Institutional Arbitration in Intellectual Property Right Disputes

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Introduction

There has been a parallel increase in the trade volumes and competition between various industries on one side and commercial, international and trade disputes on the other. With the increase in the number of disputes, there is a growing need for speedy disposal of such disputes. Since such disputes involve high costs and wastage of resources, it becomes essential that these disputes should be settled in a manner that they bear minimum costs to both the parties to a dispute.

The methods that best suits this need are arbitration, mediation and reconciliation. These three methods have been regarded by many scholars as the new age methods of dispute resolution. As far as the disputes in the matters of Intellectual Property are concerned, these disputes are majorly commercial in nature. Due to increasing cross-border trade and involvement of citizens of multiple jurisdictions in such trades, international dimensions have been infused to such disputes. Intellectual properties though constitute to be incorporeal in nature but because of the fact that they have become an integral part of corporate assets, they have started demanding same treatment as their corporeal counterparts. Taking into consideration the intangibleness of the intellectual properties and nuanced nature of technology, Intellectual property rights battles have become protracted and expensive.

The reason as to why these Intellectual property right battles have proved to be very expensive in their nature is because of the fact that in such suits, technical issues are to be addressed. Not only the bench but also the bar is to be informed and taught about various intricacies involved. Various additional costs such as those of hiring technical and financial experts, additional counsels have to be borne. All these factors demand a lot of financial resources be invested. With regard to this Kingston has stated that one of the major reason as to why the intellectual property has not been able to generate much innovation is because of the excessive costs involved in ordinary court litigations.

Arbitrability of Intellectual Property Right Matters

If recent judgements, both internationally and nationally are anything to go by, then it would not be wrong to say that IP battles are protracted, expensive (with humongous quantum of damages being awarded), complex, considering the intangibleness of the properties in dispute and the nuances of the technology, as well as requiring domain knowledge in settling issues. Intellectual property disputes have a number of peculiar characteristics like criticality of time in view of the shelf life of products (read software) or the life of the intellectual property itself (as in patents), applicability of the exclusive rights and entitlements in relation to grants, validity and extent, maximum flexibilities afforded by the domestic law, etc. that may be more efficiently addressed by arbitration than by court litigation.

Likewise in India, arbitral awards relating to patent infringement or validity could be denied as being against public policy. In the *ONGC v Saw Pipes case (2003),* the Court noted that the concept of public policy connotes some matter which concerns "public good and the public interest" and that "what is public good or public interest has varied from time to time..." also noting that an arbitral award, "patently in violation of statutory provisions cannot be said to be in public interest". Public policy was given a far wider meaning than as held previously in the *Renu Sagar v. General Electric Co. case (1993)*, increasing the scope thereby of judicial intervention and undermining the scope of IP arbitration.

In yet another ruling, the Constitutional Bench of the Supreme Court on September 6, 2012 in *Bharat Aluminium Co. v Kaiser Aluminium Technical Service, Inc.* (where IPRs were also in dispute) overruling the Bhatia International ratio, decided that Part I of the Arbitration and Conciliation Act, 1996, had no application to arbitrations which were seated outside India, irrespective of the fact whether parties chose to apply the Act or not. This decision having far-reaching implications will now impact and affect decisions on whether to have the seat of arbitration outside India and thereby, international intellectual property transactions. The Parties in an international commercial arbitration having the seat of arbitration outside India cannot agree to have jurisdiction to be exercised by Indian Courts.

Advantages For Arbitration For IPR

Arbitration unlike a public trial is a private and confidential procedure and better protects trade secrets and other sensitive information that might be revealed in the course of litigation. The advantages of arbitration in intellectual property disputes are numerous. Apart from confidentiality and liberty to choose arbitrators familiar with the law and technology, IPR arbitration offers the parties choice of neutral languages, laws, venues and flexibilities in proceedings in resolving the matter, especially when the conflict spans issues of different nationalities like say in cross licensing.

An expert arbitrator could dispense with much of the discovery process and decide the case more quickly thereby eliminating costs significantly. It is increasingly being used to resolve disputes involving different jurisdictions. Arbitration as a mechanism ensures finality of the dispute because of limited appeal (also a disadvantage), more certainty about the timing of final judgement and plays a crucial role in balancing valuable business relationships by minimising adversarial and litigious stances of the opposing parties.

However, one of the biggest criticisms against arbitration in IP is that it is binding only between the parties and does not set a public precedent as regards its use as a deterrent to infringement and establishing a culture of integrity.

Also, plaintiffs often prefer public battles to showcase their strengths, create public debates on important IP issues and improve their public image as part of their band management strategies.

Other concerns against this tool of dispute resolution is the quality of evidence being admitted by arbitrators as not being subject to strict rules like in the courts of law and the derailment of the arbitral processes when technical experts lock horns. Parties also do not actually resort to arbitration primarily on account of finding suitable arbitrators or because of jurisdictional issues in case of international contracts.

