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ALTERNATIVE DISPUTE RESOLUTION OF INTELLECTUAL PROPERTY DISPUTES: VIEWS

*Dr. Santhosh Prabhu**

As a result of the colossal rise in importance of intangible assets in contemporary economies, intellectual property (IP) rights have grown considerably in recent years, both in number and in value. Disputes relating to intellectual property protection are also gradually escalating in the Indian legal setting as well international level. In many cases, such disputes concern parties established in different countries and conducting business across the world. Recourse to state courts to settle such disputes often proves to be a cumbersome enterprise given the need to conduct parallel proceedings in different countries, the applicability of different procedural and substantive laws to the same dispute, the potentially diverse approaches, perceptions and the inability of the judiciaries of many countries to respond in a timely and effective manner to requests for the enforcement of IP rights.

Intellectual property protection is available for a limited period for the intellectual property creator who has to enforce it in an effective manner. IP disputes are creeping up in every stages of registration and commercialisation. Along with complex formalities associated with registration of IP, disputes are undesirable though inevitable. Cost associated with these stages will result in to dead weight loss to the industry and economy. The need for effective solutions or mechanisms for classifying and clarifying issues pertaining to IP rights is frequently felt among related parties. This is particularly relevant because the aggrieved person enjoys limited rights and the only remedy available is that which is prescribed under substantive legislations.

As observed in ***Shree Vardhman Rice & Gen Mills v. Amar Singh Chawalwala***[1] Matters related to patent law and copyright law, which involve intersection with science and an understanding of technology, need special adjudicating officers, who can comprehend the interdisciplinary nature of the case at hand with sufficient ease. The limited nature of protection given to the owner of intellectual property rights, calls for developing mechanisms to execute immediate and swift justice. In matters relating to trademarks, copyright and patents, the provision of C.P.C.[2] should be strictly complied with by all the Courts, and the hearing of the suit in such matters should proceed on a day to day basis and the final judgment should be given normally within four months from the date of the filing of the suit. Reiterating its stance in, the Supreme Court[3] of India held that "experience has shown that

*Assistant Professor, SDM Law College, Centre for Post Graduate Studies & Research in Law, Mangaluru

[1](2009) 10 SCC 257

[2]Order XVII Rule 1(2)- cost of adjournment- in every such case the court shall fix a day for the further [illegible] of the suit, and shall make such orders as to costs occasioned by the adjournment or [illegible] higher costs as the court deems fit.

[3]Bajaj Auto Ltd. v. TVS Motor Company Ltd., JT 2009 (12) SC 103

in our country, suits relating to the matters of patents, trademarks and copyrights are pending for many years and litigation is mainly fought between the parties over temporary injunction. It is evident that due to unwarranted delay in the disposal of cases and the costly litigation which could prolong the protection accorded to the work, rather than promoting the progress of intellectually protected work. As a result, Alternative Dispute Resolution (ADR) measures are gaining prominence for enforcing the protection of intellectual property. The aggrieved parties are opting for ADR mechanisms for the advancement of intellectual property rights as well. Moreover, the commercial nature of the transactions involved in majority of intellectual property based litigations, solicits such an approach. The object of this paper is to discuss whether arbitration is currently allowed by national legal systems with regard to IP disputes.

The question as to whether an IPR dispute is arbitrable or not, has been around for quite some time now. With the growing trend of arbitration clauses being invoked to resolve IPR disputes, a better understanding of this concept seems to be imperative for lawyers. In this regard, legislative attempts and judicial concerns to allow arbitration as an alternative means of settlement of intellectual property dispute need to be examined further.

Scenario beyond India

Under the modern legal system, there has been shift towards arbitration of IP disputes especially in relation to licensing and transmission of the registered IP rights. The disputes in relation to claims for compensation or damages are usually referred to arbitration in most of the jurisdictions. More so, since they do not involve public interests, the right to compensation can be settled or even waived by its IP holder.

There are few jurisdictions which have been pro-active in allowing arbitration of disputes relating to registration of the IP rights. For example, under the Spanish law, Article 28 of "*Ley de Marcas* ' contains a provision to this effect, which states that "interested parties may submit to arbitration of contentious issues that have arisen in the context of proceedings aimed at the registration of a trademark, in conformity with what is established in the claim document". But this comes with an exception that "in no event issues concerning the occurrence of formal defects or absolute registration prohibitions be submitted to arbitration[4]".

