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ARBITRATION OF INTELLECTUAL PROPERTY DISPUTES

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ABSTRACT

Arbitration is an alternative legal method of resolving disputes outside the traditional realm of litigation in courts. Arbitration has developed vastly over the past decades, influenced by international doctrines and conventions which the domestic laws of various countries have since adopted. Arbitration is a means to resolve disputes by according to the will of the parties involved in dispute and reducing the burden of the Courts at the same time. In order to achieve this, Domestic courts have followed the lead of international awards and court decisions and have held that most subject matters are arbitrable before the Arbitration tribunal.

In this paper, I will explore the nonarbitrability doctrine and how intellectual property rights as a subject matter affects the jurisdiction of the arbitral tribunals. Having explained these concepts, I will further try and elaborate the international context of the arbitrability of the intellectual property rights disputes and then move on to the progression of how the arbitrability of this subject matter has evolved under Indian law.

Keywords - *Arbitration, ADR, Intellectual Property, IP ADR*

INTRODUCTION

There is a presumptive validity that Article 1 of the Geneva Protocol provides by clearly stating that international arbitration agreements which are related to commercial or any other such matters which are "capable of settlement by arbitration"[1] will be recognised. These international conventions such as the New York Convention, UNCITRAL Model Law, the European Convention etc. have been instrumental in guiding the national and international laws to recognise the efficiency of arbitration.

[1] International Committee of the Red Cross (ICRC), *Protocol Additional to the Geneva Conventions of 12 August 1949, and relating to the Protection of Victims of International Armed Conflicts (Protocol I)*, 8 June 1977, 1125 UNTS 3

The agreement to arbitrate is arguably the most important component of any arbitration dispute. Without freely consenting parties, the tribunal will have no jurisdiction to decide the matter and the parties will have to take recourse to traditional litigation in Courts for resolving their dispute. An agreement to arbitrate can defined as, "an agreement in writing under which the *parties undertake to submit to arbitration all or any differences which have arisen or may arise between them in respect of a defined legal relationship*, whether contractual or not."[2] Since this agreement is a fundamental factor, it is possible that one of the parties claims its absence simply to remove the jurisdiction of the tribunal to hear the dispute. Understanding that by allowing for this to happen, the purpose for arbitration itself would be defeated before it even begins, it has been held that the arbitral tribunals possess the authority to examine whether they have the jurisdiction to decide the dispute or not.

Another factor which jeopardises the jurisdiction of a tribunal is the arbitrability of certain subject matters. Arbitrability is simply the issue of which matters can or cannot be heard by the arbitral tribunal for the settlement of disputes. There are two types of arbitrability- subjective and objective. When certain institutions like states or its related bodies are not allowed to settle disputes through arbitration, this is subjective arbitration. The legal capacity of the states to arbitrate is compromised here. In objective arbitrability, certain disputes are not capable of settlement by arbitration despite valid and consensual agreement by the parties because of the subject matter in issue. This is also known as 'arbitrability *ratione materiae*' or the nonarbitrability doctrine.[3]The nonarbitrability doctrine is developed in most national and international jurisdictions and is arising, almost always, from a similar set of considerations. Subject matters such as antitrust, insolvency, corruption, bankruptcy, intellectual property rights etc. are generally considered be nonarbitrable subjects. One reason for this is that these subjects are considered to be so inextricably linked to the public domain that having a private settlement is considered to be unfair.

[2] Convention on The Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), Article II (1) 330 U.N.T.S. 38 (1959)

[3] 'Chapter 6: Nonarbitrability and International Arbitration Agreements', in Gary B. Born , International Commercial Arbitration (Second Edition), 2nd edition (© Kluwer Law International; Kluwer Law International 2014) pp. 943 - 1045

Since arbitration is a private settlement between the parties who have signed the contract, it needs to be understood that an award passed by the tribunal cannot affect the rights of third parties. Subjects such as antitrust and intellectual property rights affect thousands of individuals or more, who are not directly involved in the dispute settlement process. The public has a right that these matters be heard in Courts.[4] Every state has differing rules on which matters they consider to be nonarbitrable. This is because "under the laws of most countries, party autonomy finishes where public interest begins."[5]

Article II(1)[6] of the New York Convention states that that international arbitration agreements can only be recognised if the subject matter in itself is capable of settlement by arbitration. Article V(2)[7] of the New York Convention likewise states that the arbitral award cannot be enforced if the subject matter is nonarbitrable under the laws of that particular nation. Read together, these provisions of the New York Convention support the non-enforcement of awards in settlements of nonarbitrable issues.

Similarly, Article 34 and 36 of the UNCITRAL Model Law talk about how and when an arbitral award can be set aside and when its recognition or enforcement can be refused. This also limits the disputes which are 'capable of settlement by arbitration'[8]. However, the Model law only clarifies issue which might arise after an award has been pronounced by the tribunal. It does not specify which subjects are nonarbitrable and allows the national jurisdiction to decide for their own states which subjects matters they wish to exclude from or keep in the domain of arbitrability.[9]

[4] *Am. Safety Equip. Corp. v. J.P. Maguire & Co.*, 391 F.2d 821, 826-27 (2d Cir. 1968).

