ARBITRABILITY OF INTELLECTUAL PROPERTY DISPUTES: RECONCILING PUBLIC RIGHTS WITH PRIVATE ADJUDICATION

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Introduction

The arbitrability of Intellectual property (IP) dispute presents a consistent doctrinal problem in the arena of Arbitration jurisprudence as traditionally IP disputes are considered as right in rem hence not considered a proper subject of Arbitration but in a globalized and innovation driven society rights are increasingly been commercialized through licensing, franchising etc. In fact the global IP legal services market is expecting staggering growth by 2035[1]. Hence all these developments are challenging the conventional understanding regarding IP disputes due to which the current discussion becomes even more pertinent and demands a reexamination of current practices.

Intellectual Property is the creation of the mind. From the perspective of the idea-expression dichotomy, these rights are always claimed over the expression and not merely on the idea. These rights are often termed as negative rights, as they are exclusively given to the owner or creator and exclude all others. Hence, these rights are practiced against the whole world and are granted by the state, so they are called rights in rem.

Disputes concerning Intellectual Property Rights generally fall into the criteria of rights in rem that are enforceable and protected by public fora; such rights are not eligible for arbitration. However, this is not explicitly written anywhere. The Arbitration and Conciliation Act, 1996, does not specify the particular subject matters where arbitration can be performed, but it does specify the areas where it cannot be done; one subject matter which is non-arbitrable is a matter concerning a right in rem.

In a globalized economy, Intellectual Property is widely used by way of license and assignment,

[1] https://www.futuremarketinsights.com/reports/intellectual-property-legal-services-market?utm

which carry rights in personam that are exercisable against a specific party.

Right in Rem v. Right in Personam

Rights, as defined by Austin, are: "*A party has a right when another or others are bound or obliged by law to do or forbear towards or in regards to him*[2]". This means rights are prerogatives given to a specific class or person.

Rights in rem are those rights which are entitled to an individual and can be enforced against the whole world. These rights come with unique characteristics of being universal, negative rights, and are general in nature. In the case of *Rukn-Ul-Mulk Syed Abdul Wajid And Ors. vs. R. Vishwanathan And Ors*[3]., it was held by the High Court of Karnataka that a right in rem is enforceable against the whole world and everyone has a duty to recognize this right. For example, a case to invalidate a trademark or patent is a right in rem and is non-arbitrable.

On the other hand, rights in personam are those rights which are enforceable against a specific individual. They possess characteristics of being specific, positive rights, as they bind or are enforceable against a specific person only. In the case of M.V. Elisabeth v. Harwan Investment & Trading Pvt. Ltd[4], it was explained by Supreme Court that in the cases of action in personam the defendant is served personally and is entirely responsible towards the plaintiff. Also it was held by Delhi High Court in the case of HDFC bank Ltd. v. Satpal Singh Bakshi, that "right in personam" is a protected interest against a specific individuals. It was further held that even when the right starts as right in rem, the claims for debt or a infringement/breach of contract between two parties counts as right in personam.

From the above discussion we can conclude that, the distinction between right in rem and right in personam rests in the scope of enforceability. Right in rem provides a umbrella protection against whole world and right in personam specifies the legal relation between two individuals. It can be infer that these both rights works in tandem, and are not practiced isolated from each other.

[2] Lecture XVI of The Province of Jurisprudence Determined
[3] AIR (1950) MY S33
[4] 1993 AIR 1014

Arbitration and its Subject Matter

Arbitration is an evolving form of Alternative Dispute Resolution as it provides an expertise, binding and enforceable award, and parties themselves choose their arbitrator, a recent shift was noticed globally from ad-hoc arbitration to institutional arbitration, institutions like SIAC, LCIA, DIAC[5], provides arbitrator with expertise and a pre-set framework. In this process, parties submit their dispute by agreement to a neutral third party called an arbitrator, whose decision is binding. In simple terms, it is mediation with all the formalities of judicial adjudication and is a viable option to avoid traditional litigation. The key characteristics of arbitration are that it is a consensual, confidential process, and the decision is binding and easy to enforce.

Another important characteristic of arbitration is that parties themselves can choose the arbitrator. This ensures that the person possesses specified knowledge in the subject of the dispute and is aware of the laws applicable to it, making it more effective than traditional litigation.

The question that arises before submitting any dispute for arbitration is whether it is arbitrable or not. This is famously known as the question of arbitrability, dealing with the jurisdiction of arbitration. The Arbitration and Conciliation Act, 1996, neither lists specific matters for arbitration nor does it exclude any matter explicitly. Section 2(3) says: "*This Part shall not affect any other law for the time being in force by virtue of which certain disputes may not be submitted to arbitration*[6]". However, it does not explicitly exclude IP from its jurisdiction.