Article 48 of the "Portuguese Code of Industrial Property" provides for appeal to arbitral tribunal from administrative decisions concerning grant or refusal of all the IP rights governed by that code including patents and trademarks.

But the above stated approach has been rejected in majority of the jurisdictions by disapproving arbitrability of disputes concerning the validity of registered IP rights, such as those resulting from the patents, trademarks and designs as invalidation of such IP rights has

[4] Dario Vicente, 'Arbitrability of intellectual property disputes: A comparative survey', Arbitration International (OUP 2015) 151.

been exclusively reserved to the national court system. For example, in Germany, jurisdic
to declare nullity of patents belongs to the Federal Patent Court[5] although patent infringe
claims were considered arbitrable as it formed a part of the private rights but the validi
patents have kept out from the purview of arbitration due to patent being a monopoly ri
Also any agreement reached between parties in relation to validity of the patent rights
affect third parties.

From the discussion of above stated international regimes one can arrive at a conclus
that there is a general consensus that issues relating to the validity of the intellectual prope
rights is reserved with the national courts or other specialized institutions enumerated.

In 1982, U.S. Congress enacted a series of legislative Acts which provided that
contracts may contain a provision requiring use of arbitration to resolve any patent disp
In 1984,this was followed by two federal laws which further expanded the role of arbitrat
in the resolution of patent disputes. Firstly, "Patent Law Amendments Act of 1984" repla
subsection (a) of 35 U.S.C. (United States Code) Sec. 135 and promoted use of arbitrat
in resolution of patent matters. Sub-section (a) of 35 U.S.C. Sec. 294 provides for volunt
arbitration in relation to patent dispute and states that "A contract involving a patent or a
right under a patent may contain a provision requiring arbitration of any dispute relating
patent validity or infringement arising under the contract. In the absence of such a provisi
the parties to an existing patent validity or infringement dispute may agree in writing to set
such dispute by arbitration. Any such provision or agreement shall be valid, irrevocable, a
enforceable, except for any grounds that exist at law or in equity for revocation of a contract
This clause explicitly provides for arbitration of disputes relating to patent validity a
infringement. With the American legal regime providing for arbitration of validity of patents
was a departure from general agreement among other legal jurisdictions which considere
disputes relating to patent validity as non-arbitrable since decision of such rights affecti
third parties.

A critical issue that arises by allowing arbitrability of validity of patent disputes co
forward at the stage of recognition and enforcement of the arbitral award which has be
rendered in the USA and is sought to be enforced in a foreign jurisdiction wherein the law o
the land provides non-arbitrability of the patent validity dispute. Such an award can b
challenged under Article V(l)(a) of "New York Convention", as award was "not valid und
the law to which the parties have subject it". Also, recognition and enforcement can b
refused under Article V (2), which provides that recognition and enforceability of the awar
can be refused for it being "contrary to the public policy".

[5]German Patent Law (Patentgesetz): Section 65(1).

Another pertinent issue which arises due to inter party applicability of patent arbitration award is when a patent right has been infringed simultaneously in more than one jurisdiction. Here, the arbitral award passed on validity of the patent disputes in the USA, the award is binding only against the patent infringer, against whom the award has been passed. This leads to multiple arbitral proceedings against the patent right violators, which defeats the purpose of quick and efficient dispute resolution of patent right.

But the courts in the USA have taken a stance against the arbitrability of patent validity claims, thereby segregating the public enforcement and private enforcement of the patent rights. This position is evidently clear from the case, "***Beckman Instruments, Inc. v Technical Development Corp***"[6] The Bench agreed with the view taken by the district court that the contract did not expressly provide for arbitration of patent validity claims. Also, Court of Appeal agreed with district court that the questions relating to patent validity are inappropriate for arbitral proceedings and should be decided by a court of law, given the larger public interest in challenging invalid patents.

Similar position was taken in "***Ballard Medical Prods, v H. Earl Wright***"[7], wherein the USA Court of Appeal dealt with the issue of limits of arbitral tribunal's power to deal with claims against validity of patent. The Court of Appeal concurred with the opinion of the district court, which had stated that, "It is one thing to say that arbitrators should consider public policy in doing their job and quite another to say that arbitration boards constitute some sort of roving Patent Office empowered to pass upon the validity of patents and enforce the patent laws wherever they may find them". The district court further added that, "had the arbitrators in this case taken it upon themselves to invalidate Wright's patents, Wright might very well have been able to petition this court to vacate the award under U.S.C. Sec. 10(d) on the grounds that the arbitrators had exceeded their powers."