[5] 'Chapter 4: Arbitrability of IP Disputes', in Trevor Cook and Alejandro I. Garcia , International Intellectual Property Arbitration, Arbitration in Context Series, Volume 2 (© Kluwer Law International; Kluwer Law International 2010) pp. 49 - 76

[6] Convention on The Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), Article II (1) 330 U.N.T.S. 38 (1959)

[7] Convention on The Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), Article V(2)(a) 330 U.N.T.S. 38 (1959)

[8] The UNCITRAL Model Law on International Commercial Arbitration 1985, Articles 34(2)(b)(i) and 36(1)(b)(i) UN Doc A/40/17

[9] The UNCITRAL Model Law on International Commercial Arbitration 1985, Articles 1(5) UN Doc A/40/17

There are situations where the disputing parties do not raise the issue of the lack of jurisdiction of the arbitral tribunal because of the subject matter. This might simply be due to lack of awareness of the parties themselves or perhaps because of an agreement between the parties to continue with arbitration as a mode to settle disputes. In such cases, the Tribunal is held to be responsible for judging whether the issue at hand is arbitrable or not. Since the tribunal is tasked with judging its own jurisdiction, it has an additional responsibility to ensure that there is no violation of the good faith placed in them. Judge Lagergren held in ICC case 1110[10] that general principles of international arbitration must be followed and if arbitration of that subject matter is not allowed, then the Tribunal does not have the jurisdiction to hear the dispute and it must proceed to Court.

He also stated that,

"*It is worth noting that under the New York Convention recognition and enforcement of an award may be refused ex officio if the competent authority in the country where recognition and enforcement is sought finds that (a) the subject matter of the difference is not capable of settlement by arbitration under the law of that country, or (b) the recognition or enforcement of the award would be contrary to the public policy of that country*."[11]

A lot of nations do not remove the subject of intellectual property rights in its entirety from the arbitral jurisdiction. Instead they separate the disputes regarding intellectual property into two. When the dispute is regarding registered intellectual property rights such as patents and trademarks, the issue is nonarbitrable. The validity of a patent or any intellectual property right cannot be decided by a tribunal in an arbitration proceeding. However, if the dispute is regarding a contractual breach by the parties or ownership disputes, then the issue is considered arbitrable[12]. This is because in the latter scenario, only the rights of the signatory parties are being affected and the award can be enforced on them without any repercussions on third parties. Most jurisdictions adopt a similar approach to deal with the issue of arbitrability of intellectual property rights. For example, the Supreme Court of Canada held that intellectual property rights are arbitrable and the modern trend in law must be kept in mind to encourage more arbitration.[13]

[10] ICC Case no 1110", 10 *Arb Int* 277 (1994)
[11] ICC Case no 1110", 10 *Arb Int* 277 (1994)
[12] ICC case no 6709, 119 *Clunet* 998 (1992) 1000
[13] *Editions Chouette Inc. v. Desputeaux*, 2003 SCC 17 (Canadian S.Ct.)

In India, intellectual property rights are covered under the Copyrights Act of 1957 whereas the arbitration is governed by the Arbitration and Conciliation (Amendment) Act, 2015. Indian Supreme Court in 2011 delivered a landmark judgement in Booz Allen[14] case, where it laid down the test for the arbitrability. Court held that despite an agreement to arbitrate between the parties, if the subject matter is incapable of settlement by arbitration, the issue will not be referred to arbitration by Courts. This is because disputes concerning rights *in rem* are unsuitable for private arbitration.

Rights *in personam* are rights which are enforceable against individuals as opposed to rights in rem which are exercisable against the world at large. Rights *in personam* are arbitrable simply because arbitration is a private proceeding between two parties and in the interest of fairness, the award decided based on the arguments of these two parties cannot be enforced *in rem.* So cases involving the validity of the intellectual property itself, where its continuance in the market will affect the public cannot be held as a arbitrable. Significantly, the Court also clarified that while this test is sound, it is not infallible. It clarified that "subordinate rights *in personam* that arise from rights *in rem* might be subject to arbitration", meaning that intellectual property disputes which are arising out of contractual issues will be arbitrable.

In **Eros v Telemax case**[15], the Bombay High Court further cemented its pro-arbitration stance, even when it comes to intellectual property rights disputes by holding that since the relief claimed would not be enforceable in rem but only against one party which is Telemax. Since the rights is in personam, the issue is arbitrable. Moreover, it held that the arbitral tribunal has the right to grant the remedy. In the case of IPRS v Entertainment Network[16], it followed the Booz Allen and the Eros case to hold that rights in personam arising out of rights in rem will be arbitrable even if the subject matter in itself is inherently not arbitrable. However, it differed from Eros case by saying that damages and remedies can only be granted by Courts and nto arbitral tribunals.

[14] *Booz Allen and Hamiton Inc. v. SBI Home Finance Ltd. and Ors*. (2011) 5 SCC 532
[15] *Eros International Media Limited* v. *Telemax Links India Pvt. Ltd. and Ors* 2016 (6) ARBLR 121 (BOM)

[16] *Indian Performing Right Society Limited (IPRS)* v. *Entertainment Network MANU/MH/1597/2016*

CONCLUSION

The arbitrability of intellectual property rights is a complex issue. There has been great progress in this area both internationally and nationally. India, in particular, has taken a very pro-arbitration stance while still maintaining the spirit of public policy and lawfulness. With stronger laws which are specially made to address the authority of arbitral tribunals in the matter of enforcement of awards and issue of relief, there will be higher encouragement to use the method of arbitration as an alternative to litigation in courts. By improving the laws and progressive judicial decisions, the interests of the parties and the public in intellectual property disputes which are that of confidentiality and public interest will be adequately balanced.