Arbitration is applicable to commercial disputes. Section 2(c)(xvii) of the Commercial Courts Act, 2015, states that "*intellectual property rights relating to registered and unregistered trademarks, copyright, patent, design, domain names, geographical indications and semiconductor integrated circuits*[7]" come under the category of commercial disputes. Section 10 of this act states that arbitration is applicable in cases of commercial disputes, and it does not bar intellectual property from its purview.

[5] Singapore International Arbitration Centre
Delhi International Arbitration Centre
London Chamber of International Arbitration
[6] Arbitration and Conciliation, Act , 1996 (Act 26 of 1996)
[7] Commercial Courts Act, 2015(Act 4 of 2016)

Section 103(5) of the Patent Act, 1970, says: "In any proceedings under this section, the High Court may at any time order the whole proceedings or any question or issue of fact arising therein to be referred to an official referee, commissioner or an arbitrator on such terms as the High Court may direct[8]". This clause clearly states that the High Court, at its discretion, may refer the whole dispute for arbitration where one of the parties is the government. Hence, the Indian framework regarding the arbitration of Intellectual Property disputes, though not very clear, does not put an embargo on resolving such disputes via arbitration. This provision suggests the clear legislative intent to make the intellectual property as commercial in nature and a subject matter of arbitration.

Judicial Landscape in India

Ayyasamy v. A. Paramasivam [9]primarily deals with a partnership dispute. In its ruling, it divided disputes into two groups: normally arbitrable (disputes concerning two persons, contractual disputes, disputes arising from breach of agreement, etc.) and non-arbitrable (criminal offenses, disputes related to child custody, insolvency matters, and patent, trademark, and copyright disputes). In the obiter dicta of this case, Justice Sikri observed that Intellectual Property disputes are non-arbitrable. However, we can infer that he was saying this in the context of the granting and validity of intellectual property, but not regarding licenses and assignments.

Eros International Private Ltd. v. Telemax Link Ind. Pvt. Ltd[10], brought clarity to the confusion created by the *Ayyasamy* [11]judgment. The plaintiff alleged that the defendant, who was entrusted via contract with the distribution of the plaintiff's films, breached the contract and infringed their copyright. Eros filed a civil suit, while Telemax[12], under Section 8 of the Arbitration Act, requested the appointment of an arbitrator, as their agreement stated that any dispute should refer to arbitration. Eros contended that according to the *Ayyasamy* judgment[13], the dispute related to copyright was a right in rem and hence non-arbitrable.

Justice Patel rejected the plaintiff's contention and held that the arbitrability of a dispute cannot be rejected just because its subject matter is an intellectual property dispute. The court focused

[8] Patent Act, 1970(Act 39 of 1970)
[9] AIR 2016 SC 4675
[10] SCC Online Bom 2179
[11] Ibid
[12] Ibid
[13] Ibid

not on the subject matter but on the nature of the relief sought, which was against one person and not against the whole world. Thus, it was arbitrable as it concerned rights arising from a contract between the plaintiff and defendant (rights in personam). This judgment is a positive step toward the arbitrability of IP disputes in India and shows a pro-arbitration stance.

In the case of Angath Arts (P) Ltd. v Century Communications Ltd[14],it was held by the court "that the dispute did not relate to the ownership of the trademark or of the copyrighted material and was therefore not a dispute regarding a right in rem. Since the petition was for enforcement of a negative covenant in a franchise agreement, the dispute was arbitrable[15]"

Vidya Drolia Case: Four-fold Test of Non-Arbitrability

In the case of *Vidya Drolia and Ors v. Durga Trading Corporation*[16], a four-fold test was laid down to recognize disputes that fall outside the purview of arbitration. The four criteria are:

1. When the subject matter and cause of dispute relate to a right in rem, subordinate rights in personam arising from the right in rem are excluded.

2. When the subject matter and cause of action affect a third party or have an *erga omnes* effect (affecting all), the matter is not fit for mutual adjudication and should be adjudicated by a court.

3. When the subject matter and cause of action relate to public interest or the sovereign function of the state.

4. When the dispute is non-arbitrable as per the statute.

This case regarded whether landlord-tenant disputes are arbitrable; it was held they are, as they concern subordinate rights in personam arising from rights in rem. In the context of IP disputes, this ruling can be applied to matters concerning licenses and assignments.