In short, the American legal system's approach has been pro-active towards arbitrability of patent disputes as it provides for significant benefits over litigation. It provides for certain mechanisms like avoidance of jury driven awards, freedom to choose well qualified arbitrators who can deal with technicalities of patent regimes and issues of law and technology and last, but not the least, confidentiality of the process and privacy of award. One of the new additions to the list of benefits is the emergency arbitration process. It is very efficient in providing interim relief to the applicant even before appointment of arbitral tribunal.

Indian Position

The arbitrability of the disputes in India is largely guided by the public policy principles and judgments of the Supreme Court of India and various High Courts. But they have not

[6] 877 F.2d 55 (7th Cir. 1970).
[7] 966 F.2d 527 (Fed.Cir. 1987).

been able to present a clear picture on the arbitrability of patent disputes. The question to arbitrability of the patent disputes in India, the position is unsettled and this is coupled lack of judicial precedents. The only reference to the process of arbitration in the "Paten Act" is under Article 103 (5), which provides that High Court, while hearing the disputes relation to government's use of patented invention, may order whole proceedings or a question or issue of fact to be referred to an arbitrator. Apart from this provision, the "Pate Act, 1970" as well as the "Arbitration and Conciliation Act, 1996 along with subsequ amendments" are both silent on the issue of reference of patent disputes to arbitration.

The courts in India although have tried to answer this question, subsequent judgements various High Courts and the Supreme Court have made the answer increasingly comple and encrypted. The Supreme Court in ***Common Cause v. UOI***[8] had mentioned that judgment on a

Patent, Trade mark or Copyright is a judgment *in rem* which includes infringement of patent or trademark or copyright etc. and the remedy against violation of such right *in re* would be only before a Civil Court and not before an Arbitrator. The Delhi High Court o similar lines held in ***Mundipharma AG v. Wockhard***[9] that claims arising out of copyrig infringement are not arbitrable given that copyright is a statutorily granted right. On the contra the Bombay High Court in the case of ***Eros International v. Telemax Media***[10] whil deciding an application under Sec. 8 of the Act[11], completely disregarded the question o non-arbitrability just because there was a question of copyright infringement involved. Th judgement dwells on the supremacy of the parties' will to arbitrate and discourages th courts stepping in to supersede this will. It creates a sub-category among IPR dispute pertaining to infringement claims, affecting only rights in persona and therefore being amenabl to arbitration.

This stringent principle has further been diluted by various judicial pronouncements. Th Supreme Court in the case ofd. ***Ayyasamy v. A. Paramasivam***[12] where although the dispu was relating to a *right in rem* (i.e. adjudication of fraud) which can normally be done only b ordinary civil courts allowed an application under Sec. 8 of the Act. The court observed th the allegations of fraud were not that serious and could be taken care by the arbitrator a well. This shows a subjective approach of the courts towards arbitrability of matters pertainin to *rights in rem*. Further, the Madras High Court in the case of ***Lifestyle Equity v. Q.D. Seatoman Designs***[13] specifically held that disputes pertaining to IPR are arbitrable when

[8](1999) 6 SCC 667
[9](1991) ILR 1 Delhi 606
[10]2016 (6) BomCR 321.
[11]Arbitration and Concilitation Act, 1996
[12]AIR2016SC 4675.
[13](2017) 8 MLJ 385

they don't necessarily affect a *right in rem*. The court explained this analogy by citing an example of a dispute relating to patent licensing which may be arbitrable but not a dispute that questions the validity of the patent. Although in the dispute the question was in relation to *right in rem*, it was observed that it pertained to only a better right of usage vis-a-vis the other and therefore in the present case it would fall only within the realm of a *right in personam* rather than a *right in rem*, bringing in the much required test of "facts and circumstances" into picture yet again.

Perusal of the Indian statutory law and the case laws at first glance gives an impression that arbitrability of the patent disputes is prohibited in India. But a closer look at the case law reveals that certain subordinate patent rights which are *in personam rights* are considered to be arbitrable.

