international-arbitration-intellectualpropertydisputes[5] *Ibid.*

[4] American Arbitration Association, Products of the Mind (accessed 4th December 2021, https://www.adr.org/sites/default/files/document_repository/AAA192_Intellectual_Property_Disputes.pdf). [7] Woller, Michael/Pohl, Michaela: IP Arbitration on the Rise, Kluwer Arbitration Blog, 16 July 2019 (accessed 3rd December 2021,

CJEU concluded that mandatory mediation as a precondition to litigation is not precluded by a legislative framework, provided that the parties are not prevented from exercising their rights of access to the judicial system. In Greece, mediation is mandatory in trademark infringement disputes, and Portugal has implemented mandatory arbitration proceedings for certain cases of infringement disputes concerning patents and supplementary protection certificates.[7] Turkey, for example, introduced mandatory civil mediation for commercial cases, including money related IP disputes. [5] In the Philippines, mediation is mandatory for administrative complaints relating to IP rights violations, inter-party cases, such as trademark opposition and cancellation proceedings, and disputes involving technology transfer payments.[9]

Indian Perspective on Arbitrability of IP Disputes

Arbitration has progressively become the default commercial dispute mechanism across the globe and the courts have also been enlarging the scope of alternative dispute mechanisms to reduce the burden on courts. Contrarily, in Indian Jurisprudence time and again courts have held that the disputes concerning Intellectual Property Rights are non-arbitrable. The prime reason for this is that often the courts believe enforcement of IPR involves the public policy aspect, meaning it would be against the interests of the public to make these disputes arbitrable. Also, our domestic statutes such as the Arbitration and Conciliation Act, 1996 and the other IP legislations do not provide a concrete expression about the availability of Arbitration in IP Disputes.

The diverse nature of IP rights raises issues as to whether the rights are arbitrable or within the soledomain of courts. Helpfully, Indian court decisions throw light on these myriad issues.

Section 89 states that "if the court deems fit, it can allow arbitration, mediation or conciliation for settlement of disputes between parties outside the court"[6] which expressly means that the court has the power to refer the IP matters to ADR too. Courts have thus been trying to settle the ADR practices and have come up with various tests to determine arbitrability of different types of disputes.

In the case of ***Booz Allen and Hamilton Inc. v. SBI Home Finance Ltd.*** the Hon'ble Supreme Court held that "all the disputes which pertain to "right in personam" are arbitrable in nature and all disputes relating to "right in rem" are unsuitable for arbitration."[7]

In ***Eros International Media Limited v. Telemax Links India Pvt. Ltd***., "the Bombay High Court observed that all Intellectual Property cases are not essentially "right in rem" and so cannot be said to be non- arbitrable."[8]

The Delhi High Court in ***Hero Electric Vehicles Private Limited and Anr. v. Lectro E- Mobility Private Limited and Anr***. *held* "a trademark dispute to be arbitrable where the plaintiffs were seeking to enforce their trademark rights against a particular group and not against the world."[13]

So, the crucial aspect determinative of arbitrability is the nature of judgment sought by the aggrieved and if it is sought against the public at large it is not arbitrable.

Current position in Indian Law:

In 2016, the Trade Mark Registry (Delhi) decided to undertake a pilot project wherein 500 pending oppositions were referred to mediation/ conciliation based on the consent of the parties which were a party to the dispute.

The latest case on point is the Delhi High Court Judgment pronounced by Hon'ble Justice Jayant Nath in the case of ***Golden Tobie (P) Ltd. v. Golden Tobacco Ltd.***[9]"Where in the Defendant had filed an application under Section-8 of the Arbitration and Conciliation Act, 1996. The facts of the case were that the parties entered into a master long-term supply agreement by which the defendant on an exclusive basis had supplied to the Plaintiff the exclusive brands of the Defendant "Golden's Gold Flake, Golden Classic, Taj Chap, Panama and Chancellor". Subsequently, the Plaintiff entered into a trademark license agreement stating that he had been granted an exclusive non-assignable, non-transferable license to manufacture the Defendant's product which will be solely manufactured at his factory in Noida. Plaintiff submitted that despite huge capital and operational expenditure made by the Plaintiff to increase the availability of the Defendant's products he was issued a termination notice. Since the commercial production had not yet started the agreement was terminated with immediate effect. Subsequently, by another termination notice, the Defendant stated that the timely payment had not been made and the plaintiff had no right to manufacture and sell exclusive brands of the defendant in the market. Hence the present suit was filed and it was prayed before the hon'ble court that the dispute be referred to sole arbitrator."[10]

The Hon'ble bench referring to Supreme Court's decision in ***Vidya Drolia v. Durga Trading Corporation*** observed that actions in rem including grant and issue of patents and registration of trademarks are exclusive matters falling within the sovereign and government functions and are non-arbitrable. Court held that the present dispute did not pertain

http://arbitrationblog.kluwerarbitration.com/2019/07/16/ip-arbitration-on-the-rise/).

[5] Kim,vHwan/DeFosse, Jonathan/Szlarb, Natalia: The Growing Importance of International Arbitration for Intellectual Property Disputes, The National Law Review, 13 March 2020 (accessed 4th December 2021, https://www.natlawreview.com/article/growing-importance-international-arbitration-intellectualpropertydisputes

[9]*Ibid*.