Application of Vidya Drolia to Intellectual Property Disputes

A license is permission to use intellectual property which, if used otherwise, would be

[14] AIR 2009 Bombay 26
[15]The-Conundrum-Of-Arbitrability-Of-Intellectual-Property-Rights-Disputes-In-India-An-Analysis-by-PrachiGupta
[16] AIR 2019 SC 3498

considered an infringement. Arbitration can be applied to disputes concerning licenses as they are subordinate rights in personam arising from rights in rem. The same applies to assignments (the permanent transfer of ownership); disputes arising from such transactions are arbitrable for the same reason. These disputes affect only two parties and are about the transaction agreement rather than the validity of the IP itself.

Can arbitrator decide on the validity of Intellectual Property as Preliminary or incidental issue?

This is a crucial issue to address, as only the State has the right to decide on the validity of Intellectual Property, given that it is a right in rem enforceable against the entire world. Unlike the Swiss model, where an arbitrator can decide on the validity of Intellectual Property under certain terms and conditions, most of the world maintains a stricter approach and keeps such matters outside the jurisdiction of arbitration.

However, the doctrine of the incidental question serves as a bridge between the State's exclusive powers over Intellectual Property and the scope of arbitration in disputes. Though Intellectual Property is a right in rem granted by the State, it consists of subordinate rights in personam arising from that right in rem. If a dispute arises from a contractual relationship, its effect is limited to the concerned parties and not the world at large.

The doctrine of the incidental question helps distinguish between the subject matter of a dispute and the legal questions required to resolve it. In simple terms, the main question might be whether the defendant breached a contract; if the defendant argues that the subject matter itself is invalid, the arbitrator can treat that validity issue not as the subject of the award, but merely as a preliminary hurdle to resolve the main legal question. Even if the arbitrator finds a patent or other IP invalid, this finding does not enter the public domain. Instead, the claim of violation or infringement is simply dismissed. The effect is reserved strictly within the "four walls" of the arbitration, and for the rest of the world, the Intellectual Property remains validly in existence. Thus, an arbitrator can only decide upon validity as an incidental question to overcome a preliminary hurdle in order to resolve the main issue.

The Commercial Nature of Intellectual Property

Intellectual Property is viewed as a collection of assets that can be traded, as it converts an idea into an asset possessing economic value. The owner, by way of licensing, assignment, and franchising, earns revenue and royalties; all these transactions take place through contracts between two parties, which are wholly of a private nature. Therefore, these transactions only affect the parties concerned and do not have an *erga omnes* effect.

Section 2(c)(xvii) of the Commercial Courts Act, 2015[17], states that: "commercial dispute means a dispute arising out of—intellectual property rights relating to registered and unregistered trademarks, copyright, patent, design, domain names, geographical indications and semiconductor integrated circuits". This explicitly shows the legislative intent to view disputes concerning IP just as any other business disagreement. Section 10 of the same Act allows for arbitration in the case of commercial disputes and lists Intellectual Property disputes as commercial disputes; hence, arbitration should also be allowed in these matters. Furthermore, Section 103(5) of the Patent Act, 1970[18], itself suggests that when the government is involved, arbitration can be opted for. Consequently, it should also be allowed in cases involving two private entities.

Other Countries take on Arbitration of Intellectual Disputes

United States: The U.S. is a statutory pioneer. The Federal Arbitration Act (FAA) acts as a manual; the doctrine of separability within this act means the arbitration clause remains valid even if the main contract is found void. In 1982, Section 294[19] was introduced into the United States Code (Patents), allowing arbitration for disputes concerning patent validity and infringement. Clause (d) mandates parties to file the arbitral award with the Director of the USPTO to maintain the balance between public rights and the private nature of arbitration. This section gives a clause for voluntary arbitration where parties through contract agree to arbitrate dispute relating to patent validity and infringement.

In United States, there is no federal statute that explicitly allow the arbitration of copyright and trademark disputes, but it was held by Federal Courts through its ruling that these disputes are indeed arbitrable. Justice Richard Posner held in the case of "*The Saturday Evening Post Company and the Curtis Publishing company v. Rumbleseat Press, Inc*"[20] (delivered on june 25,1987), that federal law does not forbid the arbitration on the validity of copyright. Also in

[17] Commercial Courts Act, 2015(Act 4 of 2016)
[18] Patent Act, 1970(Act 39 of 1970)
[19] 35 U.S.C. § 294
[20] 816 F.2d 1191

the cases of trademark disputes it was concluded in the case of Gingiss International, Inc v. Norman Bormet and Phyllis M. Bormet[21] that claims and disputes arising in Lanham Act(Trademark Act) are arbitrable.