But neither the "Arbitration and Conciliation Act, 1996" nor the intellectual property laws, policies have clarified and laid down a clear proposition on the arbitrability of the patent disputes. This has led to lack of statutory clarity in relation to patent arbitrability. National Intellectual Property Rights Policy, 2016,[14] stated that one of its objectives was 'strengthening of enforcement and adjudicator mechanisms for combating intellectual property rights infringements'. It further made a reference to strengthening of ADR methods in the resolution of IP cases.

Parliament of India may have to bring legislative amendments in the arbitration and patent laws providing clarification on arbitrable aspects of patent rights as has been done by the USA[15] and Hong Kong[16]. Legislative amendments can provide clarity on the controversial aspects of arbitrability of patent disputes like concerning scope of counterclaims such as exclusion or inclusion of counterclaims challenging the validity of patents. Legislative clarity will encourage patent arbitration. Further amendments should be made to allow arbitrability of patent disputes relating to three types of disputes.

Firstly, commercial disputes between parties involving infringement of patents. Provision should be made to allow arbitration of such disputes between the parties. The "Arbitration and Conciliation Act, 1996" should be made applicable to such disputes. Arbitration of patent infringement suits should proceed on lines similar to conventional commercial arbitration. The arbitral award should be binding only upon the parties to the dispute. Wherein, a defence is raised as to invalidity of patent, the arbitral tribunal should proceed to decide such claim. The arbitral award should be binding only upon the parties to the dispute and affecting rights and obligations of the parties towards each other.

[14] https://dpiit.gov.in/sites/default/files/national-IPR-Policy2016-140ctober2020.pdf., last visited on 21.10.2021.
[15] 35 U.S.C. §294 (a).
[16] Hong Kong Arbitration (Amendment) Ordinance, 2017, Part 11A.

Secondly, the important aspect of arbitrability of patent disputes arises when a party files for registration of a patent with the Patent Office and an objection is raised to such patent. Amendment should be made in the "Patent Act, 1970" allowing arbitration of such objection, where the arbitrator will decide which party has the right to get the patent registered. Once the arbitral tribunal has made the decision as to who has right over the patent, the Patent Office should proceed to decide whether the patent should be granted or not. This preserves the confidentiality of the proceeding as well because there is no need to publish the award. Adoption of such system of arbitration in India would preserve confidentiality of arbitral proceedings in contrast to the limitations of the USA system of deposition of the award with the Patent Office, which makes the award a public document.

Thirdly, to provide for arbitration of dispute which arises when a party submits to the Patent Office, an application for registration of the patent and the Patent Office citing certain defects in the application rejects the patent application. Now, the dispute arises between a party and the Patent Office involving refusal to grant of the patent. The arbitral tribunal will rule whether the grounds taken by the Patent Office rejecting the application are valid or not. The award passed by the arbitral tribunal will be binding on the Patent Office. The Patent Office will proceed to grant or refuse to grant patent in accordance with the decision of the arbitral tribunal, considering whether there existed any defects in the patent application.

Provision can be made to allow intervention by the Patent Office and other non-governmental organizations, individuals, trade associations, as *"amicus curiae"* in the dispute involving infringement of patent to assist the tribunal on technical aspects of patent law and allow uniform application of patent law. The *amicus curiae* briefs will assist the arbitral tribunal in determining the factual and legal issue related to arbitration by the Patent Office bringing its expertise and knowledge.

Analysis

Since intellectual property rights like patents form a critical branch of commercial agreements for businesses, dispute resolution clauses should be carefully drafted and mechanisms should be chosen carefully. Legislature and courts in India are required to make immense treads in promotion on arbitrability of the patent disputes by providing an effective, efficient, competent arbitral tribunal for resolution of patent disputes. In the present age of growth of research and technology, failure to provide mechanisms for patent arbitrability weakens effectiveness of patent rights.