Disadvantages of using Arbitration as a Method of dispute

Although arbitration can be termed as one of the most useful methods but it is not the most feasible method in every situation. Firstly, arbitration can be used as the best legal recourse if the parties to a dispute have on a prior basis included the clause of arbitration in their contracts. Unless there is a pre-existing contractual relationship, it becomes very difficult for one party to convince the other to agree to arbitration. Secondly, if the parties are unequal in terms of their resources, the party with higher resources can obtain a tactical advantage over the other. An arbitral award has no binding value. It cannot be used as a public legal precedent. While considering as to whether arbitration should be chosen as a method resolving IP disputes, it must be first decided whether such issues can be arbitrated or not and also the laws of those jurisdictions where enforcement would likely be necessary.

ARBITRATION PRACTICES

Practices in arbitration are not too many in terms of options and come in standard packages. The question therefore is the suitability and relevance of the models to intellectual property conflict management.
Ad hoc arbitration seems to be the preferred option for disputing parties in India, where the proceedings are arranged by the parties themselves without any recourse to institutional arrangements or rules. As a function of their contractual agreements or as ordered by the Court of law to which the dispute was first referred, this option allows parties to choose their arbitrators, on a case-to-case basis. The efficiencies of this form of arbitration are in question, in view of the appointments usually of retired judges of High Courts and the Supreme Court of India to act as arbitrators.

The system is also riddled with other problems like high costs of maintenance of such arbitral proceedings, quite in contrast to the very reason and purpose of opting for ‘cost effective’ arbitral mechanisms (as opposed to litigation), lack of subject expertise, little continuity between hearings etc. Besides, the arbitration clause, often referred to as the ‘last minute clause’ built in every contract is merely a standard clause with standard wording and is generally slack in details covering the contract or parties involved, becoming a further cause for dispute between the parties. There is not much to suggest by way of data as to how

successful this form of arbitration has been in determining domestic IP disputes.

Institutional arbitration on the other hand, has been defined as arbitration conducted by an arbitral institution in accordance with the prescribed rules of the institution. The advantages of institutional arbitration include predefined rules, the presence of infrastructure facilities, and management of proceedings under one roof, provision of expert arbitrators by the institution, and the facility of experienced institutions to help a decision in the matter. The recent case of ICC granting an award in favour of Tata Steel has given importance and momentum to both domestic and international institutional arbitration primarily among Indian companies.

Looking to the complexities of IP disputes, they would respond best to the system of institutional arbitration. In India, while there is a predominant tendency to resort to ad hoc arbitration, institutional arbitration has not been able to root itself. The Indian Council of Arbitration is the sole noteworthy Indian body providing facilities for institutional commercial dispute resolution, though chambers of commerce like FICCI and the International Centre for ADR have joined in. Major International arbitration Institutions such as the ICA (International Centre for Arbitration), LCIA (London Court of International Arbitration) and SIAC (Singapore Arbitration International Centre) opening Indian chapters has further strengthened the importance of institutional arbitration and will hopefully pave the way for better IPR dispute resolution.

Alternative dispute resolution in intellectual property laws in India

Initially, prior to the year of 2002, there was no trend of using arbitration as a method of dispute resolution in the Indian regime. Majorly the cases were settled by way of court litigation in which the grant of the interim injunction would determine the final outcome. Very few cases were settled this way. Others would just vanish before the trial. The factors that brought about changes to this regime were made by way of changes made to the IPR laws on account of TRIPS and the Code of Civil Procedure. With section 89 of the CPC coming into force the courts were now given a discretion that if the elements of arbitration, conciliation or mediation or settlement could suit to the case at hand then the court can on its own motion refer the disputes to such legal recourse as per the procedure laid down in the said section. Mediation as a method of dispute resolution had been opted by very few parties

until this stage. Lack of success rate may be a probable reason for less number of cases being referred to the mediation method.

With the passage of time, judges were now exposed to various new methods related to dispute resolution and also many High Courts had started to award damages in cases of intellectual property disputes. The damages, now awarded were both compensatory and punitive and exemplary in nature. With these changes, many parties were now not reluctant to opt for such method. The fact that during 2004-2007, the Supreme Court decided 349 arbitration cases and the Delhi High Court's mediation and conciliation centre decided 668 out of 868 cases indicates a growing appreciation of the importance of arbitration as an alternate dispute resolution mechanism in India.

Special features of IP arbitration

Certain features or consequences of arbitration have greater impact and importance in IP disputes and the most significant of these features are discussed below-

Arbitrability and public policy

The interconnected issues of arbitrability and public policy are particularly relevant in IP disputes. Many jurisdictions do not allow arbitration of disputes involving issues of public policy, although the list of such "prohibited" disputes gets ever smaller. On grounds of public policy, a small number of jurisdictions prohibit the resolution by arbitration of certain aspects of IP disputes. The rationale for this prohibition is usually based upon state involvement in the creation, recognition or protection of IPR (rights that often grant areas of exclusivity to their holders) but also rests upon the notion that a private adjudicator should not resolve a dispute that may affect society at large. Accordingly, some jurisdictions bar the arbitration of any kind of dispute involving IPR, for example South Africa and, prior to 1993, Israel. Other jurisdictions are at the opposite end of the spectrum.

