



# Arbitration and Intellectual Property

The need of the hour is to propose necessary amendments in the IP/Patent laws to enable and encourage institutional arbitration in intellectual property disputes

**W**ith trade volume coupled with fierce competition surging manifold in the last couple of decades, there has been a proportionate rise in commercial, international trade disputes across the globe, demanding speedier redressal and disposal of these disputes, not to mention costs

alleviation. Solutions have emerged in the form of Arbitration, Mediation and Conciliation as the new age tools of conflict manipulation and settlement, and which are generally being hailed as effective alternative dispute resolution measures in recent times. Arbitration in particular works especially well in the areas of commercial and international

disputes as a quasi-judicial system, developed to counter the snags of litigation and an overburdened judiciary.

Considering that intellectual property disputes are principally commercial in nature and often have international dimensions because of people protecting their properties

or licensing them in multiple jurisdictions, the ambit of this article is to explore how the mechanism of arbitration have been applied to conflict management of intellectual property rights and to gauge its effectiveness quotient for the future. One cannot ignore that IPRs are now an integral constituent of intangible corporate assets of a corporate entity and demand the same treatment and benefit of law as their corporeal counterparts.

Though with the enactment of the Arbitration and Conciliation Act of 1996 (based on the UNCITRAL Model Laws of Arbitration) and in departing from the earlier, outdated Act of 1940, India has clearly taken the right step in the right direction, as a practice to be adopted, 'arbitration' is nascent, still evolving, and yet to gain a foothold in India. Woefully, the spirit and the philosophy behind the conception of the law is missing in its implementation despite the new beginning, as the system seems plagued with loopholes and shortcomings for not having adequately developed to be the quick and cost-effective mechanism for resolution of commercial disputes as is supposed to be. Nonetheless, 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. (E&Y Study)

## Arbitrability Of IPRs

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 intangibility 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.

Lawyers and litigants have observed that the length and high cost of patent/IP litigation is primarily due to the prolonged periods and costs of discovery related to addressing difficult technical issues as well as educating both the bar and the bench on the same sufficiently to understand the case; not to mention the additional costs of counsels, technical and financial experts. Studies in the US suggest that the average cost of litigation in patent disputes is \$2 million and the average length of time to final judgement for litigated patents is 12.3 years, or over half the lifetime of the patents. Author William Kingston (1995) states "An important reason why intellectual property (IP) is far less effective for generating innovation than it could be is the excessively high cost of resolving disputes. This largely reflects the use of ordinary court arrangements to determine what essentially are technical issues." Kingston proposed mandatory arbitration of patent disputes along with legal aid to the party that does not appeal the ruling to the courts.

In fact, concern over the high costs of patent litigation led to the enactment of 35 U.S.C. § 294 in 1983 in the US, authorising contracting parties to settle their patent disputes through 'binding arbitration'. Recently, a ratio supporting arbitration in patent disputes was laid out in *Promega Corporation v. Life Technologies Corporation IP LLC* on March 28, 2012, where the United States Court of Appeals, Federal Circuit, confirmed the opinion of the District Court to compel arbitration between the Appellant and the Respondent with respect to a dispute arising between the parties out of a Patent licensing agreement. Previously, federal courts



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had ruled that private settlements (arbitration) of patent disputes were unenforceable because they were contrary to public policy.

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.

However, the argument against arbitrability of IP disputes, especially where international ones are concerned, stems from

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the constraints of the territoriality of IP laws, especially in subjects like patents where perhaps issues linked to patent validity and public interest come under the scanner. In international patent arbitrations, the courts may refuse to enforce a foreign award based on a foreign law as being contrary to public policy and Indian interests. Patent matters in particular are considered not arbitrable as courts hold the exclusive jurisdiction to hear them in India. Though section 103 of the Indian Patent Act allows the Court to refer any question on patent validity

to arbitration, generally speaking, the said Act and the Arbitration and Conciliation Act are silent on the enforceability of arbitral awards for infringement or validity.

Despite country specific IP laws, it is now broadly accepted that disputes relating to IP rights are arbitrable, just like disputes relating to any other type of privately held rights and especially those surrounding the development, use, marketing or transfer of granted IP rights as in licensing or any other such commercial arrangements. The WIPO initiative of promoting a Centre for ADR in IPRs with its strict policies of neutrality and confidentiality has provided a significant impetus to alternative dispute resolution mechanisms.

The WIPO Centre has introduced a channel of sector specific services in conflict resolution, some of which address IP issues relating to Biodiversity, Media, Entertainment and Sports, Information Technology and so on. Conflicts in the aforesaid sectors typically arise out of contractual obligations relating to joint ventures, licensing, franchising, and pertaining to broadcasting, merchandising, copyright, insurance, outsourcing, compliance, non-disclosure etc. Specialised channels of sector specific arbitration ensuring a speedy and economical resolution of disputes, is one of the several reasons why arbitration is emerging as a preferred mode of dispute resolution in the intellectual property space.

The Centre also plays an active role in drafting rules, model ADR contract clauses, setting up specialised panels and conducting periodical training programmes for mediators and subject matter experts from various areas and jurisdictions.

## 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 brand 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.

## 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.

## 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.



*Disclaimer – The views expressed in this article are the personal views of the author and are purely informative in nature.*

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