IP rights have a limited territorial scope of application and can exist in parallel in different jurisdictions. IP rights that do not require registration, such as copyrights, may automatically subsist in all member states of the World Trade Organization (WTO), whereas IP rights that require registration, such as patents, can only come into existence in those jurisdictions where

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their registration is sought. For example, if a patent holder would like to protect his or her invention in five different countries, he or she would have to apply for a patent in each of those countries. The territorial nature of IP has important consequences for the resolution of disputes which, in practice, often concern parallel IP rights subsisting in multiple jurisdictions. National court systems are incapable of resolving IP disputes on an international basis and therefore redressing infringements of IP rights in various countries entails litigation in multiple foreign courts. In other words, if a patent is infringed in five different countries, the patent holder would have to initiate five different court proceedings in five different jurisdictions to effectively protect its IP. The uncertainties inherent in parallel litigation are self-evident: different legal systems involve differing procedural and substantive treatment of similar issues, in different time frames and by decision makers with varying degrees of experience or relevant technical expertise.

Arbitration provides an attractive alternative which allows the parties to resolve multi-jurisdictional disputes involving the same IP right in a single neutral forum. There are obvious time and cost benefits to this: fewer counsel is involved, disclosure exercises are not repeated, witnesses have to attend only one hearing to give their evidence. Importantly, there is no risk of conflicting decisions concerning identical parties and essentially identical facts. Another advantage that speaks for arbitration is party autonomy. The parties can agree on procedural matters to accommodate their needs in ways that may not be permitted under domestic civil procedure rules. For example, the parties can choose the applicable law, the language of the arbitration, the seat of the arbitration, and they can also choose between institutional and ad hoc arbitration. Even while the arbitration is ongoing, there is scope for the parties to shape the proceedings with the oversight of the tribunal, including, for example, by bifurcating the case or adopting an expedited procedure. Moreover, arbitration is often better suited to obtain finality in the dispute given that awards are only subject to very limited review by domestic courts. There is no worldwide treaty dealing with the enforcement of foreign judgments whereas arbitral awards are enforceable in more than 150 jurisdictions under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). The New York Convention provides only seven limited grounds for refusing to enforce an award, none of which entail errors of law or fact by the arbitrators relating to the merits.

The arbitral tribunals are also often better suited to awarding appropriate remedies in IP disputes, if compared to state court judges. In arbitrations, the parties are free to select arbitrators with the necessary expertise in the relevant areas of technology or law which enables them to ensure certain quality control (for example, if appropriate, by selecting technical experts as co-arbitrators rather than a having a tribunal that consists only of lawyers).

Finally, arbitration has the key advantage of being an inherently private process. The parties to an arbitration can ensure that the proceedings, and the information made available within these proceedings, remain confidential. This is particularly important in IP disputes where trade secrets or other commercially sensitive information is involved that would lose all its value should it be disclosed to the public. However, parties should be mindful of the different approaches to confidentiality taken in various jurisdictions when selecting the seat of the arbitration; there may be gaps in or exceptions to protection that require the agreement of specific rules to fully ensure the confidentiality of the arbitration. In light of the foregoing advantages, there seems to be a growing trend in the use of arbitration to resolve IP disputes. For example, the Arbitration Center of the World Intellectual Property Organization (WIPO) has administered over 580 arbitration and mediation cases in the period 2009-2017, 250 of which were filed in 2016 and 2017 alone.[17]

The benefits of using arbitration to resolve IP disputes are demonstrated by its rising use in recent years. Arbitration offers an attractive solution to IP owners who wish to resolve their disputes in a fast and flexible way, especially when parties from different jurisdictions are involved. If well-managed, arbitration can save significant time and cost. In addition, its consensual nature often results in a less adversarial process, allowing the parties to begin, continue or enhance profitable business relationships with each other. However, the parties and their legal counsel must be aware of the peculiarities that arbitration entails, in particular the issue of arbitrability, both when selecting the seat of the arbitration and when considering the likely place of enforcement.

The recent amendment[18] is a significant step forward in overcoming the systemic malaise of delays, high costs and ineffective resolution of disputes, which had plagued the arbitration regime in India. Most of these amendments are acceptable, since many would agree that the earlier arbitration regime was a failure, and did not result in cultivating the culture of arbitration in India. These amendments will also have to withstand the scrutiny of Indian courts that have often been criticised for their interventionist approach. The recent judgments of Indian courts which have had an occasion to interpret the provisions of the Amendment Act, is an early indication that these amendments will be subject to further judicial scrutiny. It will be interesting to see how the courts interpret the new amendments in future. The spirit could be to accept the amendments for improving the system than for proving or outweighing any existing legal premise.

[17]https://www.wipo.int/amc/en/last visited on 23.10.2021.
[18]Arbitration and Conciliation Act 2019