In the USA, parties can arbitrate any kind of IP dispute, even disputes as to the validity of IPR. It is generally accepted that in the UK issues of validity relating to IPR are arbitrable, although the award will only bind the parties to the arbitration. The position in Germany is similar. Switzerland goes further still.

In its decision of 15 December 1975, the Federal Office of Intellectual Property held not only that arbitral tribunals may decide upon the validity of patents, trademarks and designs but also that registered IPR may be struck down on the basis of an arbitral award. Other countries adopt a middle path, allowing the parties to arbitrate the infringement of IPR but not to arbitrate the validity of registrations (e.g. France, Italy, Japan and Spain).

The question of arbitrability can arise at two stages. First, one of the parties may raise the issue as a jurisdictional objection at the outset of the proceedings (either directly with the tribunal or in court proceedings).

Arbitrability can also arise when enforcement is sought pursuant to the New York Convention. At the first stage, one issue will be whether any mandatory laws governing the relevant IPR apply to the issue.

Many arbitral awards and some leading commentator, soundly reject the application of mandatory law at this stage. In any event, the issue of arbitrability is subtly different from jurisdiction to jurisdiction and as ever in arbitration it is important to have an eye on not only the substantive law of the dispute, but also the law of the seat of the arbitration and the law of the likely place of enforcement.

In the view of these writers, the issue of arbitrability has been somewhat overstated in the past, including for the following reasons:

1. Arbitration generally only affects the parties bound by the arbitration agreement. Even if IPR is declared invalid in an arbitral award, in most jurisdictions that declaration has *inter partes* effect only (and indeed most jurisdictions recognise and support the *inter partes*effect of such awards).As regards the rest of the world, including the state involved in the registration of the IPR, the rights remain intact. This is actually seen as a benefit by many IPR holders as it limits the risk that any single dispute will result in the loss of their rights altogether. In sum, an *inter partes* award does not therefore oust the jurisdiction of other competent authorities even those who view their jurisdiction over IP matters as exclusive.
2. The issue of arbitrability usually only arises in connection with IPR subject to registration and even in that connection usually only in relation to the issue of invalidity. Invalidity of IPR subject to registration is only one aspect of an immensely vast subject. Moreover, in most arbitrations in which invalidity arises, it is invoked as a defence i.e. to claims of breach of a licence agreement. However, applicable law may prohibit a respondent from raising

invalidity as a defence altogether. Moreover, even where it can be raised as a defence, it is only relevant to the determination of contractual rights and obligations – it does not require or involve a finding of invalidity of the asserted IPR per se. Finally, the defence of invalidity usually arises in patent disputes In trademark disputes this defence is less common. Indeed some jurisdictions expressly permit arbitration of trademark validity.

3. Only a handful of jurisdictions expressly prohibit the arbitration of IP disputes in any event.
4. In practice, arbitrability issues rarely arise in IP arbitrations.According to WIPO, the issue has yet to arise in any of the cases it has administered.
5. The issue of arbitrability and the public policy exception contemplated by Article V.2 of the New York Convention may have relevance at the enforcement stage for an award that deals with the invalidity of asserted IPR. Nonetheless, national courts usually construe this public policy exception narrowly and generally require violation of a state's most fundamental principles of justice or morality. Accordingly, in reality very few arbitral awards are successfully challenged on public policy grounds in any event.
6. Finally, there are practical ways to prevent challenges based on arbitrability. For example, a tribunal could be asked to make findings of non-enforceability rather than invalidity.

CONCLUSION

With delays and judicial interference hampering the progress of successful arbitration in India, the essence of dispute resolution is minimised. This could be the factor for the slow movement of arbitration as an ADR measure in the IP sector too. The Centre has formulated the National Litigation Policy 2010 to reduce the cases pending in various courts throughout India (more than 30 million according to recent estimates) with the mission to reduce the average pendency time from 15 years to 3 years. The policy also highlights that ADR should be "encouraged at every level" as long as arbitrations would be cost effective, efficacious, expeditious and conducted with high rectitude."

In India as the recent E&Y report suggests, arbitration is being rationalised as sector specific expertise, with for instance, the construction industry having created the Construction Industry Arbitration Council (CIAC) and the Bombay Stock Exchange having developed specific arbitration cells that provide relevant technical expertise. With greater competition and growing awareness about intellectual property rights giving rise to an increased volume

of disputes, mechanisms of Alternative Dispute Resolution such as arbitration has been gaining ground across the globe.

What stops then, the Department of Industrial Promotion and Policy in proposing necessary amendments in the IP/patent laws and enabling and encouraging institutional arbitration in intellectual property disputes? The same could be modelled on the lines of that set-up by WIPO. Enforcement of arbitral awards is as important as the finality of the awards themselves. Looking forward, intellectual property rights be that patents, copyrights, trademarks and other statutory forms or those like trade secrets and confidential information that are simply determined by contracts, in any country are only as strong as the means available to enforce them.