Switzerland: Known for its economic interest-based model. Article 177(1) of the Private International Law Act says anything is arbitrable if it involves an economic interest. The interpretation is broad, restricted only by public policy. In Switzerland, the effect of an arbitral award is enforceable against the whole world, and the Swiss Federal Institute of Intellectual Property updates the register based on the arbitrator's decision. The arbitrator can also decide the validity of a patent as a preliminary question in infringement cases. Singapore is established as most arbitration friendly country in the matters of Intellectual Property. The most significant move is Intellectual Property (Dispute Resolution) Act, 2019 (IPDRA), which removes the confusion of right in rem and right in personam regarding IP disputes and make IP dispute fully arbitrable, this act also made amendments in Arbitration Act,2001 and International Arbitration Act, 1994.

From the above analysis, the shift from right in rem to right in personam can be seen clearly in both United States and Singapore. India should also insert clause in the current law dealing with intellectual property law to incorporate this shift. "IP Arbitrator Panel" should created in institution like DIAC, etc. which consist of technical experts and IP counsels. Since both countries have clear stand on right in rem and personam, India should, by making changes in Arbitration and Conciliation Act, 1996 explicitly include IP dispute within the subject matter of arbitration. By adopting a "Inter-Partes" binding model the effect of arbitral award on validity can be limited to parties only and that to for the limited purpose of the concerned disputes without affecting the third party and world at large. These implementation help to clear the backlog of IP disputes in India.

Challenges faced by IP Arbitration in India

The biggest hurdle to the arbitration of intellectual property in India is Section 34(2)(b)(i) and (ii) of the Arbitration and Conciliation Act, 1996, which states that a court may set aside an arbitral award if: *"(i) the subject-matter of the dispute is not capable of settlement by arbitration under the law for the time being in force, or (ii) the arbitral award is in conflict with the public*

[21] 58F.3rd 328

policy of India". The further explanation provided for Section 34(2)(b) is that an award is in conflict with the public policy of India only if: "(i) the making of the award was induced or affected by fraud or corruption or was in violation of section 75 or section 81; or (ii) it is in contravention with the fundamental policy of Indian law; or (iii) it is in conflict with the most basic notions of morality or justice[22]".

From this clause, it is understood that a court can set aside an arbitral award if it finds that the dispute is not capable of being settled by arbitration. As Intellectual Property (IP) is a state granted monopoly, the traditional view is that it can only be adjudicated in court and any dispute regarding it cannot be resolved by a private entity. However, I would like to argue that while the validity and grant of IP rest with the state, the state itself allows the owner to sell, license, and assign it like any other property. This explicitly demonstrates the commercial nature of IP, moving it into the private sphere. Resolving these private conflicts through arbitration does not harm public policy any more than any other private contract.

It was held in the *Vidya Drolia* case that matters having an *erga omnes* effect are not fit for arbitration. However, as a private contract is only between two parties, its effect is also limited to the parties to the contract only. The US model serves as a good example of how the private nature of arbitration balances with the public nature of patents (Section 294) by requiring the award to be filed with the USPTO to make it enforceable.

Conclusion

It is the traditional view that Intellectual Property is a right in rem, but the rise of a contract-driven economy where Intellectual Property is utilized through licensing and assignment creates a bundle of subordinate rights in personam. It has been observed that disputes arising from contracts between two parties are arbitrable; this also applies to the assignment or licensing of Intellectual Property. As these obligations are private due to their contractual nature, and as held in *Eros International* and supported by the four-fold test of *Vidya Drolia*, these disputes are capable of settlement through arbitration.

The stance of Federal Courts through their rulings is clear on the arbitrability of trademarks and copyrights, whereas in India, there is a legislative inconsistency regarding the same. Rather than creating confusion through obiter dicta, as seen in the *Ayyasamy* case, Indian courts should take

[22] Sec 34 Arbitration and Conciliation Act, 1996

a clear stand on these issues to make India a global hub for arbitration. To align with international standards and reforms, the Indian government should also incorporate "subordinate rights in personam arise from IP" within the scope of arbitration. Inspired by Section 294 of the U.S. Patent Code, India could develop a framework where any arbitral award, to be enforceable, must be registered with the relevant office or registry. This would ensure the protection of public interest while maintaining the privacy of arbitration.

By shifting from a focus on rights in rem to rights in personam, India can develop an expert-led, confidential process managed by specialized forums for Intellectual Property disputes. This would help clear the backlog of IP disputes in India and assist the country in becoming a global hub for arbitration.