[6]The Code of Civil Procedure, 1908.

[7](2011) 5 SCC 532.

[8]Notice of Motion No 886 of 2013 of Suit No 331 of 2013

[9]2021 SCC Del. 1058.

[10]IA No.6080/2021.

to infringement of a trademark but was on the right to use the trademark conferred by a particular agreement on a particular group. Thus, the dispute between the parties was held to be arbitrable. Further, it was held that "*the assignment of a trademark is by a contract and is not a statutory fiat*."[11]

2. Future Developments

One of the most notable projects in European IP law is the establishment of the Unified Patent Court. This is part of a package of regulations on patent law, the core of which is the introduction of a European 'community patent' with unitary effect at the level of the European Union. Unfortunately, the project has met a few challenges; the UK has made final preparations to withdraw from the Unified Patent Court project and, in March 2020, the Federal Constitutional Court of Germany declared that parliamentary approval of the Agreement on the Unified Patent Court is void on grounds of not achieving the necessary parliamentary majority.

From an arbitration viewpoint, the related framework agreement (Regulation (EU) No. 1260/2012) provides the following in Article 35:"(2)The Centre shall provide facilities for mediation and arbitration of patent disputes falling within the scope of this Agreement. Article 82 shall apply mutatis mutandis to any settlement reached through the use of the facilities of the Centre, including through mediation. However, a patent may not be revoked or limited in mediation or arbitration proceedings."[12]

In other words, arbitration is to become a standard feature in this unified patent court system. The jurisdiction of these two arbitration centres is, however, rather limited as they cannot order the cancellation of a patent. A certain margin of interpretation remains and some suggest that an award on the validity of a patent should at least have an inter parties effect.

SEP/FRAND

As already pointed out, ADR in IP matters is by no means a new phenomenon. Recently, however, its importance has increased in the context of licensing of standard-essential patents (SEPs) on fair, reasonable and non-discriminatory (FRAND) terms. Standards setting organisations, such as the Institute of Electrical and Electronics Engineers, suggest the use of arbitration (an arbitration agreement is thus integrated into a FRAND licence offer), inter alia, for the determination of royalties respecting FRAND principles. Several large SEP/FRAND arbitration proceedings have already been conducted and the legal development in this field was furthered by projects such as the 'Guidance on WIPO FRAND Alternative Dispute
Resolution (ADR)', the SEP communication of the European Commission and the FRAND ADR Case Management Guidelines of the Munich IP Dispute Resolution Forum. Generally, the response from administrative and judicial authorities to resolve SEP/FRAND conflicts through ADR has been exceptionally positive. The advantages of arbitration for such cases lie in the choice of specialised arbitrators with the necessary expertise for SEP/FRAND disputes, which are complex, both in a legal sense and from a technical point of view. Another advantage lies in the possibility of finding tailor-made solutions regarding issues of confidentiality in this highly competitive field, even considering certain restrictions in the interest of other market participants and the general public.

3. Conclusion

An analysis on the issue of arbitrability of IP disputes sheds light on four key features, as follows:

1) The question of whether a dispute is arbitrable at all is becoming less relevant. Arbitral tribunals increasingly address this issue by ensuring that the award has inter partes effect only. Additionally, trends show that state authorities increasingly recognise and enforce arbitral awards relating to IP disputes (including validity issues, in particular).
2) ADR is expected to be more integrated in regular state court proceedings; for example, in the European Unified Patent Court system.
3) Arbitration may face increasing competition from national courts to handle IP disputes. For fear of losing large international proceedings to arbitration tribunals (including IP disputes), the number of ordinary commercial courts offering a specialised international chamber and the application of English as procedural language is likely to increase.
4) With regard to SEP/FRAND and trade fair disputes, arbitral tribunals will become more important in the future as arbitration is more suitable for these types of disputes compared to national courts.

Where IP rights form the backbone of commercial agreements, substantial attention should be paid to drafting of dispute resolution clauses to ensure effective resolution as discussed above. Where arbitration is a preferred remedy, parties must be mindful of several considerations. Rights involved in the transaction, nature of disputes that could arise therefrom, efficacy of litigation over arbitration and vice versa, third party involvement, arbitrability of the potential disputes, scope of disputes referable to arbitration, conduct of parties post termination of the agreement, choice of seat, governing law, law of origin of the IP, law of the jurisdiction where the award could most likely be enforced all these factors are vital considerations for parties.

Where IP forms the backbone of the business itself, choice of a resolution mechanism is often a business decision. Time and costs could be critical, along with expertise of the judges or arbitrators deciding on the merits of the disputes. The manner in which parties can tailor-make the arbitration agreements will play a key role in shaping the destiny of an IP dispute. Equally significant is to understand the public policy of nations, which shape the rights and remedies for their people and renders an arbitral award enforceable. Therefore, it would be a matter of sound legal analysis as well as informed commercial judgment to adopt a suitable dispute resolution mechanism in commercial contracts that involve IP rights.

[11]Civil Appeal No. 2402 of 2019.
[12]*Available at*:https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32012R1260.